

stewardship statement

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| HESTA |



Super
with
impact

Introduction

At HESTA, our purpose is to invest in, and for, people who make our world better. Central to our Super with impact™ purpose is our commitment to deliver investment excellence with impact¹. We recognise how important a growing, sustainable and inclusive economy is to deliver on that purpose.

As long-term investors, we believe that our member's best financial interests are served by a deep commitment to responsible investment. Responsible investment is an approach to investing that incorporates the consideration of environmental, social and governance (ESG) risks and opportunities into investment decision making and active ownership to deliver strong, long-term returns.

HESTA is a diversified super fund with global investments and is exposed to risks related to some of the world's biggest issues. These issues have the potential to affect the performance of our investment portfolio, and ultimately, the returns we can deliver to members. Therefore, as active stewards of our members' capital, we seek to influence the management of these issues to protect and enhance long-term returns while accelerating our contribution to a more sustainable world.

We believe that acting in response to systemic risks² is in the best financial interests of members. Systemic issues are those that cannot be mitigated through diversification or divestment. Factors such as gender equality, decent work and good health and wellbeing support strong market fundamentals including economic growth that drive member investment returns, while risks such as climate change and biodiversity loss have the potential to undermine them.

1. <https://www.hesta.com.au/about-us/super-with-impact>

2. Systemic risks are those that threaten the functioning of the economic, financial and wider systems on which investment performance relies (United Nations Environment Project Finance Initiative).

We endorse the ambitions of the United Nations' Sustainable Development Goals (SDGs) as a framework to address systemic risks and identify areas of opportunity. Our responsible investment program prioritises six focus thematics aligned with eight SDGs:

Good health and wellbeing



Gender equality



Climate change



Decent work



Sustainable cities and communities



Natural capital and biodiversity



We aspire to contribute to outcomes aligned with the aims of these priority SDGs through our capital allocation and active ownership, while also using our voice to address systemic issues that are at odds with building stable financial markets and generating strong, long-term performance.

HESTA is a signatory to the [Australian Asset Owner Stewardship Code](#) and as a signatory to the Code, we have developed this Stewardship Statement to explain how we apply each of the principles.

Principle 1:

Asset owners should public disclose how they approach their stewardship responsibilities.

Active ownership helps protect and enhance long-term shareholder value, and drives sustainable value creation, which benefits companies, asset owners like HESTA, our members, and the economy as a whole.

Stewardship refers to “the active exercise of asset ownership rights to advance the long-term interests of beneficiaries”³. While the Code refers to stewardship, HESTA prefers to refer to active ownership, but they involve the same activities.

Our active ownership program focuses on addressing systemic issues, assessing the materiality impact of these (on our investments, our portfolio and our members), selecting the appropriate combination of active ownership levers and pursuing implementation.

The principles and commitments that direct our approach to active ownership are outlined in our [Responsible Investment Policy](#) (‘RI Policy’) section 7.d and within this Statement. As a signatory to the Principles for Responsible Investment (PRI), we are also informed by the PRI’s [Active Ownership 2.0](#) as a guide to our active ownership practices.

Aligned with HESTA’s priority SDGs, the focus areas and priority objectives for our active ownership program are identified through a materiality assessment. This process considers the economic cost of material risks, exposure of HESTA’s portfolio to these risks and stakeholder concern regarding key areas.

Our active ownership activities include:

Engagement



Interaction with portfolio companies and assets to better understand their business models and to influence their performance and practices with the aim of driving enhanced long-term returns in line with members’ best financial interests.

Voting



Voting is a key part of our active ownership and an important link in the chain of accountability between a company and its shareholders.

Advocacy



We advocate for changes to improve market efficiency, protect society or the environment, enhance governance and deliver appropriate and continuous disclosure where this serves to protect or enhance the value of members’ investments.

3. <https://acsi.org.au/wp-content/uploads/2024/08/Australian-Asset-Owners-Stewardship-Code-2024-final.pdf>

Engagement objectives are guided by HESTA's Active Ownership Priorities⁴ and include:

- Alignment with long-term objectives
- Identification and management of material issues and systemic risks and opportunities
- Contribution to sustainability outcomes
- Strong governance and accountability
- Preserving a social license to operate
- Transparency and adequate disclosures.

In some instances, engagement and voting alone may not be sufficient to drive the change we seek to improve member retirement outcomes. That's when we'll aim to use our voice, both independently and collectively, on issues that are at odds with maintaining and growing, a sustainable and inclusive economy.

The HESTA Board has ultimate responsibility for the Fund's management of investments in a manner consistent with the best financial interest of members, including our approach to active ownership.

We take a total portfolio approach to investment. This approach facilitates the sharing of diverse ideas and market insights across asset classes and helps to inform our active ownership approach and priorities. It also encourages collaboration as part of delivering investment excellence with impact.

The participation of HESTA Executives and Investment Management leaders in our active ownership activities is reflective of the priority given to responsible investment, the transition to greater internal management of assets and the fund-wide commitment to delivering Super with impact™. We seek to work with aligned investment partners, and therefore also consider active ownership capabilities in the selection, appointment and monitoring of external investment managers as outlined further in Principle 4.

Regular reporting on HESTA's responsible investment program of work is provided to the Board and Investment Committee with biannual updates to the Board in relation to our active ownership activities.

4. The HESTA Active Ownership Priorities are available in the RI Policy section 7.d (i)

Principle 2:

Asset owners should publicly disclose their policy for voting at listed company meetings and voting activity.

Exercising our voting rights in listed and unlisted markets is a key element of our active ownership approach and an important link in the chain of accountability between a company and its shareholders.

Due to the size of our portfolio, we vote at thousands of company meetings in Australia and internationally each year. These votes cover topics including director elections, executive remuneration, as well as a range of other items related to good corporate governance.

HESTA aims to exercise our voting rights for all shares in publicly listed companies that are held directly⁵. Our voting policy is embedded in the RI Policy section 7d (ii), as required under the *Corps Reg 7.9.07ZB (3)*.

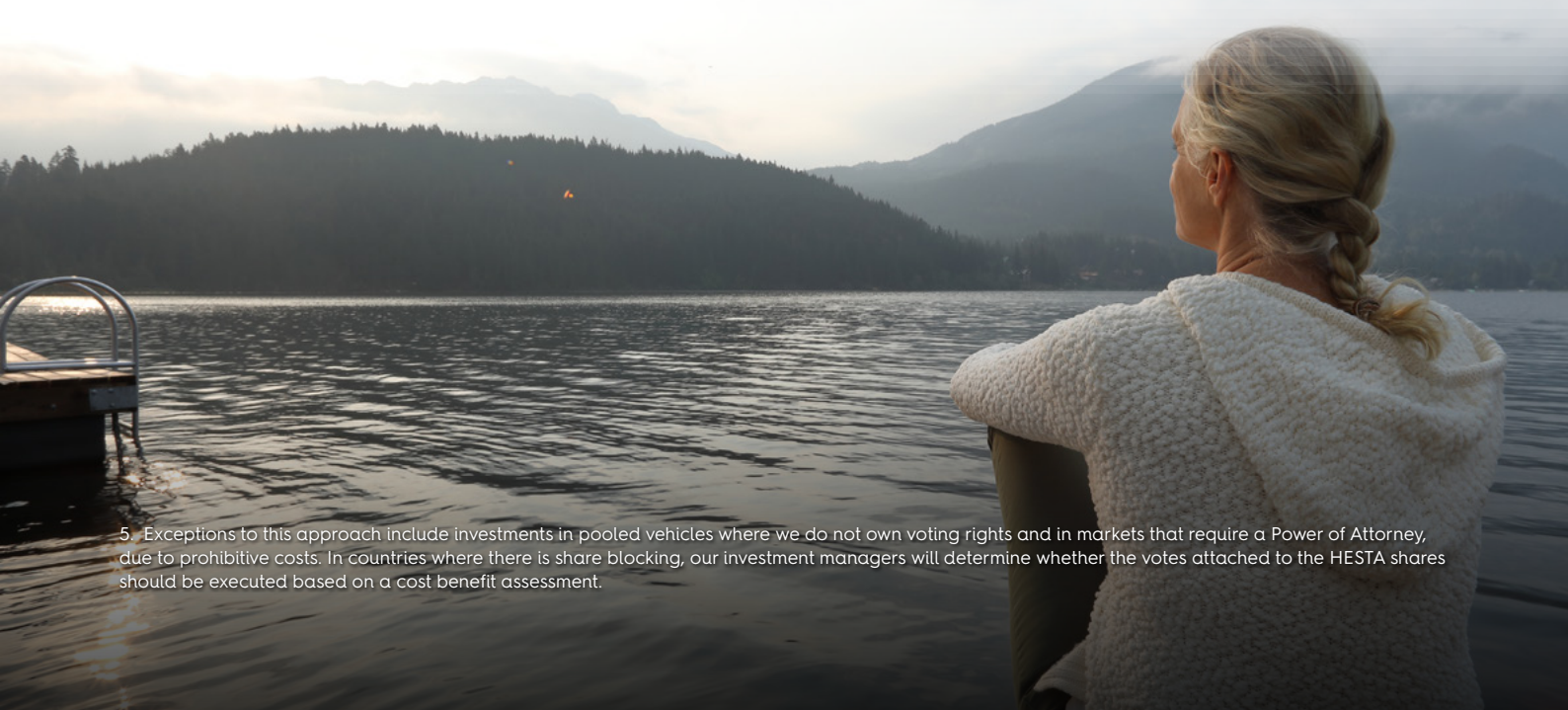
Voting enables us to express our opinions to a company regarding issues that are material to long-term shareholder value. We may notify portfolio companies of our voting intentions ahead of company meetings. HESTA seeks to vote consistently across companies facing similar resolutions to provide a clear and consistent message.

For shares held through the Australian equities portfolio, voting decisions are made directly by HESTA based on what we consider is in the best financial interests of our members, taking into account our Active Ownership Priorities and often following dialogue with companies and consultation with our investment managers, proxy advisers, engagement service providers and other relevant stakeholders.

For shares held through the international equities portfolio, voting decisions are made by our international proxy adviser and engagement service provider, EOS at Federated Hermes Limited according to their [Global Voting Guidelines](#). HESTA periodically reviews the guidelines. We retain the discretion to override any voting decisions made by EOS at Federated Hermes Limited in line with what we consider to be in members' best financial interests.

HESTA may co-file shareholder resolutions if it is considered that this will influence a company to take action and address material risks.

Aligned with regulatory requirements, we disclose all voting decisions on our [website](#). We also provide summaries of voting metrics and priorities in the HESTA Responsible Investment Report available on our [website](#).



⁵ Exceptions to this approach include investments in pooled vehicles where we do not own voting rights and in markets that require a Power of Attorney, due to prohibitive costs. In countries where there is share blocking, our investment managers will determine whether the votes attached to the HESTA shares should be executed based on a cost benefit assessment.

Principle 3:

Asset owners should engage with companies (either directly, indirectly, or both).

Engagement, both direct and indirect, with companies in which we invest is the foundation of HESTA's approach to active ownership. The primary aim of engagement is to drive enhanced long-term returns aligned with the best financial interests of HESTA members.

HESTA undertakes engagement with portfolio companies to understand their business models and to seek progress in relation to their management of material systemic risks that threaten our ability to deliver strong, long-term returns to members. In doing so, we believe this can stimulate improved performance at the company level, with the potential to also influence change at the system level.

Forms of engagement

Engagement with portfolio companies is undertaken directly by HESTA, through collaborative initiatives, and indirectly through specialist service providers (the Australian Council of Superannuation Investors (ACSI) for Australian equities and EOS at Federated Hermes for international equities) and external investment managers.

This combination of approaches enables us to broaden the number of companies covered by our engagement program as well as the depth, by allowing us to focus our direct engagement on the issues most material to our investment portfolio.

For each of HESTA's priority thematic, we identify change objectives and key drivers that can influence achievement of the objectives. Our engagement focuses on priority companies that can help to shift practices relevant to that thematic. For each change objective, we select an appropriate combination of active ownership levers to progress the objectives, in a manner consistent with the best financial interests of our members. At all times in our engagement, we seek to be productive and respectful.

Escalation

We may use our escalation framework where we consider that a company has not demonstrated adequate progress through engagement to address issues material to the portfolio.

The escalation framework draws on the tools of assessment, monitoring, escalation votes and is responsive to engagement progress and new information. As a result, the tools may not be applied sequentially. The RI Policy *section d (iv)* has more information on escalation tools and how HESTA may apply them.

Assess:

Annual pre-AGM assessment to identify companies for escalation. Assessment seeks to identify companies whose operations or activities significantly contribute to overall portfolio risk or are clearly mis-aligned with HESTA's responsible investment objectives.

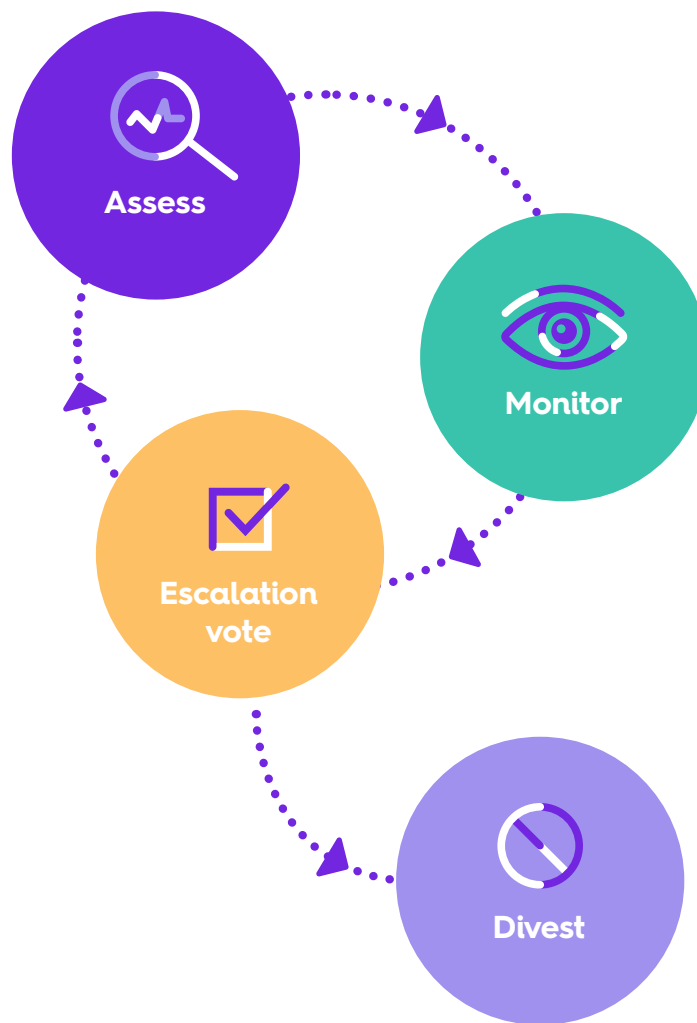
Assess whether escalation is consistent with members' financial interests.

Escalation vote:

We may exercise our vote consistent with an overall assessment of the company and its progress towards any change objectives.

We may vote against directors, including where directors are deemed to be unresponsive to engagement and/or lacking relevant skills or experience related to an issue.

We may also support and/or file shareholder resolutions that are consistent with the change objectives.



Monitor

Place company on a 'watchlist' for heightened monitoring and engagement and communicate that position to the company. Ongoing re-assessment of a company's status based on company responsiveness to engagement and new information that informs a decision to engage further, vote or move to divestment. Being on a watchlist may include:

- Communicating change objectives to the company
- Setting a timeframe by which we expect a company response.
- Flagging our willingness to divest
- Publicly communicating our decision that a company is on our watchlist.

Divest

We will consider divestment where we believe there is inadequate evidence or progress to address the risks, where we have formed the view that further engagement is unlikely to achieve alignment with our objectives, and where we consider this to be in the best financial interests of our members.

Progress through the escalation framework is responsive to engagement/new information and may not be sequential

We may also participate in public debate and collectively engage with peers to amplify our voice on important issues and our management of systemic risks. More information on collaborative initiatives is provided in Principles 5 and 7, and on our [website](#).

We regularly disclose examples of the outcomes of our active ownership activities in the HESTA Responsible Investment Report, Annual Report and Climate Change Report and other bespoke communications.

Principle 4:

Asset owners should monitor asset manager's stewardship activities.



HESTA engages investment managers to invest members' money according to specific objectives and strategies.

We invest our members' retirement savings in strategies managed by our internal investment teams and by external investment managers in Australia and across multiple global regions. We seek to partner with external investment managers that are aligned with our corporate values, as outlined in the [HESTA Partnership Principles](#), as well as our commitment to responsible investment.

Our investment manager selection process includes a comprehensive assessment of a manager's approach to responsible investment, including active ownership, as outlined in the HESTA Investment Due Diligence Policy.

We consider that our external investment managers have an important role in supporting our active ownership activities. We seek to include responsible investment requirements, including those in relation to active ownership, into external investment manager agreements and side letters. These include

expectations that managers will support our company engagement and advocacy efforts, and while we retain voting rights for all portfolio holdings, we do consider the views of our external investment managers when forming voting decisions.

Monitoring responsible investment activities of investment managers is regularly undertaken through a combination of an annual survey and portfolio monitoring. The annual assessment includes an assessment of how managers have conducted active ownership during the year. Insights from our monitoring program are incorporated into annual asset class reviews. If a manager's policies, procedures or operations do not align with our expectations, we will engage with the manager to establish an improvement plan to rectify the issue.

We disclose a full list of our investment managers in our Annual Report and on our [website](#).

Principle 5:

Asset owners should encourage better alignment of the operation of the financial system and regulatory policy with the interests of long-term investors.

HESTA's advocacy aims to address systemic issues that are at odds with maintaining and building a growing, sustainable and inclusive economy which is important in protecting and enhancing long-term shareholder value on behalf of our members.

A key pillar of HESTA's purpose to deliver Super with impact™ is to be a gutsy advocate for a fair and healthy community. Where it is in our members' best financial interests, we use our collective voice to help address inequities impacting our members and those we see falling behind. As a significant asset owner and representative for our membership, we can play a leadership role in the industry to seek to influence meaningful change on systemic issues that may impact the retirement outcomes of members.

We engage with decision-makers and contribute to applicable policy discussions that are relevant to our members both directly and through our membership of collective organisations, including bodies such as the [Association of Superannuation Funds of Australia](#) (ASFA) and the [Super Members Council of Australia](#) (SMC).

In seeking to address systemic issues that are relevant to our ability to deliver strong long-term returns to our members, HESTA can seek relevant changes or development of laws, regulations, standards or guidelines through advocacy to governments, parliamentary forums and regulators. We advocate for changes to improve market efficiency, protect society or the environment, enhance governance and deliver appropriate and continuous disclosure where this serves to protect or enhance the value of members' investments. We do this with the aim of improving the long-term performance of markets or reducing market failures.

HESTA policy submissions are available on our [website](#).

Principle 6:

Asset owners should report to beneficiaries about their stewardship activities.



HESTA reports to members through multiple channels, with the HESTA corporate website the primary tool for communicating outcomes related to our priority responsible investment themes. You can find information at hesta.com.au/responsible

We provide disclosure in a variety of formats to suit the diverse audiences that may seek further information regarding our approach to responsible investment, including our active ownership activities.

Where the RI Policy outlines the principles and commitments that direct our approach to responsible investment, including active ownership, we report information and data through our Responsible Investment Report, Annual Report and other bespoke reports. Other updates related to our active ownership activities are provided to members and employers through digital communications and annually at the HESTA Annual Member Meeting.

We also provide information related to our active ownership activities through the PRI Transparency Report, available on our [website](#).

Detailed records of how we vote at company meetings are publicly available on our [website](#).

Principle 7:

Asset owners should outline how they utilise collaboration in their steward activities

HESTA seeks to collaborate with like-minded investors to amplify our voice and drive action, while using our resources efficiently.

The outcomes of collaborative initiatives in which we are directly involved are monitored and documented. A list of the collaborative initiatives in which HESTA is involved is published on our [website](#).

Collaboration

HESTA works in collaboration with organisations to further our public policy goals and active ownership priorities. Some of these organisations include:

System-level advocacy

- Australian Sustainable Finance Initiative (ASFI)
- Principles for Responsible Investment (PRI)
- Responsible Investment Association Australasia (RIAA)
- Australian Council of Super Investors (ACSI)
- Investor Group on Climate Change (IGCC)
- Farm Animal Investment Risk and Return (FAIRR)

We also collaborate with organisations in support of industry level advocacy or progressing outcomes related to our active ownership priorities. Some of these organisations include:

Industry level advocacy and company engagement

- 40:40 Vision
- Investor Group on Climate Change (IGCC)
- Dhawara Ngilan Business and Investor Initiative (DNBII)
- Climate Action 100+ (CA100+)
- Investors Against Slavery and Trafficking Asia Pacific (IAST APAC)
- Nature Action 100
- The Shareholder Commons

Research

In seeking to uplift market standards, HESTA undertakes research in partnership with organisations demonstrating appropriate expertise and networks.

We work with a variety of stakeholders to undertake research on responsible investment issues; seek to develop solutions to responsible investment challenges; and share the insights gained from research with companies and other stakeholders.

For example, we have collaborated with BankWest Curtin Economics Centre on research into decent work in Australia. This research is supporting company engagement related to our decent work thematic and is shared on our website for use by our peers, investment managers and other stakeholders.

We also seek to be an active participant in collaborative working groups of member organisations such as those facilitated by ACSI, RIAA, the PRI, IGCC and others.



hesta.com.au