

HESTA

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Highlights

- HESTA is Australia's largest pension fund dedicated to people in the health and community services sector. It has operated for more than 30 years, has over 850,000 members and manages more than A\$46 billion¹ of members' assets.
- It is one of the few pension funds that focuses on employees within the health and community services (HACS) sector where part of its impact investing strategy is to help create jobs for its members in HACS.
- HESTA is also keen to be a market leader, developing new approaches to impact investing that can attract other large investors, thereby making a positive difference to society and environment for all its members.
- Whilst its impact investments need to reflect risk adjusted returns similar to what HESTA would expect from its traditional portfolio, the impact investment strategy allows for small investments and provides more flexible funding in terms of tenure and repayment profile - this was key to developing the organisation's early expertise in impact investments.

Quotes

"An innovative investment program that aims to earn expected market returns and deliver positive social outcomes" - HESTA

"Through impact investments like this, HESTA is creating lasting change for generations to come, as well as market-based returns for members. This investment closely aligns with the commitment we share with our members in health and community services" - SVA

Introduction

HESTA is Australia's largest pension fund dedicated to people in the health and community services sector, managing A\$46 billion of assets in total. It was the first Australian industry superannuation fund (Australian terminology for pension fund) to adopt a Reconciliation Action Plan to help chart the best path to stronger partnerships with Aboriginal and Torres Strait Islander communities (September 2017) and has committed to promoting financial inclusion, launching a Financial Inclusion Action Plan in November 2016.

In 2015, HESTA partnered with Social Ventures Australia (SVA) to establish the Social Impact Investment Trust (SIIT), Australia's largest social impact investment fund at the time. HESTA committed an initial A\$30 million to be deployed in Australia towards investments designed to generate both a financial return and a measurable social impact. Given its success with deployment, HESTA committed an additional A\$40 million in June 2018. SVA is a social purpose organisation that works with partners to improve the lives of people in need by helping business, government and philanthropists to be more effective funders and other social purpose organisations to be more effective at delivering services. SVA was appointed as the investment manager of the SIIT in this context.

¹ Source: <https://www.hesta.com.au/about-us.html> as of September 2018

What impact investments were made?

The SIIT makes investments with a target minimum investment size of A\$1 million, across a range of organisations and projects that have a focus on delivering both financial returns and demonstrable social impact in sectors such as health, housing and community services. It can make investments in both debt, equity capital as well as social impact bonds.



HESTA invested in the **Aspire Social Impact Bond Program** in early 2017, where it committed A\$1.5 million through the trust. SVA, in partnership with the South Australian Government raised A\$9 million (which includes HESTA's commitment) to launch the Bond Program that will support up to 600 people experiencing homelessness in Adelaide. This is Australia's first homelessness focused social impact bond (SIB). Under the Aspire Program participants are provided stable accommodation, job readiness training, pathways to employment and life skills development.

In June 2017, HESTA also invested in the **Newpin Queensland Social Benefit Bond** (Newpin) alongside a wide range of high net worth individuals, foundations and institutional investors. The Queensland Government launched Newpin with service

provider UnitingCare Queensland (UCQ, a faith-based health and community services provider), to create the state's first social benefit bond, which attracted A\$6 million of capital within a month of launch.

Social benefit bonds raise capital to fund programs that benefit the community whilst providing a stable source of funding to help deliver services and create jobs in the community sector. Investment in the bonds will fund the Newpin Program, which aims to safely reunite children in out-of-home care with their families through therapeutic centre-based support. Around 200 families with approximately 560 children, three quarters of them Aboriginal and Torres Strait Islander people, will be referred to the Newpin Program over the course of five years. The first of three Newpin Centres was opened in Cairns at the start of 2018. Payments will be made to UCQ by the Queensland Government based on the incremental number of children successfully reunited with their families, relative to a baseline target. The level of these payments will in turn be reflected in the returns payable to investors.

More recently, in November 2017, HESTA committed A\$19 million (its largest single investment to date) through its SIIT to finance **Korongee**, a cutting-edge, Australia-first village designed to maintain a sense of self, home and community for people living with dementia. "This investment will help provide a world-class facility for the local community and benefits HESTA's members by earning a return, while also piloting a model for investing in aged care that could attract other large investors to this space." The village in Tasmania is similar to the Netherlands' successful De Hogeweyk village model. Korongee is a partnership between HESTA, not-for-profit aged care provider Glenview and the Commonwealth Government.

Why were these investments made?

HESTA's [responsible investment policy](#) is grounded in its key investment objective which is to maximise members' long-term investment returns while minimising risk. As such, the consideration of environmental, social and governance (ESG) risks and opportunities in HESTA's investment processes and decision making is consistent with its investment objective, and is therefore consistent with HESTA's fiduciary duty and the sole purpose test, to act in the best interests of fund members.

The organisation believes that this approach will have the ancillary benefit of contributing to improved environmental and social outcomes, which will in turn:

- contribute to a stronger economy, which is a prerequisite for delivering the best risk-adjusted returns for members; and
- improve the overall retirement outcome for members, as their retirement outcome will not only be affected by the financial returns received, but by the state of the environment and the society into which they retire.

Whilst it already had a comprehensive strategy to facilitate the transition to a low carbon economy such as evaluating opportunities in clean technologies, renewable energy, and nano-technology, HESTA established its [Impact Investment Strategy](#) in 2013, with objectives to:

- Identify investments aligned with members' values which can achieve an appropriate financial net return and measurable social impact.
- Further enhance HESTA's standing as a long-term investor whose activities have a positive impact on the economy, society and environment, and to provide an additional opportunity to continue to build an enduring relationship with members.
- Engage with other stakeholders to help build the impact investment market in Australia.
- Develop investment partnerships to allow HESTA to access investments of a smaller scale, which would not justify team attention relative to other opportunities (given investment size below HESTA's meaningful investment threshold levels).

The identified benefits arising from establishment of the impact investment strategy included:

- A diversified source of investment returns.
- Delivering a range of social and/or environmental benefits.
- Brand and reputation value from demonstrated leadership and in responsible investment.
- Experience in the development of innovative investment practices, including the creation of new investment vehicles.

HESTA's Board made a commitment in 2013 to focus specifically on social impact investment, primarily to help develop the social impact investment market and build an evidence base. As such, a key factor for HESTA is for the investments to have identifiable and quantifiable social impact, specifically in the health and community services (HACS) sector given its members are from this sector and it is keen to invest alongside them and where they work. It views impact investing as one of the ways to do this because investments made through the SIIT can help create jobs for its members in HACS.

It is also keen to be a market leader, developing new approaches to impact investing that can attract other large investors, thereby making a positive difference to society and environment for all its members. An example of this is helping to test and scale affordable and social housing models, particularly for those that are most vulnerable within society - its motivation for the Aspire SIB programme for instance, is to build the independence and resilience of vulnerable people experiencing homelessness.

How are the investments managed and monitored?

When considering the optimal implementation approach for its impact investment strategy, HESTA had to balance the smaller scale of investment opportunities available (in both absolute and relative terms versus other investments under consideration for the portfolio) and the level of expertise and resource available internally to source, analyse, execute and manage impact investment opportunities.

The development of the SIIT, an open-ended, special purpose trust with HESTA as the single beneficiary and SVA as the trustee and manager enables HESTA to:

- utilise the skill, expertise and assistance of SVA in assessing investment opportunities that are too “small” for HESTA’s internal investment team to analyse;
- maintain control over investment selection and ensure that investments are aligned with members’ values;
- establish a relationship to which HESTA can direct potential impact investment opportunities that arise; and
- ensure that appropriate return outcomes are achieved for the risk being assumed.

HESTA approached SVA given their experience in the Australian impact investment market. HESTA works closely with SVA, being involved through the due diligence process and having the right to veto potential investments being considered for the SIIT.

Targeted outcomes and returns



The SIIT allows HESTA to make investments which focus on core social issues in Australia including, but not limited to, health, social and affordable housing, employment, disability, and education, which deliver financial returns and identifiable and quantifiable social impact.

Whilst it is too early to demonstrate financial returns given the types of investments that have been made, most of the investments made thus far are debt investments with returns that are similar to what HESTA would expect from its traditional debt portfolio with similar risks. HESTA can provide borrowers with more flexible funding solutions in terms of tenure and repayment profile.

Lessons learnt and challenges

The main challenge as HESTA implemented its investment strategy was developing an understanding of the social investment market and being able to measure the outcomes of its investments. HESTA spent time understanding the key metrics of the impact investment domestically and globally. As a result, developed its impact investment objectives in line with their ability to deploy capital in small, growing market. Impact measurement is done at an individual investment level. HESTA is currently developing a measurement framework that can be aggregated across multiple investments as well as capture impact across HESTA’s total portfolio.

Next steps

HESTA is currently working on integrating its experiences and expertise from implementing its impact investment strategy into the next iteration of the organisation’s broader responsible investment strategy. This includes a mapping of the overall portfolio to the UN Sustainable Development Goals (SDGs) and communicating more clearly about what HESTA means by impact. The strategy paper being developed by HESTA will also address how it plans to increase its allocation to impact investments and how it will integrate an outcomes-based approach to investing across the total portfolio. HESTA is also developing its impact approach and embedding impact assessment as part of its assessment and prioritisation of new strategies more broadly within the overall portfolio. Once this process has been fully integrated it may consider a headline target for impact investment within the overall portfolio, however the level has yet to be determined.

Alongside this, HESTA has also been advocating for the Australian Government to play a greater role in aiding the growth of the impact investment market and enabling the mobilisation of private capital. It advocates that this involvement can focus on enhancing return or reducing risk, addressing the fundamental issue of ensuring an acceptable return for the risk being taken by fiduciaries, highlighting the potential impact that even a small allocation of capital to impact investments can have on society given the total pool of capital in the pensions sector.

Appendix: Other key historical responsible investment milestones

HESTA's Eco Pool was the first socially responsible (SRI) superannuation investment option launched in Australia in 2000 that targets a medium term (5-year) return of CPI + 3.0% and a long term (10-year) return of CPI + 4.0%.

HESTA also committed to promoting financial inclusion and ensuring opportunities are extended to all HESTA members and launched a Financial Inclusion Action Plan in November 2016².

HESTA was the first Australian industry superannuation fund to adopt a Reconciliation Action Plan to help chart the best path to stronger partnerships with Aboriginal and Torres Strait Islander communities in September 2017³.

About Pensions for Purpose

Pensions for Purpose is an online collaborative initiative to raise awareness of impact investment amongst pension funds. Our members consist of Influencers (eg. impact managers, trade bodies and consultants) who want to promote the understanding of, and discussion around, impact investment, and Affiliates (eg. asset owners, government bodies, independent advisers and journalists) who want to deepen their knowledge of this important topic. Affiliates are able to register for free, which allows them to access additional, Affiliate-only material and to receive monthly updates of new content posted on the platform. For more information see <https://www.pensionsforpurpose.com/>.

² <https://www.hesta.com.au/content/dam/hesta/Documents/Financial-Inclusion-Action-Plan.pdf>

³ <https://www.hesta.com.au/content/dam/hesta/Documents/HESTA-RAP-2017-web.pdf>