

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

HESTA

HEST77QW Since 12 March 2020, has your fund provided any liquidity to:

- a. REST?**
- b. Hostplus?**
- c. any other superannuation fund?**

If so, for each fund, can you provide details of the amount, the date and the terms?

Answer:

- a. No.**
- b. No**
- c. No**

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HESTA

HEST78QW Since 12 March 2020, has your fund loaned any cash to:

- a. REST?**
- b. Hostplus?**
- c. any other superannuation fund?**

If so, for each fund, can you provide details of the amount, the date and the terms?

Answer:

- a. No.**
- b. No**
- c. No**

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HESTA

HEST79QW Regarding any investments you have with IFM Investors, please provide the following:

- a. The capital invested each year for the past five years.**
- b. The accumulated valuation of investments for the past five years.**
- c. The dividends received from those investments for the past five years.**

Answer:

HESTA's Annual Reports (available via the following link: <https://www.hesta.com.au/about-us/what-we-stand-for/reports-magazines.html>) each contain information regarding the investment management services provided by IFM to HESTA and the total funds managed by IFM on behalf of HESTA. Information regarding the valuations of investments and distributions made to HESTA is commercially sensitive and subject to confidentiality restrictions imposed by third parties. We do not consider it to be in our members' best interests to disclose such information.

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HESTA

HEST80QW Regarding any investments you have with ME Bank, please provide the following:

- a. The capital invested each year for the past five years.
- b. The accumulated valuation of investments for the past five years.
- c. The dividends received from those investments for the past five years.

Answer:

HESTA's Annual Reports (available via the following link: <https://www.hesta.com.au/about-us/what-we-stand-for/reports-magazines.html>) each contain information regarding HESTA's investment in ME Bank and other transactions with ME Bank.

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HESTA

HEST81QW If you are an investor in ME Bank, have you individually (or in collaboration with other funds), ever commissioned reports into its valuation in the past decade?

- a. And if so, how many reports and in what year?**
- b. Were any commissioned to be completed by the UK-based group, LEK?**
- c. And please provide copies.**

Answer:

HESTA holds shares in ME Bank. As with all HESTA's investments, there are processes in place to regularly monitor and review its investments in accordance with HESTA's investments strategies and policies. Information regarding HESTA's internal processes concerning specific investments including any external review commissioned by the Fund is regarded as strictly commercially sensitive in nature. We do not consider it to be in our members' best interests to disclose such information.

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HESTA

HEST82QW According to reports in the Australian Financial Review superannuation fund, Hostplus, redefined the definition of 'illiquid assets' ('Hostplus warned of liquidity "perfect storm"', Australian Financial Review, 18 May 2020). Therefore, can you please advise:

- a. How you define 'illiquid assets' within your fund, including details of holdings and timeframes?**
- b. How you define 'liquid assets' within your fund, including details of holdings and timeframes?**
- c. How long each of these definitions have been used?**
- d. What prompted any switch to these definitions?**
- e. What the prior definitions were before any switch?**

Answer:

- a. How you define 'illiquid assets' within your fund, including details of holdings and timeframes?**

As is required by various APRA Prudential Standards, HESTA maintains a Liquidity Management Plan. HESTA defines an 'illiquid investment' as an investment that cannot be converted to cash within 90 days or where conversion to cash over that period, by itself, would have a significant adverse impact on its realisable value.

- b. How you define 'liquid assets' within your fund, including details of holdings and timeframes?**

Assets that do not satisfy the definition of 'illiquid investment' set out in HESTA's response to question (a) above would be considered 'liquid investments'.

- c. How long each of these definitions have been used?**

No recent changes have been made to these definitions. HESTA has applied these definitions consistently for at least the last 5 years.

- d. What prompted any switch to these definitions?**

N/A

- e. What the prior definitions were before any switch?**

N/A

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HESTA

HEST83QW Have you completed a skills audit in the past five years of the following:

- a. Your board of directors?**
- b. Your investment committee?**
- c. And if not, why not?**
- d. And if so, presently what gaps are identified?**

Answer:

HESTA maintains a Skills Matrix which captures the experience and qualifications of all Directors and provides a cohesive view of the collective capability of its Board. This Skills Matrix is reviewed on an annual basis and takes into account the expertise needed of the Board (including its Committees) having regard to the organisation's strategic objectives. The Skills Matrix is utilised in the context of planning for Board renewal and referred to in filling Board vacancies as they arise. The skills and competencies of Board members is also reviewed as part of the Board's regular external Board performance review process.

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HESTA

HEST84QW Prior to appointment, have employees fulfilling fiduciary roles had their investment performance track record assessed before fees?

- a. And if not, why not?
- b. And if not prior to appointment, have they following appointment?
- c. And if so, on what timeframe?

Answer:

When recruiting employees into the Investment team, HESTA assesses their skills and capabilities against the relevant position description. An Investment team requires a broad range of skills, including security/asset selection, manager selection, portfolio management, trading, and risk management. For key risk taking roles, performance track records are part of a broad range of considerations that feed into the interview and referee process.

Once recruited, employees undergo an annual performance review process to assess their performance based on Key Performance Indicators.

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HESTA

HEST85QW Can you please provide data to complete this table for your unlisted asset holdings based on their geographic spread:

Country/Region	Share of fund asset value		Share of fund income	
	\$	%	\$	%
North America (inc USA)				
- United States specifically				
South America				
Asia (inc China)				
- China specifically				
Africa				
Europe (not inc UK)				
Europe (inc UK)				
- United Kingdom specifically				
Australasia (inc Aus)				
- Australia specifically				

Answer:

Data provided as at 30 June 2019

Country/Region	Share of fund asset value		Share of fund income	
	\$ (AUD)	% (of value of fund's unlisted assets)	\$ (AUD)	% (of return of fund's unlisted assets)
North America (inc USA)	3,968,430,287.25	23.09%	330,929,952.73	23.09%
United States specifically	1,355,004,513.30	7.89%	112,994,697.42	7.89%
South America	-	0.00%	-	0.00%
Asia (inc China)	-	0.00%	-	0.00%
China specifically	-	0.00%	-	0.00%
Africa	85,457,962.23	0.50%	7,126,394.41	0.50%
Europe (not inc UK)	429,248,235.82	2.50%	35,795,286.32	2.50%
Europe (inc UK)	585,014,722.72	3.40%	48,784,753.80	3.40%
United Kingdom specifically	155,766,486.90	0.91%	12,989,467.48	0.91%
Australasia (inc Aus)	12,545,376,170.71	73.00%	1,046,166,983.57	73.00%
Australia specifically	12,375,602,270.27	72.02%	1,032,009,428.88	72.02%
Total	17,184,279,142.91		1,433,008,085	

Note: all percentages included in the above table are calculated by reference to HESTA's unlisted assets (gross asset value and gross return respectively). Consistent with HESTA's answers to previous questions (including HEST07QW and HEST08QW), the location of such assets is the place of establishment of the applicable fund vehicle and not the underlying portfolio companies.

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HESTA

HEST86QW Please provide a copy of your Constitution.

Answer:

HESTA's Constitution can be accessed on its website via this link:
<https://www.hesta.com.au/relevant-29qb-disclosures.html>.

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HESTA

HEST87QW Please provide details, including the event name, organising entity, ticket price and attendee(s) for the past decade of the tickets purchased for events and/or fundraisers for political parties or related entities, individual MPs and individual candidates for political office or the associated fundraising entities of political parties, individual MPs and individual candidates for political office.

Answer:

No tickets have been purchased for events or fundraisers for political parties or related entities.

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HESTA

HEST88QW Do you currently have an art collection?

- a. If so, can you advise its current valuation?**
- b. If so, can you advise where it is stored and/or exhibited?**

Answer:

No.

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HESTA

HEST89QW Do you engage proxy advisers?

- a. What are the terms of engagement for proxy advisers?
- b. To what extent are they empowered to act on behalf of the entity?
- c. Does their advice get provided to the board?
- d. How often is advice submitted to the board?
- e. Is their advice formally adopted by the board?
- f. Are their positions publicly stated?
- g. How does the board assess these positions concurrent with their duties as trustees and the sole purpose test?

Answer:

Do you engage proxy advisers?

Yes. HESTA uses a number of external advisers to assist with the performance of its responsibilities, including proxy advisers. HESTA uses the services of the Australian Council of Superannuation Investors (ACSI), CGI Glass Lewis, HERMES, Regnan and ISS for a range of activities including proxy advice.

a. What are the terms of engagement for proxy advisers?

The specific terms of engagement for proxy advisers are subject to confidentiality obligations. That said, broadly speaking, HESTA's proxy advisers provide advice to HESTA on voting proposals due for consideration at a meeting of members. They provide their recommendations on resolutions, which HESTA considers (among other matters) when making voting decisions. Further information regarding HESTA's engagements is available via the following link: <https://www.hesta.com.au/about-us/what-we-stand-for/responsible-investment/active-ownership.html>.

b. To what extent are they empowered to act on behalf of the entity?

The primary function of proxy advisers is to provide advice to HESTA on how HESTA should exercise its voting entitlements. They are not empowered to make voting decisions on HESTA's behalf, with decisions on voting being made by HESTA itself. In accordance with HESTA's Responsible Investment Policy (which is available via the following link: [https://www.hesta.com.au/content/dam/hesta/Documents/Responsible Investment Policy.pdf](https://www.hesta.com.au/content/dam/hesta/Documents/Responsible_Investment_Policy.pdf)), such decisions are based on HESTA's Active Ownership Priorities and are made

following consultation with investment managers who invest on HESTA's behalf, proxy advisers, engagement providers and other relevant parties.

c. Does their advice get provided to the board?

No, disclosure of proxy advice on individual securities is not part of board reporting. HESTA provides the board with a summary of voting outcomes twice a year, so that the board can exercise appropriate oversight and is afforded appropriate visibility over how HESTA exercises its voting rights. In addition to scheduled reporting, voting decisions and outcomes are also reported to the Board on an ad-hoc basis where appropriate.

Decision-making on proxy voting is delegated to the Investment team (with oversight by HESTA's CEO, as noted below), which has the appropriate expertise, an understanding of the relevant investment and HESTA's internal policies (including its Responsible Investment Policy) to decide how HESTA should exercise its voting entitlements. As noted in response to question (b) above, decisions are based on HESTA's Active Ownership Priorities and also following consultation with investment managers who invest on HESTA's behalf, proxy advisers, engagement providers and other relevant parties. The Investment team routinely reports to HESTA's CEO (and, in turn, the Board) with respect to voting decisions and voting outcomes, with HESTA's CEO maintaining oversight over the voting process and contributing to the decision making process where appropriate (having regard to the considerations identified above).

d. How often is advice submitted to the board?

See response to question (c) above.

e. Is their advice formally adopted by the board?

See response to question (c) above.

f. Are their positions publicly stated?

On occasion, a proxy adviser may indicate their advice publicly. Consistent with the requirements of subregulation 2.38(2)(o) of the *Superannuation Industry (Supervision) Regulations 1994 (Cth)*, HESTA makes publicly available a share voting summary and a detailed report on how it has exercised its voting rights in relation to shares in listed Australian and international equities every six months.

g. How does the board assess these positions concurrent with their duties as trustees and the sole purpose test?

As noted in response to question (c) above, decision-making with respect to voting entitlements is delegated to the Investment team (with appropriate oversight from

HESTA's CEO). As part of satisfying its trustee duties and complying with the sole purpose test, HESTA uses proxy voting as a means to safeguard the interests of its members and to protect long-term capital value through:

- setting standards for corporate behaviour that is aligned to governance best-practice;
- ensuring companies are managing capital effectively and responsibly; and
- ensuring companies are attentive to risks and opportunities that can impact valuations over its members' longer-term investment horizon.

As per HESTA's response to question (c) above, HESTA takes into account a number of considerations when exercising its voting entitlements, including the advice of proxy advisers.

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HESTA

HEST90QW Are you currently, or have you previously been, a member or subscriber of the ACTU Members Connect Program?

- a. If so, what is the timeframe of your membership?
- b. What has been the annual fee year-on-year?
- c. How have you assessed its value to your members?

Answer:

No.

HESTA is not a subscriber or member of the ACTU Member Connect Program.

HESTA has a partnership agreement with the ACTU. All partnership agreements entered into by HESTA have clearly defined outcomes which are assessed regularly in accordance with our Sponsorship Policy.