CLIMATE TRANSPARENCY REPORT 2020

HESTA Super Fund

Principles for Responsible Investment

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-46D16D2D-D3C7-4A74-B925-F452C665A5DD/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	✓	Public				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation

Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

PRI Principles for Responsible Investment

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	HESTA Super Fund
Signatory Category	Non-corporate pension or superannuation or retirement or provident fund or plan
Signatory Type	Asset Owner
Size	US$ 30 - 50 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2006
Region	Oceania
Country	Australia
Disclosure of Voluntary Indicators	96% from 38 Voluntary indicators

HESTA Super Fund

Reported Information

Public version

Strategy and Governance

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.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

◉ Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

As at 30 June 2019, HESTA is in the process of embedding climate-related risks into its wider organisational strategy and company-wide risk processes and investment portfolio considerations, as recommended by the TCFD. This undertaking has not been completed as at 30 June 2019, but progress will be apparent for the 30 June 2020 reporting period.

As stated in our Climate Change Policy, HESTA incorporates both transition and physical climate-related risks and opportunities into its investment approach.

We consider the risks facing underlying companies that arise as a result of climate change.

Risks considered include:

- the physical environment resulting in rising sea levels, extreme weather and climate change events such as fires and floods, storms and storm surges, etc (i.e. physical risks)
- government policy and legislation resulting in increased costs of compliance (mitigation, taxes or permit, disclosure) and increased input costs (i.e. carbon risks) and
- the market, such as reduced demand for goods and services that contribute to, or become less desirable or necessary in, a future impacted by climate change and rising temperatures e.g. coal, geographic locations becoming warmer (i.e. market risks). The potential financial impact on asset valuations from reduced demand for fossil fuels has become known as "stranded assets".

HESTA also considers the opportunities arising from climate change including consequential changes to:

- the physical environment
- government policy and legislation resulting in increased energy efficiency of production processes, early adoption of new technologies, greater access to finance for low emissions projects, and
- the market, such as increased demand for goods and services that address climate change or become more necessary or desirable in a future impacted by climate change e.g. low emissions technologies, design of resilient infrastructure and property etc.

○ No

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

◉ Yes

	Describe the associated timescales linked to these risks and opportunities.

As at 30 June 2019, HESTA had commissioned independent advice on the impact of climate change risks on its portfolio. Post-30 June 2019, we have received the advice, and are considering how it will impact HESTA's current investment approach. The advice includes considerations on the timescale relevant for each of the risks and opportunities identified by the investment team, with reference to the UN-backed PRI's Inevitable Policy Response, among others.

○ No

SG 01.8 CC	Indicate whether the organisation publicly supports the TCFD?

◉ Yes

○ No

SG 01.9 CC	Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

○ Yes

◉ No

	Describe how and over what time frame the organisation will implement an organisation-wide strategy that manages climate-related risks and opportunities.

As at 30 June 2019, HESTA is developing a comprehensive Climate Change Transition Plan for publication during the 2020 calendar year.

The Transition Plan will inform how HESTA approaches the risks and opportunities arising from climate change. This is expected to result in a new approach to investment, details of which are being finalised

SG 1.10 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☐ Public PRI Climate Transparency Report

☐ Annual financial filings

☐ Regular client reporting

☐ Member communications

☐ Other

☑ We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Board members or trustees

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

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

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Other Chief-level staff or heads of departments

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Portfolio managers

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Investment analysts

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Dedicated responsible investment staff

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

External managers or service providers

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

SG 07.6 CC	For board-level roles that have climate-related issue oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

The wider HESTA Board and its commitees recieve Board papers on climate-related risks, including but not limited to:

- physical risks of climate change (risk of the impact of increasing number of extreme weather events to the HESTA real asset portfolio)
- policy risk, such as the risks stemming from government policy and legislation resulting in increased cost of compliance (such as mitigation, taxes or permit, disclosure) and increased input costs (such as carbon risks).

In April 2019 the HESTA Board established the Impact Committee (ImpactCo), tasked with oversight of the HESTA Impact program - bringing together the Fund's responsible investment, advocacy and corporate social responsibility activities. Chaired by the Chair of the Investment Committee, ImpactCo considers and monitors the HESTA Impact program of work and reviews its ambition in consultation with the HESTA Board.

ImpactCo comprises two directors from the Investment Committee, two directors drawn from the wider HESTA Board and one external expert who is not a member of the Board. HESTA's CEO, CIO, Head of Impact and Company Secretary also attend all ImpactCo meetings. Other members of the Board are welcome to attend meetings, but do not have voting rights.

SG 07.7 CC	For management-level roles that assess and manage climate-related issues, provide further information on the structure and processes involved.

To alllow members of the Investment Management and Investment Execution team to fully assess and manage climate-related and all other responsible investment-related issues, HESTA established the Responsible Investment Steering Group (RISG) in January 2019. The RISG comprises:

- Chief Investment Officer;
- Executive - Investment Execution;
- Head of Impact;
- General Manager - Listed;
- General Manager - Unlisted;
- General Manager - Strategy and Economics;
- Members of the wider Responsible Investment team, as required.

SG 07.8 CC	Indicate how your organisation engages external investment managers and/or service providers on the TCFD recommendations and their implementation.

☐ Request that external managers and/or service providers incorporate TCFD into mainstream financial filings (annual financial reports, other regulatory reporting or similar)

☑ Request incorporation of TCFD into regular client reporting

☑ Request that external managers complete PRI climate indicator reporting

☑ Request responses to TCFD Fund Manager questions in the PRI Asset Owner Guide

☐ Other

☐ We do not engage with external managers and/or service providers on the TCFD recommendations and their implementation

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☑ Yes, in order to assess future climate-related risks and opportunities

	Describe

HESTA has begun an analysis of its real asset holdings (real estate and infrastructure) examining the impact of extreme weather events on the portfolio. The work is ongoing, and is reported to the HESTA Board's Investment Committee and Impact Committee.

☐ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.2	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

	We do the following

☐ Allocation between asset classes

☐ Determining fixed income duration

☐ Allocation of assets between geographic markets

☑ Sector weightings

☐ Other, specify

☐ We do not consider ESG issues in strategic asset allocation

SG 13.3	Additional information. [OPTIONAL]

As at 30 June 2019, HESTA had commissioned independent advice on the impact of climate change risks on its portfolio. Post-30 June 2019, we have received the advice, and are considering how it will impact HESTA's current investment approach. The advice includes considerations on the timescale relevant for each of the risks and opportunities identified by the investment team, with reference to the UN-backed PRI's Inevitable Policy Response, among others.

SG 13 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 13.4 CC	Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its results, and any future plans.

☑ Initial assessment

	Describe

As at 30 June 2019, HESTA had commissioned independent advice on the impact of climate change risks on its portfolio. Post-30 June 2019, we have received the advice, which will inform the development of a comprehensive Climate Change Transition Plan for publication during the 2020 calendar year.

The Transition Plan will inform how HESTA approaches the risks and opportunities arising from climate change, in line with our support for the Task Force for Climate-related Financial Disclosures and our alignment with its reporting framework. The advice includes considerations on the timescale relevant for each of the risks and opportunities identified by the investment team, with reference to the UN-backed PRI's Inevitable Policy Response, among others.

HESTA has further begun an analysis of its real asset portfolio (real estate and infrastructure) examining the impact of extreme weather and climate change events on the portfolio. The work is ongoing, and is reported to the HESTA Board's Investment Committee and Impact Committee.

☐ Incorporation into investment analysis

☑ Inform active ownership

	Describe

HESTA considers stranded asset risk in its engagement with listed companies and asks companies to ensure their capital expenditure is aligned with the goals laid out in the Paris Agreement. As part of these efforts, HESTA co-filed a shareholder resolution at the 2019 BP AGM. Supported by the company, the resolution proposed a link between executive remuneration and the company's emissions reduction goals. Post 30 June 2019, we are exploring how this approach can be applied to companies listed on the ASX.

☐ Other

SG 13.5 CC	Indicate who uses this analysis.

☑ Board members, trustees, C-level roles, Investment Committee

☑ Portfolio managers

☑ Dedicated responsible investment staff

☑ External managers

☑ Investment consultants/actuaries

☐ Other

SG 13.6 CC	Indicate whether your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its investment strategy.

◉ Yes

	Describe

As at 30 June 2019, HESTA had commissioned independent advice on the impact of climate change risks on its portfolio. Post-30 June 2019, we have received the advice, which models the impact of a range of climate change scenarios on the HESTA portfolio through to 2100. We are considering how it will impact HESTA's current investment approach. The advice includes considerations on the timescale relevant for each of the risks and opportunities identified by the investment team, with reference to the UN-backed PRI's Inevitable Policy Response, among others.

○ No

SG 13.7 CC	Indicate whether a range of climate scenarios is used.

☑ Analysis based on a 2°C or lower scenario

☑ Analysis based on an abrupt transition, consistent with the Inevitable Policy Response

☑ Analysis based on a 4°C or higher scenario

☐ No, a range is not used

SG 13.8 CC	Indicate the climate scenarios your organisation uses.

Provider	Scenario used	
IEA	☐ Beyond 2 Degrees Scenario (B2DS)	
IEA	☐ Energy Technology Perspectives (ETP) 2 Degrees scenario	
IEA	☐ Sustainable Development Scenario (SDS)	
IEA	☐ New Policy Scenario (NPS)	
IEA	☐ Current Policy Scenario (CPS)	
IRENA	☐ RE Map	
Greenpeace	☐ Advanced Energy [R]evolution	
Institute for Sustainable Development	☐ Deep Decarbonisation Pathway Project (DDPP)	
Bloomberg	☐ BNEF reference scenario	
IPCC	☐ Representative Concentration Pathway (RCP) 8.5	
IPCC	☐ RPC 6	
IPCC	☐ RPC 4.5	
IPCC	☐ RPC 2.6	
Other	☑ Other (1)	Other (1) please specify: Mercer E3ME Model.
Other	☐ Other (2)	
Other	☐ Other (3)	

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1

SG 14.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

☑ Changing demographics

☑ Climate change

☑ Resource scarcity

☑ Technological developments

☐ Other, specify(1)

☐ Other, specify(2)

☐ None of the above

SG 14.2	Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

☐ Established a climate change sensitive or climate change integrated asset allocation strategy

☑ Targeted low carbon or climate resilient investments

	Specify the AUM invested in low carbon and climate resilient portfolios, funds, strategies or asset classes.

	trillions	billions	millions	thousands	hundreds
Total AUM			352	900	000
Currency	AUD				
Assets in USD			239	054	322

	Specify the framework or taxonomy used.

The strategy is an international passive low carbon shares strategy. It aims to achieve a carbon footprint at or below 50% of the Index while delivering index-like return.

☐ Phase out your investments in your fossil fuel holdings

☑ Reduced portfolio exposure to emissions intensive or fossil fuel holdings

☑ Used emissions data or analysis to inform investment decision making

☑ Sought climate change integration by companies

☑ Sought climate supportive policy from governments

☐ Other, specify

☐ None of the above

SG 14.3	Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

☐ Scenario analysis

☐ Disclosures on emissions risks to clients/trustees/management/beneficiaries

☐ Climate-related targets

☑ Encouraging internal and/or external portfolio managers to monitor emissions risks

☐ Emissions-risk monitoring and reporting are formalised into contracts when appointing managers

☑ Weighted average carbon intensity

☑ Carbon footprint (scope 1 and 2)

☑ Portfolio carbon footprint

☐ Total carbon emissions

☐ Carbon intensity

☐ Exposure to carbon-related assets

☐ Other emissions metrics

☑ Other, specify

	other description

Encourage our external investment managers to incorporate climate change and carbon emissions risks and opportunities into their investment decision making processes.

☐ None of the above

SG 14.5	Additional information [Optional]

HESTA has a specific Climate Change Policy which outlines our principles and commitments in relation to the incorporation of climate change considerations into investment processes and decision-making. Given our outsourced investment model, encouraging our external investment managers to incorporate climate change and carbon emissions risk into their investment decision making processes is central to our approach.

We have signed successive annual Global Investor Statements on Climate Change, supporting greater action by policymakers on the issue of climate change.

The information below outlines in more detail the activities undertaken by HESTA to respond to climate change risk and opportunity in our portfolio.

Reduced portfolio exposure to emissions intensive or fossil fuel holdings: In 2015 HESTA introduced a portfolio wide restriction on new investment in companies materially involved in new or expanded thermal coal assets. In our environmentally and socially responsible investment option, Eco Pool, we introduced a further restriction on investment in companies with material involvement in

- exploration, production or transportation of thermal coal assets;
- contracting or supplying to listed companies undertaking these activities; or
- generation of electricity from brown coal or lignite.

Sought climate supportive policy from governments - this is undertaken on our behalf by the Investor Group on Climate Change and to a lesser extent, our engagement service providers, the Australian Council of Superannuation Investors, Regnan - Governance Research & Engagement and Hermes Equity Ownership Services.

SG 14 CC	Voluntary	Public		General

SG 14.6 CC	Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Weighted average carbon intensity	☐ All assets ☐ Majority of assets ☑ Minority of assets	The figure is currently monitored, but will inform investment decisions post 30 June 2019.	CO2 per $ of sales	
Carbon footprint (scope 1 and 2)	☐ All assets ☑ Majority of assets ☐ Minority of assets	The figure is currently monitored, but will inform investment decisions post 30 June 2019.	CO2	
Portfolio carbon footprint	☐ All assets ☑ Majority of assets ☐ Minority of assets	The figure is currently monitored, but will inform investment decisions post 30 June 2019.	CO2 per $ invested	

SG 14.8 CC	Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

◉ Processes for climate-related risks are integrated into overall risk management

	Please describe

Climate change is captured under ESG risk within the HESTA Corporate Risk Register. As at 30 June 2019, ESG risk falls within the reputation risk framework of the Corporate Risk Register.

○ Processes for climate-related risks are not integrated into overall risk management

SG 14.9 CC	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.

◉ Yes

	Please describe

We request our engagement providers Hermes EOS, ACSI and Regan to specifically address TCFD recommendations and their implementation as part of their engagement with companies invested.

○ No, we do not undertake active ownership activities.

○ No, we do not undertake active ownership activities to encourage TCFD adoption.

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1

SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

◉ Yes

SG 15.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.

	%

4

SG 15.3	Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.

	Area

☑ Energy efficiency / Clean technology

	Asset class invested

☐ Listed equity

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☑ Private equity

	Percentage of AUM (+/-5%) per asset class invested in the area

11

☐ Property

☑ Infrastructure

	Percentage of AUM (+/-5%) per asset class invested in the area

4

☐ Cash

☐ Other (2)

	Brief description and measures of investment

Private equity and infrastructure investment in renewable energy and related infrastructure.

☐ Renewable energy

☑ Green buildings

Asset class invested

- ☐ Listed equity
- ☐ Fixed income - SSA
- ☐ Fixed income - Corporate (financial)
- ☐ Fixed income - Corporate (non-financial)
- ☐ Fixed income - Securitised
- ☐ Private equity
- ☑ Property

Percentage of AUM (+/-5%) per asset class invested in the area

22

- ☐ Infrastructure
- ☐ Cash
- ☐ Other (2)

Brief description and measures of investment

A large portion of property portfolio classifies as 'green', being buildings that are in the top 25% of buildings when compared against the market (city) average from NABERS

- ☐ Sustainable forestry
- ☐ Sustainable agriculture
- ☑ Microfinance

Asset class invested

- ☐ Listed equity
- ☐ Fixed income - SSA
- ☐ Fixed income - Corporate (financial)
- ☐ Fixed income - Corporate (non-financial)
- ☐ Fixed income - Securitised
- ☑ Private equity

Percentage of AUM (+/-5%) per asset class invested in the area

1

- ☐ Property
- ☐ Infrastructure
- ☐ Cash
- ☐ Other (2)

Brief description and measures of investment

Private equity investment in companies that provide financial services to financially excluded people.

☐ SME financing

☐ Social enterprise / community investing

☐ Affordable housing

☐ Education

☐ Global health

☐ Water

☑ Other area, specify

Sustainable or low carbon themed investments

Asset class invested

☑ Listed equity

Percentage of AUM (+/-5%) per asset class invested in the area

5

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☐ Private equity

☐ Property

☐ Infrastructure

☐ Cash

☐ Other (2)

Brief description and measures of investment

HESTA has two listed equities mandates where 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