

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS

SUPERANNUATION SECTOR

HESTA

HEST91QW: Please provide the titles of all externally commissioned reports over the past five years that have reviewed any of the following:

- a. Performance of funds.**
- b. Investment strategies for funds.**
- c. Conflicts of interest for funds.**

Answer:

HESTA periodically commissions reports prepared by external parties with respect to performance, strategy and conflicts. These reports are prepared with respect to: (i) HESTA itself (as a superannuation fund); and (ii) the funds in which HESTA invests (the details of such funds have been disclosed in response to HEST07QW and HEST08QW).

These reports are either commercially sensitive or subject to confidentiality obligations owed to third parties, which prevent the distribution of such reports and, in some cases, prohibit the disclosure of the existence of such reports.

Broadly speaking, externally commissioned reports relating to HESTA as a fund consider matters including the performance of HESTA as against other Australian superannuation funds (including with respect to fees and costs charged), HESTA's long term and short term asset allocation and investment strategy (which, in turn, impacts HESTA's performance) and HESTA's conflicts management framework in accordance with requirements under the prudential standards.

With respect to the externally managed funds in which HESTA invests, HESTA commissions reports prepared by external specialists through the course of the investment lifecycle. These reports consider (without limitation) the following:

- Diligence with respect to the strategy and prospective performance of the funds in which HESTA proposes to invest, together with a consideration of the conflicts policy maintained by that fund and any known conflicts.
- Periodic assessments of historical performance and strategy, conducted at an individual investment level and at an asset class level (for example, infrastructure, property, currency). Such assessments are also conducted on a regional basis (for example, the performance of fund investments in the Asia Pacific region).

The commissioning of such reports is in addition to the ongoing regular assessment of performance, strategy and conflicts conducted internally by HESTA as part of HESTA's ongoing self-assessment and the management of the funds in which it invests.

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HEST92QW: For each fund where more than 30 per cent of capital is managed by another entity, please complete the below table including:

- a. The name of the fund.
- b. The allocation of capital as a percentage of the total capital held by the fund.
- c. The allocation of capital of the total capital held by the fund.
- d. The entity managing the capital.
- e. Whether you are a shareholder in that entity.

Answer:

Fund	Allocation of fund capital		Managing entity	Shareholder
	%	\$		
i.e. Hostplus infrastructure options	i.e. 70%	i.e. \$10 billion	i.e. IFM Investors	i.e. Yes
HESTA				

As has been previously disclosed by HESTA, HESTA retains in excess of 90 external fund managers to manage its investments. A list of such managers (separated into various asset classes) is publicly available via the following link, which is updated from time to time: (<https://www.hesta.com.au/members/investments/super-investment-options.html>). Each fund in which HESTA has invested is managed by a third party (and such funds have been previously disclosed in HESTA's response to HEST07QW and HEST08QW). The entirety of the capital of each fund (that is to say, greater than 30%) is managed by a third party (being the relevant manager of the fund).

Some of the funds in which HESTA has invested are managed by related parties. Details of these arrangements are contained in HESTA's Annual Reports (which are publicly available through the following link: <https://www.hesta.com.au/about-us/what-we-stand-for/reports-magazines.html>).

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HEST93QW: If you do have capital managed by another entity that you are also a shareholder in, please identify how you manage conflicts of interest.

Answer:

HESTA maintains a Conflicts Management Policy through which it manages any actual or potential conflicts that may arise as a result of a related party arrangement. Pursuant to this policy, HESTA's relationships with related parties are considered and approved by the Board in accordance with HESTA's Governance Framework. Related party transactions are entered into from time-to-time and are only done so in the best interests of HESTA's members. To ensure that HESTA considers potential conflicts when dealing with related parties, HESTA has regard to all factors which would otherwise be relevant when assessing a full arm's length service provider relationship, including but not limited to:

- Obtaining an external consultant review of the service where relevant.
- Assessing the scope of services, and any likely evolution of the engagement of the provider.
- Feedback on the structure and terms of the engagement versus that available elsewhere in the market.
- Benchmarking of fees for service versus comparable alternative providers.

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HEST94QW: Please provide details of the following reduction to remuneration packages since 11 March 2020:

- a. Board members.**
- b. The chief executive.**
- c. Executive management.**

Answer:

Total remuneration packages for Board members have been frozen for 12 months at FY19/20 figures until further review in June 2021. The total remuneration packages for the chief executive and executive management team have been frozen at FY19/20 figures until further notice.

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HESTA

HEST95QW: Is the fund considering divestment from pure play fossil fuel producers in order to mitigate climate-related financial risks and to increase the cost of capital for those producers?

If not, how has the fund arrived at the conclusion that this approach would not be in members' best interests?

Answer:

HESTA has regard to the risk of climate change on members' retirement outcomes in the course of its investment activities. This is because HESTA recognises the impact of climate change on its investments, including on the value of such investments, which is consistent with acting in its members' best interests.

HESTA considers that climate risk is a key, multi-faceted consideration in investment evaluation and decision-making. We capture this risk and our mitigation strategies in our enterprise risk register and make investment decisions taking these risks into consideration including our exposure to thermal coal. The consideration of this risk occurs throughout the life cycle of an investment (including when HESTA assesses whether to proceed with an investment and on an ongoing basis)

HESTA considers many potential mitigants, including potential divestment and pro-active engagement with companies, when seeking to manage the risk of climate change.

Our consideration of this risk area is guided by APRA's Information Paper from March 2019 and subsequent correspondence that Prudential Standards on climate related risks will be developed by the regulator as outlined in their letter dated 24 February 2020.

Further information regarding HESTA's approach to responsible investment is outlined in its Responsible Investment Policy available via the following publicly available link: https://www.hesta.com.au/content/dam/hesta/Documents/Responsible_Investment_Policy.pdf.