

Australian Ethical Investment Limited

# Sustainability Report 2015



## About this report

Australian Ethical's Sustainability Report 2015 is the company's 14th report aligned with the Global Reporting Initiative's (GRI) sustainability reporting framework, widely considered to be world's best practice. The report outlines the environmental, social activities and economic summary for the period 1st July 2014 to 30th June 2015 for Australian Ethical Investment Limited, and its wholly owned subsidiary Australian Ethical Superannuation Pty Ltd, (collectively referred to as 'Australian Ethical'). The report is complemented by the Australian Ethical Investment Limited Annual Report. The report has been prepared using the GRI's guidelines for the G4 'In Accordance - Comprehensive' level of reporting. Data relevant to selected material indicators have been assured using the ASAE3000 Assurance standard. EY issued an independent limited assurance report on 20 October 2015.

A formal materiality assessment has been undertaken with Australian Ethical's senior management team specifically for the preparation of this report. The methodology and outcomes of the materiality assessment are outlined in the report Appendix.



We value your feedback on this report and welcome you to contact us. Contact Tom May, General Counsel and Company Secretary, Australian Ethical Investment Limited on 02 8276 6253.



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# The Year in Review



## Message from Phil Vernon

Managing Director and Chief Executive Officer

The past year has been a significant year on many fronts. There is a sense that we are at a real tipping point regarding climate action with so many positive moves around the globe toward a hopefully positive outcome in Paris in November. Add to that breakthroughs in technology such as battery storage and grid technology and there is real cause for optimism on the climate front. As investors become more frustrated with the lack of political action on climate change, they are looking for opportunities to use the power of their investments to drive positive change in the economy. Australian Ethical's unique approach to investing aligns ethical values to investment decisions and this is a key point of difference for us.

More generally people are increasingly making ethical choices in their daily consumer purchases as well as their investment and savings decisions. Our research confirms an increasing demand from investors for ethical product and a greater confidence that it will produce the same or better returns than unscreened investing.

And the evidence continues to strengthen that this is the case. The recently released Benchmark Report of the *Responsible Investment Association of Australia* showed that money invested in ethical investment funds had doubled in the past two years to be now 2.5% of total funds under management. Moreover, the investment performance of ethical investment funds had outperformed mainstream funds across all asset classes over most time periods.

This growth and performance of the sector is mirrored in our own returns with strong performance over the past year across many metrics:

- Funds under management (FuM) of \$1,167m (up 32% on previous year)

- Net inflows of \$179m (up 96%)
- Superannuation membership at 21,196 (up 20%)
- Top quartile investment performance across most funds
- Record of over 700 philanthropic grant applications

We are living proof that businesses and investment funds can operate to give equal weight to social and environmental factors as well as financial returns and deliver on each equally as well. Australian Ethical continues to be the leader in ethical investment in Australia with the highest ethical conviction in our investment selection coupled with taking a strong stand in encouraging more ethical behavior in the corporate and broader community.

Our work with investors and NGOs to encourage the big banks to better disclose their exposure to carbon emissions was further strengthened this year by Australian Ethical becoming the first Australian member of the international Portfolio Decarbonisation Coalition. Alongside our exclusion of coal, oil and unconventional gas, we have set a target to fully decarbonise all our portfolios by 2050. Along with our participation in climate lobbying, we are participating as a lead investor in a global investor coalition to improve the way companies identify and manage human rights risks in their supply chain and other activities.

The growth in the ethical investment market is strong as increasingly people are becoming more socially conscious and realising that they can consume and invest in alignment with their values without compromising on quality and performance.

With our FuM being sustained above \$1bn and strong investment performance across our products we are well positioned for continued growth and will look to increase sales across all channels. In many cases our investment performance exceeds traditional funds and we intend to increase the awareness of our investment expertise that has been built over the past 28 years. We are also seeing the results of a period of operational review and renewal in recent years. The changes we made to the senior leadership team, remuneration structure, competitiveness of our products and business strategy continue to play out, and are reflected in our growth.

The regulatory environment for superannuation and managed funds continues to evolve with increasing compliance costs and downward pressure on fees. We will continue to assess product fees against the market balancing this against returns to shareholders and developing a sustainable business. Sales and marketing costs are being reviewed to support the goal of increasing flows above current levels.

We aim to be at the 75th percentile of our MySuper peer group by 2020. We will achieve this through a measured reduction strategy over the next five years, taking into account shareholder return targets of Earnings per Share in excess of 10% per annum on a rolling three year basis and Return on Equity in excess of 20%.

A 23% decrease on revenues from the previous reporting period is due to three main factors: a reduction in fees at the beginning of the financial year on its superannuation fund as part of an ongoing fee reduction strategy, issues arising from the transition to a new remuneration structure, and a further impairment on the Australian Ethical property in Canberra.

The largest driver of total revenues is the value of FuM which is in turn influenced by the level of the Australian equity market. Changes to the markets are monitored constantly and where there are sustained drops action will be taken to reduce variable expenses.

Our company is a very special company and truly serves as a model of the future where social and environmental outcomes are achieved alongside financial performance. We are of a size and capacity where we are a significant player in the financial services landscape with a substantial voice and influence. With rising consumer awareness and the need for better ways of doing business, we are well placed to continue to grow and have even greater impact on achieving a better world.

**Phillip Vernon**  
Managing Director and  
Chief Executive Officer, FAICD

# Our Performance

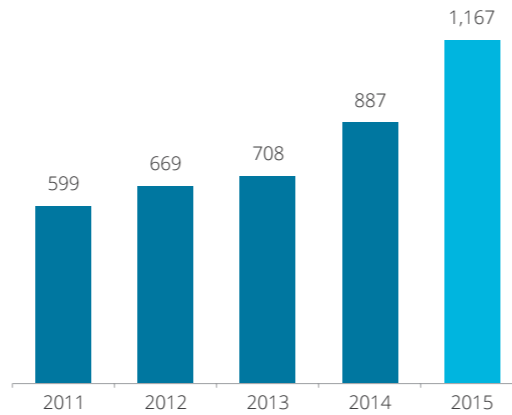
Australian Ethical has a responsibility to members and investors to ensure that competitive returns are achieved each year through our ethical investment activities. Ethical investment trends have shown that ethical funds are not only competitive, but also in many cases outperform traditional investment strategies.

In November 2014, Australian Ethical hit a significant milestone in our 28 year history by reaching \$1bn. This result follows strong growth over the past year which defies industry averages. We are extremely proud of our performance in reaching this milestone. It marks a coming of age and maturing of Australian Ethical to be a stable and substantial player in the financial services landscape. Since reaching this milestone our FuM has continued to grow reaching \$1.167bn at 30 June despite some recent market falls.

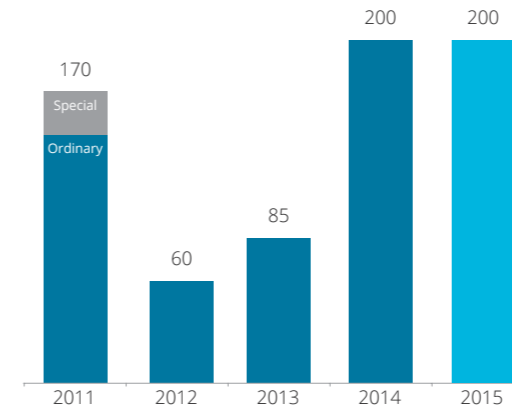
Increased awareness of ethical investing, innovative product design and improvements to the online application and consolidation processes have resulted in greater net inflows over the year. Detailed information about our financial performance is available in our [Annual Report](#).

## Financial Summary

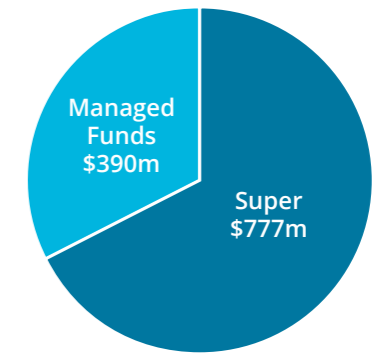
### Funds Under Management (\$m)



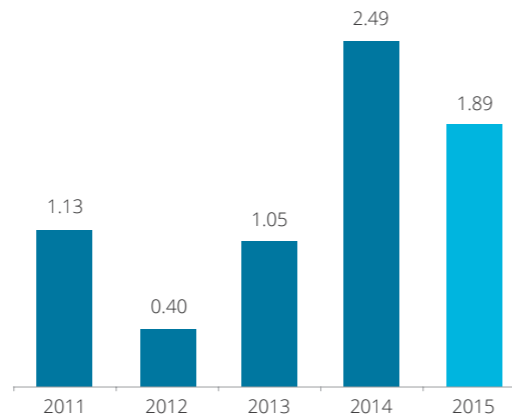
### Dividends



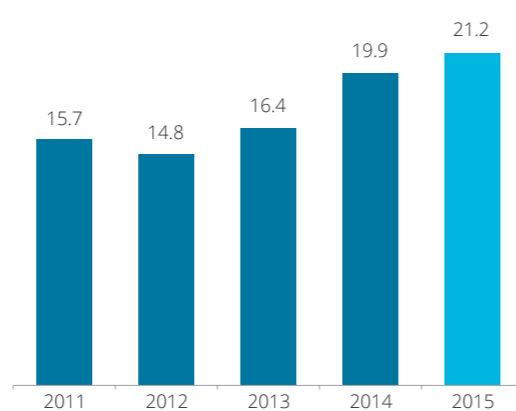
### Funds under Management



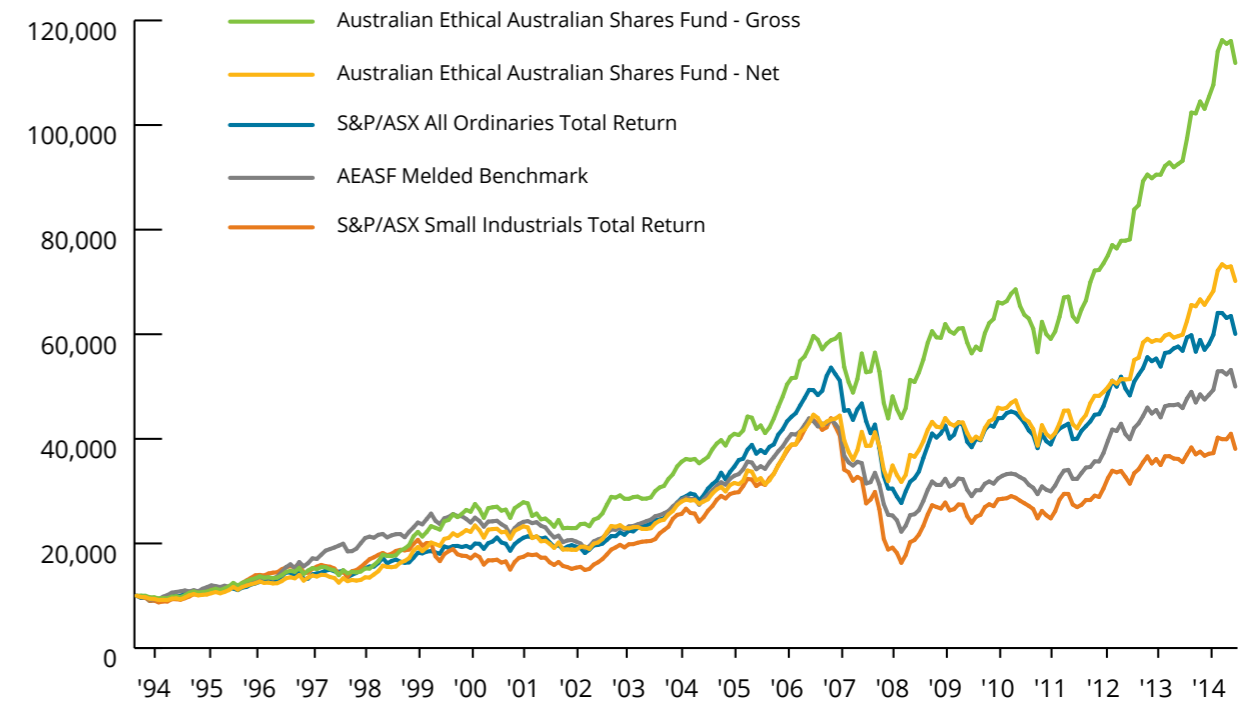
### Basic Earnings Per Share (\$)



### Revenue (\$m)



### Cumulative Returns



## Financial Results

Profit	2014 (\$,000)	2015 (\$,000)	% Change
Revenue	19,889	21,171	6%
Operating expenses	(14,476)	(16,478)	(14%)
Non-operating expenses*	(2,871)	(2,723)	6%
<b>Net Profit After Tax (NPAT)</b>	<b>2,542</b>	<b>1,970</b>	<b>(23%)</b>
Adjustments (gross)			
Add back employment restructure	409	-	
Add back property revaluation	282	484	
Tax on adjustments	(122)	-	
<b>Underlying Net Profit After Tax (UPAT)<sup>^</sup></b>	<b>3,111</b>	<b>2,454</b>	<b>(21%)</b>

**Notes:** Operating costs include employee wages and benefits.

\*Non-operating costs include tax, depreciation, amortization, community grants, loss on disposal of assets and property impairment

<sup>^</sup> Underlying profit is provided to assist shareholders in understanding the Company's performance. Underlying profit excludes certain items as determined by the Board and management that are either significant by virtue of their size and impact on Net Profit After Tax, or are deemed to be outside normal operating activities. It reflects an assessment of the result for the ongoing business of the Group. This table has been prepared in accordance with the Australian Institute of Company Directors (AICD) Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

## About Australian Ethical

### Key facts

- Established in 1986
- We manage superannuation, investments, and pensions
- \$1.2 bn in funds under management on behalf of over 26,000 responsible clients
- Headquartered in Sydney, satellite office in Canberra
- 32 employees

### Our Purpose

Australian Ethical is a financial services company with a difference.

We invest for our clients and manage our business, conscious of the impact that our actions have on the world around us. We do not compromise on ethics or financial performance. We achieve both.

*We are the model for business of the future - doing it today.*

## Our Beliefs

Global capital is the most dominant force in the world today, with significant influence on political outcomes. And yet it is driven by mechanisms of self-interest. This places the future of our planet at great risk. A new model for business is needed that recognises its stewardship role in protecting the future of our planet and embraces capital as a force for good.

We need to ensure that global capital behaves ethically, responsibly, and with empathy and compassion. We need to civilise it and inject it with a soul.

### Belief 1: Empathy and compassion

We believe that business should act with empathy and compassion for the planet and all those that inhabit it.

### Belief 2: Ethical and financial considerations in balance

Damage to the planet and society cannot be tolerated in order to pursue an economic outcome. Equally, caring for the planet and society does not need to come at the expense of economic outcomes. There is no need to compromise one for the other.

### Belief 3: The power of money

We believe in the normative and transformative power of global capital.

#### Normative:

We believe that global capital should recognize the causative impact it has on the world around it, behave to influence positive outcomes and rectify injustices.

#### Transformative:

As such a large force in the world, properly harnessed, global capital has enormous power to not just incrementally shift, but to transform.

### Belief 4: The power of the individual

We believe in the power of the individual to make change through their exercise of choice as consumers and investors. This collective action of many individuals acting on their values will ensure that global capital behaves ethically and that we achieve a truly empathetic, compassionate, and just society. We believe in transparency so that individuals can make conscious decisions.

### Belief 5: Take action and make a difference

We believe in leading by example, just getting on and doing it, and proving that it can be done. Through our actions we inspire others and create ripples of change throughout the system.

## Our Values

### Respect

We treat each other as we would like to be treated ourselves, conscious of our impact.

### Compassion

We bring compassion and kindness to our dealings with others – we are aware of human vulnerabilities and act to suspend judgement, showing humanity, generosity, and appreciation.

### Trust

We trust in each other demonstrating honesty and dignity in our interactions. We earn and build trust in the belief that the other person really has our best interests at heart.

### Leadership

We invest in leadership and believe that everyone can lead change and make a difference. We lead by example, bringing wisdom and thoughtfulness to the cause.

### Authenticity

We courageously commit to being our true selves.

## Our Products

### Managed Funds

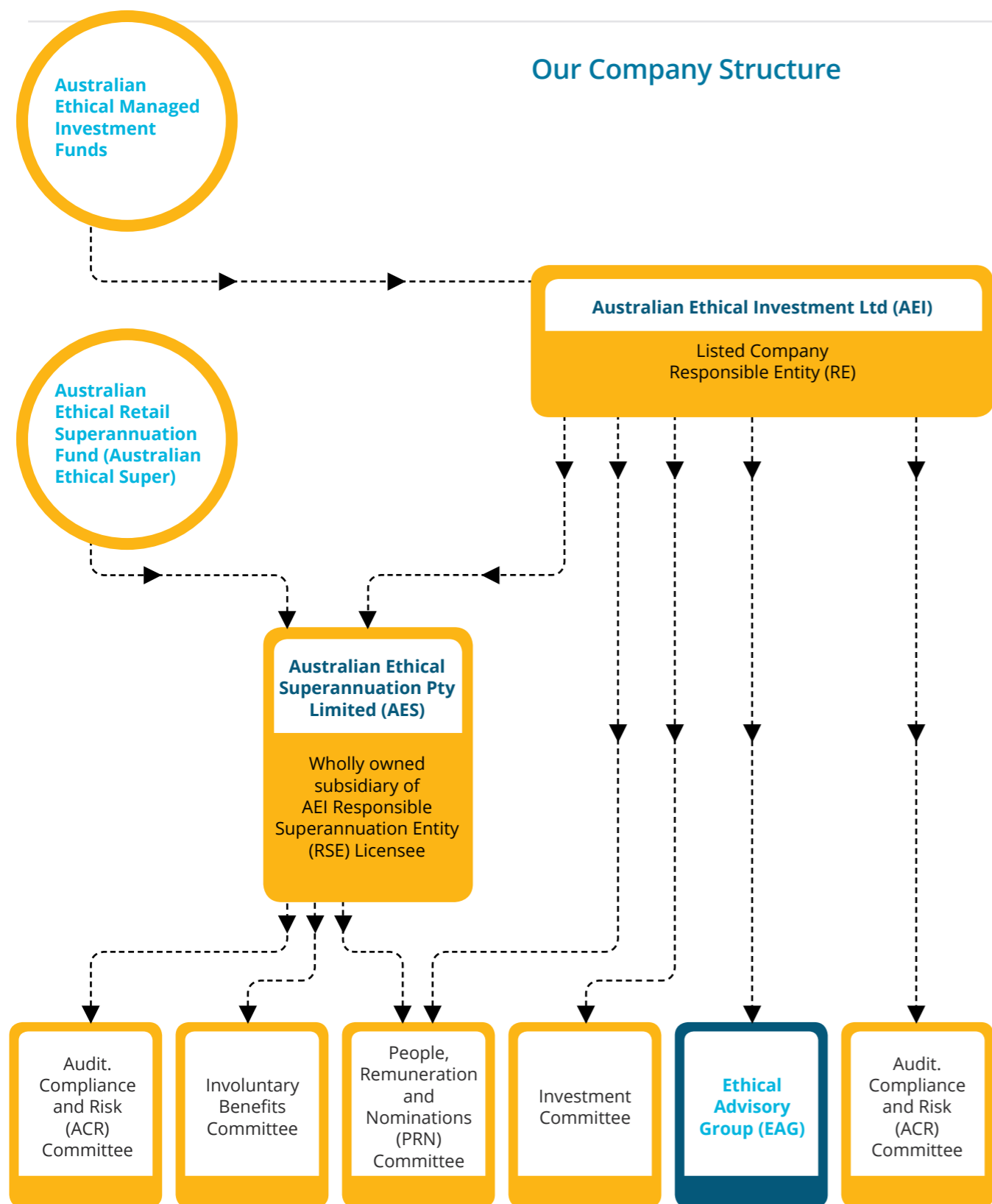
Trust	Funds under management (\$m)
Australian Ethical Balanced Fund <i>(Balanced Trust)</i>	97.1
Australian Ethical Australian Shares Fund <i>(Smaller Companies Trust - Retail)</i>	107.5
Australian Ethical Australian Shares Fund <i>(Smaller Companies Trust - Wholesale)</i>	58.3
Australian Ethical Diversified Shares Fund <i>(Larger Companies Trust - Retail)</i>	37.7
Australian Ethical Diversified Shares Fund <i>(Larger Companies Trust - Wholesale)</i>	42.5
Australian Ethical Fixed Interest Fund <i>(Fixed Interest Trust - Retail)</i>	0.3
Australian Ethical Fixed Interest Fund <i>(Fixed Interest Trust - Wholesale)</i>	9.2
Australian Ethical Cash Fund <i>(Cash Trust)</i>	7.8
Australian Ethical International Shares Fund <i>(International Equities Trust)</i>	15.5
Property Fund	0.1
Advocacy Fund - Retail	4.1
Advocacy Fund - Wholesale	10.0
<b>Total</b>	<b>390.1</b>

NB: New fund names were released 1st July, 2015'

### Superannuation Fund

Investment Option	Funds under management (\$m)
<b>Accumulation</b>	
Defensive	33.5
Conservative	16.4
Balanced	306.3
Growth	125.6
Advocacy	39.0
Smaller companies	186.8
International	16.5
<b>Pension</b>	
Defensive	3.9
Conservative	5.6
Balanced	23.7
Growth	5.7
Smaller companies	12.0
International	1.6
<b>Total</b>	<b>776.6</b>

G4-4, G4-9



G4-7, G4-34

## Our Memberships and Commitments

- Association for Sustainable & Responsible Investment in Asia (ASrIA) – founding member
- Association of Superannuation Funds of Australia Limited (ASFA)
- The Financial Services Council (member and involvement in various working groups)
- Responsible Investment Association Australasia (RIAA) – certified funds manager
- UN Principles for Responsible Investment
- The Global Investor Coalition on Climate Change
- Investor Group on Climate Change
- Future Economy Group
- UN Women's Empowerment Principles\*
- Portfolio Decarbonisation Coalition\*
- Montreal Pledge (signatory)\*
- Future Business Council (FBC)
- Women in Finance
- The Ethics Centre
- Sustainable Business Australia (SBA)
- Australian Solar Council
- B Corp
- Organisational Stakeholder – Global Reporting Initiative

\*New membership or commitment for FY2015

## Awards

We continue to be regularly recognised by industry peers through awards. The following awards were received over the year:

### Ethical Fund of the Year

We were awarded the Ethical Fund of the Year award from the financial magazine, Money Management.

### International Fund of the Year

We were awarded the International Fund of the Year by the Australian Investment Management Association.

### United Nations Association of Aust.

We were awarded two awards in the United Nations Association of Australia World Environment Day: Excellence in Overall Environmental Management (Business) and the Leadership Award for Large Organisations.

### B Corp "Best for the World"

We were awarded B Corp "Best for the World" status ranking us in the top 10% of B Corps worldwide (a field of 1,300) for our social and environmental credentials.

G4-15, G4-16



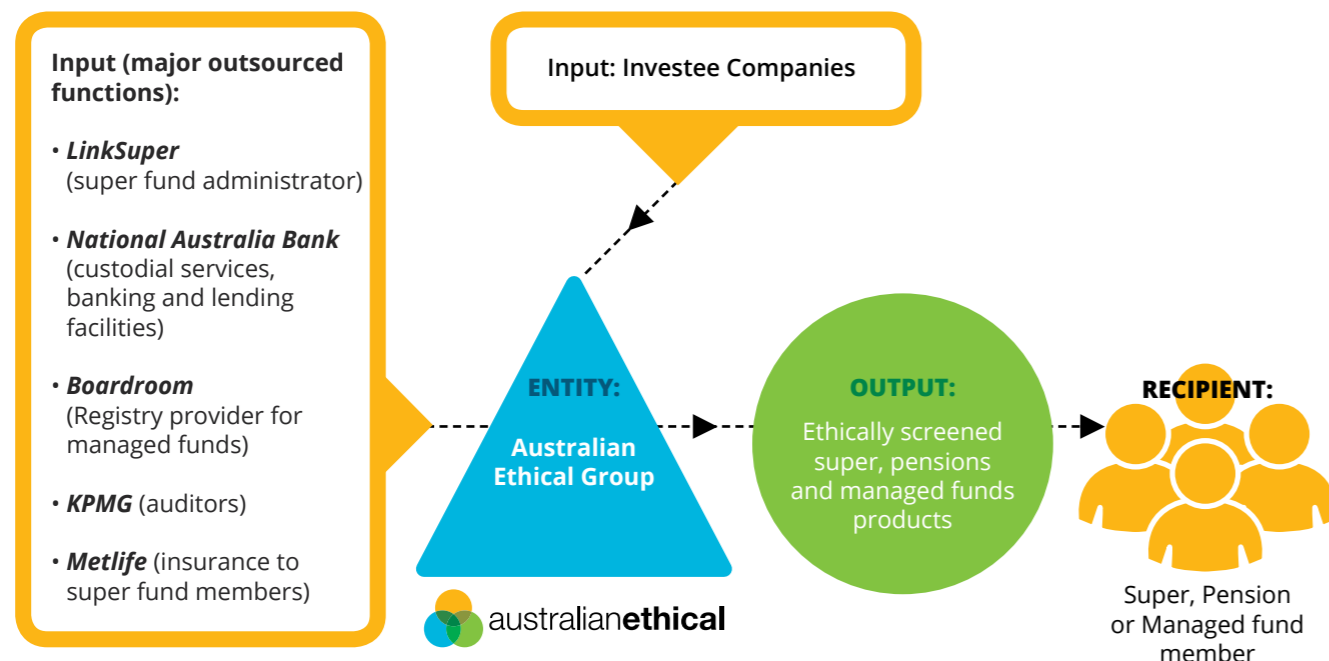
## Our Supply Chain

Inputs into Australian Ethical's supply chain comprise two key groups: major outsourced functions that ensure that we comply with regulatory requirements and ethical best practice, and companies that we invest in to make up our investment portfolios.

Within Australian Ethical's tendering process, material service providers to Australian Ethical are screened to determine alignment with the environmental and social principles of the Australian Ethical Charter.

All but 0.00185% (\$21583.55) of companies that we invest in are positively and negatively screened against the Charter.

During the reporting year, there were no new major outsourced functions, however, in our day to day operations, we have changed some of our suppliers to certified B-Corporations. Our new travel provider Reho, and new energy provider PowerShop are certified B-Corporations, just like Australian Ethical. We will continue to grow our relationship with other B-Corps in Australia throughout our supply chain.



G4-12, G4-LA14, G4-SO9, G4-HR-10

## Responsible Management and Marketing

Australian Ethical is bound by the requirements contained in the Corporations Act (2001), the Superannuation Industry (Supervision) Act (1993), the Regulatory Guidance produced by the Australian Securities and Investments Committee (ASIC) and the Financial Services Council (FSC) Standards when determining the marketing plans for its products. All (100%) of Australian Ethical's investment and superannuation fund products are accompanied by a product disclosure statement, and any changes to products are communicated to our clients via our website and when appropriate, in more targeted letter or email campaigns.

The Risk and Compliance Manager and Company Secretary/General Counsel monitor responsible marketing compliance by reviewing all disclosure documents before they are released. External legal sign off is obtained when it is considered appropriate. The Board approves all new products and associated product disclosure statements prior to their release to the market.

Australian Ethical is committed to respecting our clients' right to privacy and protecting our clients' personal information. We are bound by the provisions of the Privacy Act (1988) (Cth) which regulates how we collect, use, disclose and keep personal information secure (see: [www.australianethical.com.au/privacy-policy/](http://www.australianethical.com.au/privacy-policy/)).

### Conflicts Management

Australian Ethical maintains a Conflicts Management Policy which is intended to ensure that where an actual, perceived or potential conflict arises which cannot be avoided, that our beneficiaries, investors and shareholders receive priority and that they are not adversely affected by the conflict.

### Operational Complaints

Operational complaints related to the Super Fund and the Managed Funds are registered through the Tickit risk and compliance software, and operational complaints from members and investors can be escalated to the Financial Ombudsman Service and the Superannuation Complaints Tribunal.

### Anti-Money Laundering

Screening of members of the Super Fund and investors in the Managed Funds is undertaken by Australian Ethical's service providers under contract agreement: LinkSuper (Administrator for the Super Fund) and BoardRoom (Registry Provider for the Managed Funds). Reports are provided to the Risk and Compliance Manager quarterly.

G4-58, G4-PR3, G4-DMA Compliance, G4-DMA Product and Service Labelling, G4-DMA Marketing and Communications, G4-DMA Customer Privacy

# Our Clients

Australian Ethical's clients are values driven and care about how their funds are invested. Our key client groups are superannuation members and managed fund investors, employers that select Australian Ethical as their default superannuation fund, and financial advisers.

During the reporting year, we engaged with our client groups in the following ways:

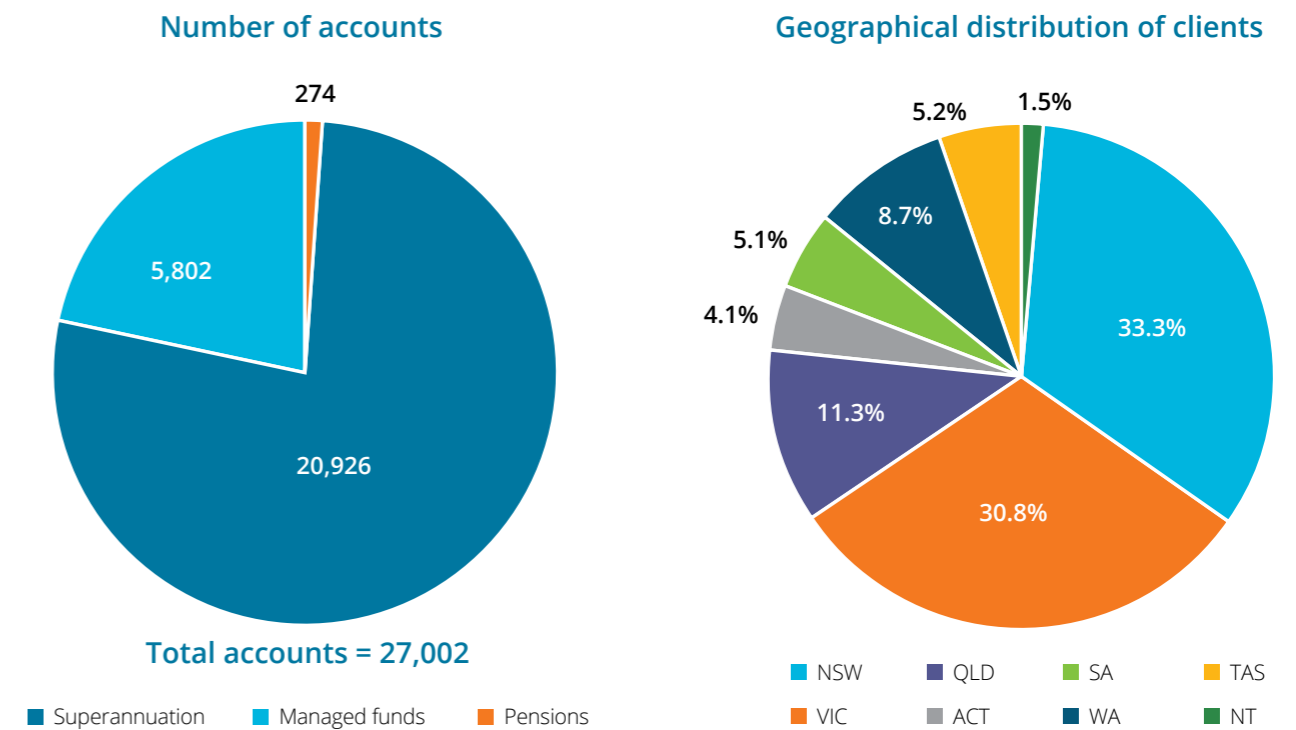
Client group	How we engaged	What they told us	Our response
<b>Our clients</b>			
<b>Superannuation members and managed fund investors</b>	<p>Social media, including Facebook and Twitter</p> <p>New joiners are welcomed with an email and/or call and information kits are sent to new joiners</p> <p>High balance members are contacted via phone once or twice per year, depending on their balance, in addition to email communication</p> <p>Monthly/quarterly trust reports</p> <p>Responding to ethical enquiries through email, social media and phone (compilation began 1st Nov, 2014)</p> <p>Client survey discovering information on client values and preferences</p> <p>475 super members that had joined within the previous 12 months were asked how likely it would be that they recommend Australian Ethical Super to a friend or family member on a scale of 0 to 10</p>	<p>The top five issues clients care about are climate change, environmental conservation, sustainable living, global poverty/hunger and asylum seeker treatment (Source: Client survey)</p> <p>86% of new joiners believe that Australian Ethical can deliver better or the same returns than non-ethical funds</p> <p>71% of new super members gave a score of 9 or 10 on how likely they were to recommend Australian Ethical Super</p> <p>The top five issues clients are actively enquiring (from a total 257) about are fossil fuels (36%), unconventional gas/fracking (32%), Westpac (11%), gas (9%) and animal testing (4%)</p> <p>Our clients are becoming more engaged on the topic of financial literacy</p> <p>New clients want an easier way to join super and invest in Australian Ethical</p>	<p>Australian Ethical will simplify application forms for super and managed funds investors</p> <p>Australian Ethical will simplify portfolio names to better reflect investment options</p> <p>Australian Ethical will continue to be a strong advocate on issues that matter</p> <p>Australian Ethical is committed to decarbonisation of its portfolios by 2050</p> <p>Survey results submitted to Managing Director/CEO</p>
<b>Employers</b>	<p>Information sessions with employer groups through regular phone communication, one on one visits and tailored induction groups. Induction kits are provided</p>	<p>There is a lack of knowledge by employees on what their super is supporting, and also the taxation implications of super</p>	<p>We will continue to conduct education and induction sessions including discussions around super and tax, insurance options, and the ethical benefits of investing with us</p>
<b>Financial advisers</b>	<p>Phone and face to face meetings, presentations and information sessions by the Australian Ethical investment team</p>	<p>More education is required for advisers to fully understand the social and environmental benefits of these products</p>	<p>We will conduct more one on one sessions than in the previous year, with financial advisers to communicate the ethical benefits of investing with Australian Ethical</p>

G4-PR5, G4-8, G4-24, G4-25, G4-26, G4-27, G4-37

## Targets FY2016:

- Make it easier for members to roll over their super by removing a process step and allowing Australian Ethical to auto-consolidate rollovers
- Make it easier for members to contribute to SG contributions by simplifying the contribution process. This will be done by encouraging members to take a photo of their contribution choice form to give to the employer, with whom Australian Ethical will follow up directly
- Create more in depth content for our more engaged members (managed fund investors, typically SMSF and larger balances) by creating improved communication vehicles
- Conduct an external survey with clients to determine progressive Net Promoter Score.

## Client distribution



G4-8, G4-24, G4-25, G4-26, G4-27

# Our Shareholders



Australian Ethical's shareholders expect us to deliver strong long term financial returns that create positive and sustainable change for society and the environment. During the reporting year, we engaged with our shareholders through the Annual General Meeting, and also for the first time through a survey which aimed to uncover shareholder values and their thoughts on Australian Ethical's operational and strategic activities. The inaugural survey received a response rate of 23.3% from all contactable shareholders.

The key thematic areas of interest from shareholders were:

- Responsible investment
- Governance
- Transparency

Some shareholders raised concerns about gender diversity imbalance at Australian Ethical, transparent communication of investments within our portfolios, the continuation of limited investments in existing conventional gas infrastructure, accurate calculation of returns, lack of communication with shareholders and governance.

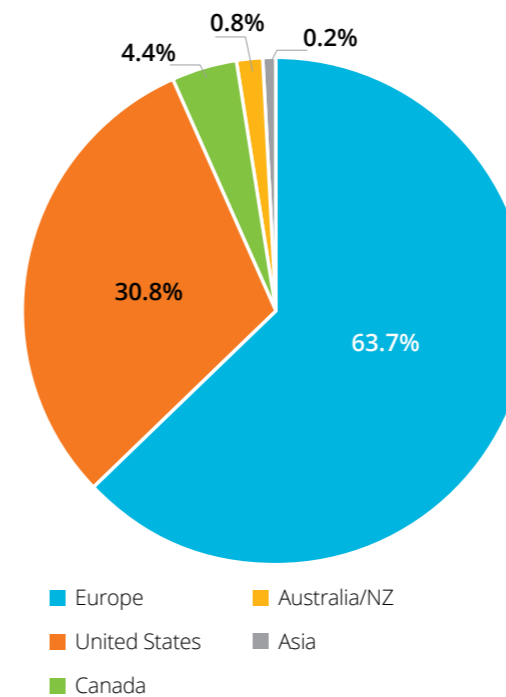
### Targets for FY2016

- Strive for a reasonable gender balance in our candidate shortlists when recruiting
- Fossil fuel investment – we have committed to decarbonise our portfolios by 2050
- Develop a single Investor Relations Policy to complement existing communications with shareholders.

# The Ethical Investment Marketplace

Responsible investment has experienced significant growth in the global finance industry and spans the superannuation, asset management, community, financial advisory services and banking sectors. While total worldwide responsible investment figures are difficult to estimate due in part to differences in categorising the various forms of responsible investment, the United Nations Principles for Responsible Investment (UNPRI) has reported a 29% year on year increase of its 1,400 strong signatory base (representing just over 50% of the world's institutional assets) to \$21.4 trillion in assets under management as at April 2015 (United Nations Principles for Responsible Investment, 2015). The fastest growing region for responsible investing from 2012 – 2014 was the United States, with Canada and Europe following closely behind. Australia, New Zealand and Asia continue to grow strongly in the responsible investment assets marketplace (Global Sustainable Investment Alliance, 2015).

### Proportion of Global SRI Assets by Region



**Source:** (Global Sustainable Investment Alliance, 2015).  
**Note:** All proportions relate to data available at the beginning of 2014.

### Responsible Investing in Australia

The 73 Australian asset manager signatories to the UNPRI represent approximately AUD\$821 billion in 'responsible investment' assets under management as at 31st December, 2014 according to the recently released Australian Responsible Investment Benchmark report. Total assets managed under responsible investment strategies comprise 50% of Australian total AUM (assets under management) at \$629.5 billion.

These are broken down by 'core' responsible investment strategies - ethical or socially responsible investments that include screening, impact investments, community finance and sustainability themed investments – which comprise \$31.6 billion AUM an increase of 24% from 2013 and 'broad' responsible investment strategies - investments that incorporate environmental, social and governance (ESG) issues into decision-making - comprising \$597.9 billion AUM .

The RIAA attributes this substantial increase to the following key drivers:

- Poor management of ESG and ethical issues by companies increasingly coming to light and eroding shareholder value
- Consumers increasingly aligning how they invest for retirement funds with their beliefs and values
- Greater engagement by activist and civil society groups with the finance sector to influence and change how companies approach business activities
- Growing awareness and acceptance by fiduciaries that ESG issues, including megatrends such as climate change should be considered, as the impact of not considering these trends may have broad reaching negative consequences.

In 2014, core responsible investment Australian Equities funds firmly outperformed the ASX300 and the average Large Cap Australian equities funds across 1, 3, 5 and 10 year periods. Core responsible investment International Equities funds showed strong results, including outperforming the average Large Cap International equities funds over 1, 3 and 5 years, however, they slightly underperformed in the 10 year time period. Core responsible multi-sector growth funds also outperformed their equivalent mainstream multi-sector growth funds across all 1, 3, 5 and 10 year time periods.

The Responsible Investment Association Australasia (RIAA) believe that demand for core responsible investment funds is in its early stages of growth, and there is significantly more latent demand for screened funds.

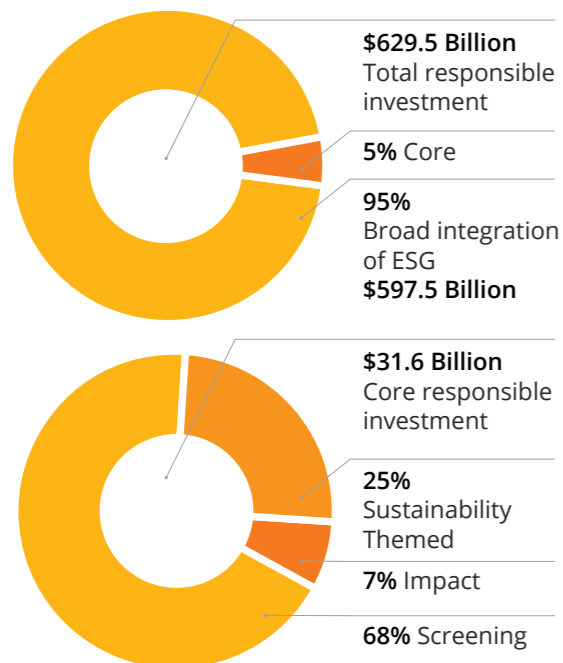
### Core responsible investment strategies

Investments that apply as a primary responsible investment strategy at least one of the following approaches: screening (negative, positive or norms based); sustainability themed investing; impact/community investing, or corporate engagement.

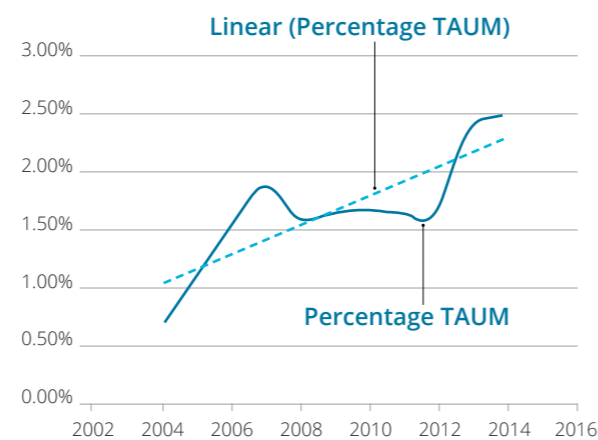
### Broad responsible investment strategies

Investments that apply ESG integration as their primary responsible investment strategy.

### Total Responsible Investment In Australia



### Core responsible investments as a % of TAUM



Responsible Investment Approach	2014 Responsible Investment AUM (\$m)	Revised 2013 Responsible Investment AUM (\$m)	Change (based on revised 2013 figures)
Screening (including negative, positive, best in class and norms-based screening)	21,375	18,017	19%
Sustainability themed investing	8,094	6,055	34%
Impact/community investing	2,143	1,518	41%
<b>Core Responsible Total</b>	<b>31,611</b>	<b>25,590</b>	<b>24%</b>
<b>Broad Responsible Total ESG integration</b>	<b>597,852</b>		
<b>TOTAL RESPONSIBLE INVESTMENT</b>	<b>629,463</b>		<b>50% of TAUM</b>

Source: (Responsible Investment Association Australasia, 2015)

## Our Ethics

### Australian Ethical Charter

Australian Ethical's investments are selected and managed against the Australian Ethical Charter. The Charter provides us with guidance to ensure that the companies that we choose to invest in contribute to a just and sustainable society and are working to minimise impact on the natural environment.

Australian Ethical shall seek out investments which provide for and support:	Australian Ethical shall avoid any investment which is considered to unnecessarily:
a. the development of workers' participation in the ownership and control of their work organisations and places	i. pollute land, air or water
b. the production of high quality and properly presented products and services	ii. destroy or waste non-recurring resources
c. the development of locally based ventures	iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
d. the development of appropriate technological systems	iv. market, promote or advertise, products or services in a misleading or deceitful manner
e. the amelioration of wasteful or polluting practices	v. create markets by the promotion or advertising of unwanted products or services
f. the development of sustainable land use and food production	vi. acquire land or commodities primarily for the purpose of speculative gain
g. the preservation of endangered eco-systems	vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments
h. activities which contribute to human happiness, dignity and education	viii. entice people into financial over-commitment
i. the dignity and wellbeing of non-human animals	ix. exploit people through the payment of low wages or the provision of poor working conditions
j. the efficient use of human waste	x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
k. the alleviation of poverty in all its forms	xi. contribute to the inhibition of human rights generally
l. the development and preservation of appropriate human buildings and landscape	

## Our Ethical Approach

Ethical investment describes an investment process that incorporates environmental and social factors when selecting investments, in addition to the objective of achieving a competitive financial return. We believe that the power of money can be harnessed to deliver both positive returns and positive change for society and the environment. By investing responsibly in well-managed, ethical companies, this is exactly what we achieve.

Ethical investment is our core business. As such, all (100%) of our investments must meet the Australian Ethical Charter which includes both positive elements (that we expect our investee companies to support) and negative elements (that we expect our investee companies to avoid). These elements address positive and negative social and environmental impacts of an organisation relating to working conditions, animal welfare and human happiness, dignity and education.' Our ethical analysis is based on a balancing of these positive and negative elements. As an active investment manager, we make investment decisions based on many different factors including our ethical assessment as well as investment criteria.

*The Australian Ethical Charter is supported by the following Sector frameworks and Issues frameworks:*

### Sector frameworks

- Consumer discretionary
- Consumer staples
- Energy and energy utilities
- Financials
- Industrials
- Information technology
- Telecommunications
- Healthcare
- Materials
- Water utilities
- *Asbestos\**
- *Tobacco, alcohol and pornography\**

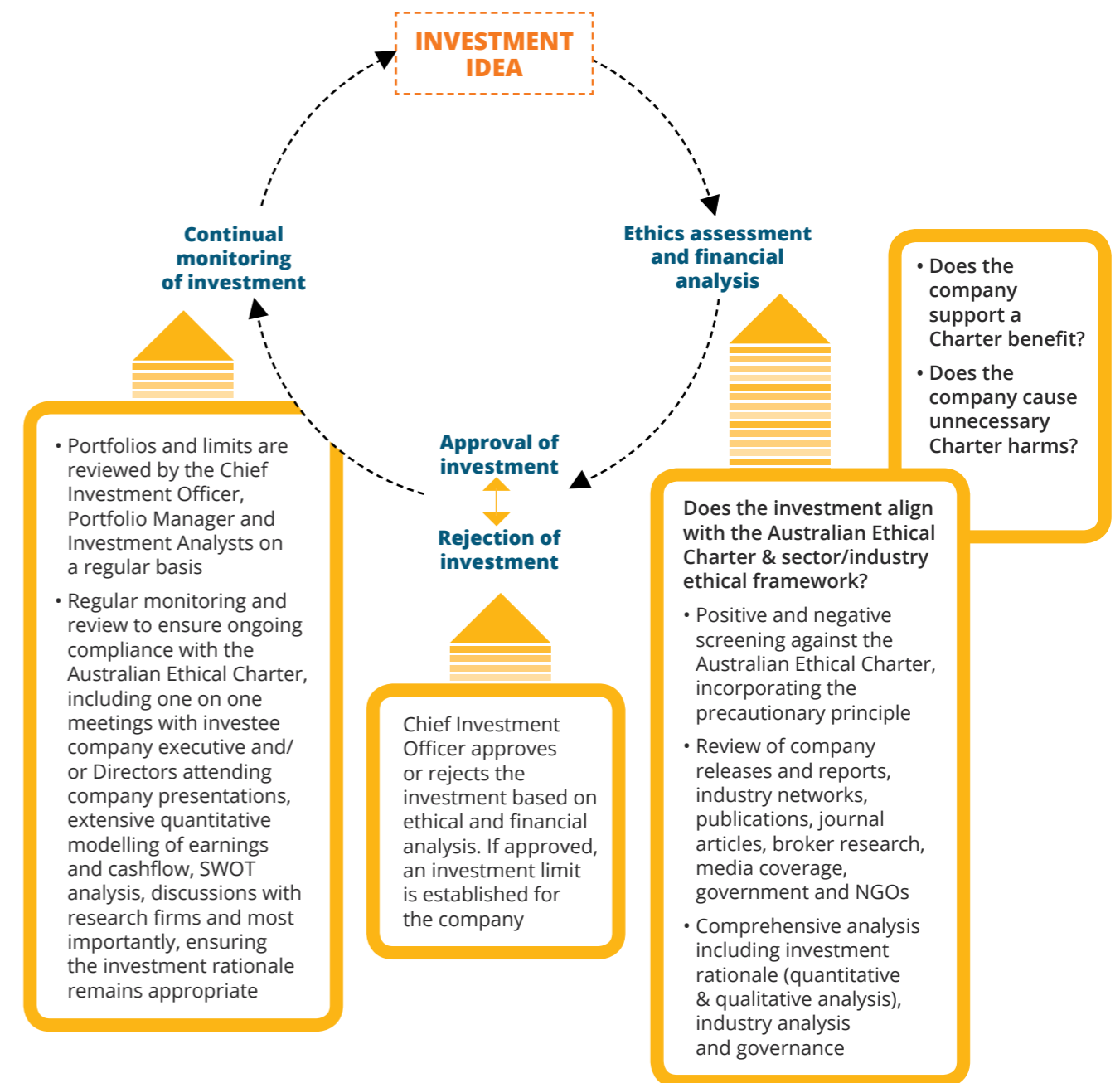
*\*These are cross cutting products which are applicable to all sector frameworks*

### Issues frameworks

- Animal testing
- Genetically modified organisms
- Human rights
- Militarism and weapons

G4-14, G4-EN32, G4-DMA Economic Performance, G4-DMA Supplier Environmental Assessment, G4-DMA Supplier Assessment for Labour Practices, G4-DMA Supplier Assessment for Human Rights, G4-DMA Supplier Assessment for Impacts on Society, G4-DMA Product Portfolio, G4-LA14, G4-DMA Investment, G4-HR1, G4-HR10, FS11, G4-SO9

## Our Ethical Investment Process



G4-14, G4-EN32, G4-DMA Economic Performance, G4-DMA Supplier Environmental Assessment, G4-DMA Supplier Assessment for Labour Practices, G4-DMA Supplier Assessment for Human Rights, G4-DMA Supplier Assessment for Impacts on Society, G4-DMA Product Portfolio, G4-DMA Audit

## Our Portfolio Decarbonisation Commitment

There has been much publicity over the past few years surrounding the divestment from fossil fuels. Australian Ethical has never invested in the most emissions intensive fuels since we started 30 years ago, and we led divestment from the unconventional gas sector in 2011. However, whilst focussing on the fossil fuel sector as the most emissions intensive sector is critical to solving the problem, it is not enough. To fully meet the urgent challenge of global warming, the entire economy needs to be decarbonised.

Moreover, we believe, that it is incumbent on all players in the economy, investors, companies and consumers to play their part to reduce exposure to carbon emitting activities and not wait for a political solution. Only in this way will momentum build, break through the myriad barriers of resistance and take us to the right end solution.

Investment markets have a particularly significant role to play as they exert much influence on companies and the political sector.

### Our commitment

We believe that all investment funds should commit to disclose the emissions intensity of their portfolio and to decarbonise their portfolio by a date consistent with keeping within an acceptable level of warming based on current science. During the year we signed two pledges consistent with this commitment, the Montreal Pledge and the Portfolio Decarbonisation Coalition.

Consistent with this belief, Australian Ethical commits:

- To **disclose** the emissions intensity of our portfolio. We have commenced with the intensity of our equities portfolio and will move to other asset classes in the future.
- To **target** our portfolio to be **net zero emissions** intensive by 2050. We are the only Australian Superannuation Fund to make such a commitment and our approach to meeting this target is described below.

## Design Principles

Such commitments raise a myriad of complexities in measurement, investment processes and legal obligations to be resolved over the years ahead. The decarbonisation process we have commenced will be refined over time. As we do, we will be guided by the following principles:

- **Drives right outcomes:** It is important that the process creates incentives to invest in all aspects of a clean energy future taking into account both positive and negative impacts of investments. Decarbonisation action must address the structural changes needed across the economy and society by driving capital to all the places it is needed – from zero emissions energy production (e.g. wind and solar) to low energy use sectors (e.g. software and digital content) to technologies which increase efficiency of energy use (e.g. LED lighting, recycling and smart energy products)
- **Practical to implement:** It is practical to implement. We need to integrate the target into our portfolio management to ensure we continue to meet our dual objectives of ethical and high performing investments
- **Transparency:** It is practical to report. Transparency of progress against our targets is also crucial – for members as well as those we seek to influence to take similar action
- **Inspires others:** It offers a leadership model for other investors and companies. By developing tools which others can adopt we leverage our impact as an ethical investor beyond our own portfolios.

## Disclosure

Our carbon emissions footprint for our share portfolios as at 31 December 2014 were as follows:

	Carbon footprint (tonnes CO <sub>2</sub> e/AUDm)	AEI footprint relative to benchmark
<b>Australian Ethical shareholdings</b>	<b>172.42</b>	<b>61%</b>
<b>Blended benchmark*</b>	<b>281.8</b>	
<i>S&amp;P/ ASX 200 Index</i>	<i>287.34</i>	
<i>MSCI World ex Australia Index</i>	<i>265.29</i>	

\* Blended benchmark comprised of 78% S&P/ASX 200 Index and 22% MSCI World ex Australia Index.

### Notes:

- Data has been provided by Trucost, a world leader in the analysis of carbon and other environmental impacts of companies and portfolios
- Data was obtained in respect of Australian and International shares, an expansion on our measure in the previous year which was only focussed on Australian shares
- The carbon emissions footprint of the portfolio compared to the benchmark was 61% or 39% less than the benchmark
- The benchmark used is a blended benchmark of the S&P/ASX200 and the MSCI World ex Australia indices, weighted according to the weightings of the portfolio.

Whilst the result shows the significant impact of our Charter, it is a starting point only for developing a deeper understanding of the true emission footprint of our portfolios as there are numerous complexities associated with measuring emissions footprints. These issues include:

- Gaps and inconsistencies in how companies report data. Some report for only a portion of the business and/or exclude indirect emissions. The quality of the data will evolve and improve over time
- Inconsistencies between the modelling approaches used by emissions data providers meaning that our portfolio footprint and the footprint of another fund using a different provider are not necessarily comparable
- There is the potential for double and even triple counting emissions as emissions reported as direct (Scope 1 emissions) by one company may also be included as direct (Scope 2 or 3 emissions) by another. Stripping out these instances of double and potentially triple accounting is problematic
- There is currently no accounting for the positive or negative 'externalities'. We wish to avoid a situation where divesting from environmentally positive companies (or vice versa) appears the right decision because of data anomalies. Examples of such instances include:

- A mining company not disclosing the Scope 3 emissions of their customers' burning of the fossil fuels extracted by the company. This quite obviously doesn't give a complete picture of the emissions impact of the company
- The positive society wide benefits of waste recycling, and industry that considered in isolation is highly emissions intensive due to its high use of electricity
- The positive benefits of energy efficiency products such as low energy lighting which lowers overall energy demand.

These issues mean that there will be fluctuations in our emissions footprint over time as we continually improve our understanding of the issues and companies and data providers improve the quality of the information available. The reported 'emissions performance' of our investments needs to be understood in this context.

## Our Target: Net Zero Emissions

Our definition of Net Zero Emissions comprises two elements:

1. The total emissions footprint of all of the companies in which we invest.
2. The positive impact of the emissions reductions caused by our investments in areas such as energy efficiency and renewable energy.

Some of the challenges in assessing these net emissions are discussed above. In particular positive emissions reduction impacts are complex to assess and it may take some years before we have a robust methodology to measure these properly.

### Target date

Notwithstanding these complexities, we commit to a target of Net Zero Emissions by 2050. This is the date which the Climate Change Authority has identified by which we need to be at net zero emissions in order to stay within 2°C above pre-industrial levels with a 66% probability. This date will be reviewed regularly over time with updated information. We have utilised the Climate Change Authority as it is the most appropriate source of rigorous science-based emissions reduction pathways and targets for our purposes. This too, will be reviewed over time as appropriate.

### Pathway to Decarbonisation

Even with perfect data defining a path to decarbonise a portfolio over time raises its own set of complexities as we incorporate a carbon target with investment parameters. Issues include:

- Taking account of the cyclicity of investment markets
- Whether to apply the path across all our portfolios in aggregate or at the portfolio level
- Whether to focus on emissions intensity over time, against a benchmark or an absolute emissions reduction over time
- Whether to adopt a “carbon budget” approach where emissions could fluctuate between years but the amount of emissions allowable up to 2050 would be capped encouraging the apportionment of emissions in a strategic way between sectors
- How to ensure we can invest in a broad range of sectors within our screened portfolio. It is inevitable that some sectors of the economy will decarbonise more rapidly than others and we want to support low carbon leaders in all areas. For example, insurance has a very low carbon intensity, but we do not want to lower our overall emissions by simply moving all our money to insurance companies.

G4-2, G4-15, G4-24, G4-25, G4-26, G4-27, G4-EC2, FS10

We will refine our approach as we get better information. Our approach is flexible but our goal—of avoiding dangerous climate change—is not.

## Engagement and Advocacy

Australian Ethical employs three stages of engagement with investee and non-investee companies to ensure that our investments and engagement activities comply with the Australian Ethical Charter:

### Enquire

Enquiry with company or other third party to test alignment of a company with the Ethical Charter following identification of a significant event which is potentially relevant to alignment with the Ethical Charter.

### Engage

Exploring identified areas of non-alignment or potential non-alignment with the Charter. We may also engage on topics which may increase alignment with positive elements of the Charter.

### Advocate

Active exercise of influence (privately, collaboratively or through public advocacy) for specific change to address identified areas of non-alignment with the Charter.

### Our engagement activities

We may have several engagements with the same company over the course of the year. We engaged with 41 different companies during the year, 25 of which we invest in. These 41 and 25 companies represented 20% and 12% respectively of the total number of companies we invested in at year end. Our engagements include companies we don't invest in because we aim to exercise our ethical influence across the economy and society.

Activity	Number of engagements
Australian Ethical Investment individual engagement	49
Collaborative engagement	27
Engagement with companies we invest in	39
Engagement with companies we don't invest in	19
Government policy engagement	6
Engagements including shareholder resolutions	6

The specific topics on which we engaged in with investee and non-investee companies included the actual and potential negative environmental and social impacts of the following:

- Climate change
- Animal welfare
- Human rights
- Misleading marketing
- Financial over commitment
- Working conditions
- Weapons and militarism
- Supply chain
- Sustainable food
- Harm to the environment
- Harm to people
- Governance

### Divestments

During the year we divested from two companies as their ongoing activities did not pass screening against the Australian Ethical Charter – specifically Charter Principle (iii): extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment. These companies are:

#### APA Group (APA)

APA owns natural gas transmission and distribution pipeline networks. In late 2014, the company announced that it intended to acquire an additional Queensland pipeline network, and we assessed that this would significantly increase the revenue earned by APA from the transport of unconventional gas.

#### Australian Rail Track Corporation Limited (ARTC)

ARTC is a government owned corporation which manages a rail network across Australia. Transport companies using the rail network transport a range of different types of freight as well as passengers. During the year information reported by the company indicated an increased amount of revenue earned from companies transporting coal, as well as extension of the rail network in coal producing areas.

## Broadening boardroom perspectives on climate and carbon – and beyond

Australian Ethical aims to help companies genuinely engage with a diverse range of perspectives and information sources in their strategy development and risk management. This can be challenging in complex and adversarial environments, which can encourage polarisation of debate and ‘groupthink’.

On this front we again supported Ian Dunlop for election as a director of BHP Billiton (BHPB), on a platform that BHPB needs to show greater leadership in dealing with the risks and opportunities created by climate change. We were proud to be one of Ian's nominating shareholders, using our nominal Advocacy Fund shareholding in BHPB.

We also aim to raise the quality of public debate on climate related issues by encouraging companies to be more transparent in their approach and beliefs. Too often companies stand silent as their industry associations promote media scare campaigns which are not aligned with their privately stated views – or with long term company, industry and societal interests. We are currently participating in two international investor collaborations advocating for ‘responsible corporate climate lobbying’. One of these is a United Nations Principles for Responsible Investment (UNPRI) working group targeting corporate lobbying practices which run contrary to both the long term interests of investors as well as the interests of society and the environment.

This group is concentrating on the ways in which companies may obstruct the governmental policy changes we urgently needed to reduce the risk of catastrophic climate change. We are looking at both direct lobbying by companies as well as the way companies exercise influence through their membership of industry associations. The working group has developed an agreed statement of investor expectations on climate lobbying as a basis for engagement with companies.

G4-24, G4-25, G4-26, G4-27, G4-EN33, G4-15

## Encouraging a better policy making environment

By encouraging companies to be more transparent and to exercise a more responsible public voice on climate issues, Australian Ethical supports a less polarised and more productive environment for public policy debate, which in turn encourages more responsible, long term policy making by government.

In 2014 Australian Ethical participated in The Future Economy Group in its research and advocacy on the importance of natural capital for the Victorian economy. The Group is advocating for state government action to measure and report natural capital; to remove subsidies which negatively impact the environment; to support a circular system of production and consumption; and to invest in the development of skills needed for the future economy. Following the release of its report in June 2014, the Future Economy Group met with Victorian political parties and asked them to respond to the policy priorities and initiatives developed by the Group. The parties' responses are available at <http://www.futureeconomy.com.au/>, and helped voters to make more informed choices at the Victorian state election in November 2014.

Australian Ethical also supported the work of B4CE (Businesses for a Clean Economy) including the preparation and distribution of fact sheets for Commonwealth senators about climate change and its adverse business impacts.

## Australian climate targets

In April 2015 Australian Ethical responded to the government's request for submissions on appropriate post-2020 emissions reduction targets for Australia. We advocated for the reductions needed to limit temperature increase to two degrees or less. We also put a submission template online for interested members to help them express their own views directly, and contributed to work by the Australian Investor Group on Climate Change for its comprehensive submission.

## Human rights

As covered in last year's report, in April 2014 Oxfam released a report on links between the four big Australian banks and companies involved in 'land grabs' in countries such as Papua New Guinea and Brazil. Australian Ethical had a number of meetings and discussions with Oxfam and Westpac, covering both the way in which the banks can better deal with land grab and other human rights issues, and also the specific allegations regarding Westpac's banking relationships highlighted in the report. It appears that one of Westpac's banking relationships which raised concerns ended a number of years ago (although the public record on which Oxfam relied suggested otherwise). A positive outcome has been the release by Westpac and NAB of policies on land grabs in late 2014: <https://www.oxfam.org.au/2014/11/two-of-the-big-four-banks-take-action-to-respect-land-rights/>.

We are also supporting an international reporting project to improve the way companies identify and manage human rights risks in their supply chain and other activities. We presented an Australian perspective on this to a teleconference of members of the Responsible Investment Association of Australasia (RIAA). We also supported RIAA's work raising investor concerns with Woolworths and Wesfarmers (Coles) about mistreatment of migrant labour in supermarket food supply chains.

## The big banks: a force for good or bad in a warming world?

Amidst volatile Australian climate policy and debate, a diverse range of investors and civil society groups have continued to pay close attention to the actions of ANZ, Commonwealth Bank, NAB and Westpac, the four major Australian banks with fossil fuel lending exposures. The big banks have the potential to be catalysts for the drastic action needed to respond to global warming by helping to drive capital to climate friendly sectors like renewable energy. Westpac is the only 'big4' Australian bank we hold shares in (apart from nominal holdings we acquire for advocacy purposes). However, there are still many so we work to leverage our position as an institutional investor to encourage Westpac, and in turn the broader banking sector, to take better account of climate change in all their lending and investment decisions.

Shareholder activist and climate action groups collaborated to secure support to lodge shareholder resolutions with three of the major banks seeking disclosure of their financed emissions. We supported the shareholder resolutions through the nominal advocacy holdings held by the Australian Ethical Advocacy Fund.

Australian Ethical also continued to work with other institutional investors and the banks to agree a more uniform approach to disclosure of lending to different industry sectors – such as renewables, coal and oil &

gas. With other key institutional investors we met with bank representatives to discuss disclosure practices and standards, leading to a joint request from the Investor Group on Climate Change, RIAA, and others for the four banks to say more about their management of climate risks and opportunities, including relevant quantitative disclosure.

Internationally, Australian Ethical collaborated with Boston Common Asset (a US investment manager with a strong sustainability focus), which has launched a joint investor letter initiative directed at over 60 banks globally, supported by over 75 institutional investors. Australian Ethical is working with Boston Common Asset as 'co-lead' for this initiative in relation to the four major Australian banks.

The Australian banks responded to this diverse activity at the end of 2014 with significant new disclosure, including more detailed reporting of levels of lending to specific fossil fuel sectors and the beginning of some financed emissions disclosure for electricity generation and utilities lending. Some banks also committed to additional disclosure in the future, and all provided more information (still relatively high level) about the climate risk management policies and processes used in their lending decisions

## Unconventional gas

Australian Ethical does not invest in unconventional gas because of risks to critical Australian groundwater supplies and uncertainties about levels of methane leakage ('fugitive emissions'). But as part of our advocacy work we participate in an investor working group looking at the unconventional gas sector in Australia, established by the PRI (Principles for Responsible Investment) Australia Network. The working group is assessing best practice principles in the coal seam gas sector and engaging with Australian companies about their operational practices and risk management. The group reports progress back to the broader PRI Australian and international network.

The working group is looking at a range of potential impacts related to water, fugitive emissions and communities. One particular focus for Australian Ethical is practices concerning control and measurement of methane and other emissions from exploration, extraction, production and transport of gas. Australian Ethical considers that companies in the sector have a crucial role to play in collaborating with universities and other research organisations like CSIRO to reduce the current scientific uncertainty regarding fugitive emissions levels and developing best practice to limit those emissions. During the year we explored these issues with one gas company and several leading academic researchers in the field.

## Shell and BP shareholder resolutions

Our recent advocacy activity has ventured overseas to support shareholder resolutions calling on energy and petrochemical giants BP and Shell to say more about the preparation they are making for a low carbon world. In particular we want them to tell investors about their management of their operational emissions, their testing of the resilience of their businesses to different global warming scenarios and their work on low carbon energy R&D and investment.

The resolutions were developed and promoted by a coalition of UK investors and NGOs ('Aiming for A', ShareAction and ClientEarth). The Advocacy Fund purchased nominal shareholdings in both BP and Shell to be part of the 'co-filing' group which got the resolutions on the companies' AGM agendas. BP and Shell were chosen because they have the highest carbon footprints in the FTSE 100, and they can play a crucial role in achieving the global energy transition needed to limit warming.

The resolutions were passed with overwhelming shareholder support following recommendations from both Shell and BP that shareholders vote in favour of the resolutions. The next step is to hold the companies to account to provide meaningful reporting about how they are aligning their businesses with the global changes needed to deliver a low warming future.

## Collaborative engagement

As well as acting on our own we often work with others to pursue our advocacy objectives – including with individual and institutional investors as well as environmental and social NGOs and activist groups. Collaborative shareholder action also increases impact: Corporate boards and executives are likely to listen more carefully to the voice of investors who together own a significant stake in their company.

As well as the examples previously mentioned, we are involved in collaborations to:

- Encourage companies to pay their fair share of tax
- Encourage better monitoring and reporting of chemicals used in business operations and supply chain
- Improve the way directors are nominated for appointment to boards
- Increase disclosure of the results of medical clinical trials.



## Day to day engagement

Alongside our headline engagement and advocacy themes we are involved in a very diverse range of enquiries and engagements with companies on issues such as:

- Environmentally responsible disposal of ships
- Products and services with military and security applications
- Use of animals for medical research
- Sustainability of office, residential and industrial properties
- Management of asbestos related litigation
- Vehicle safety standards.

## Other Activities

In the last reporting year, we said that we would finalise the formal review and updating of the following Sector Frameworks and also review elements of the Charter Principles. Our progress to date:

Sector Framework	Subsector updated
Consumer discretionary	<i>Carried over to FY2016</i>
Consumer staples	<i>Carried over to FY2016</i>
Energy and energy utilities	Clean energy economy subset developed
Financials	Real Estate developed
Industrials	<i>Carried over to FY2016</i>
Information technology	<i>Carried over to FY2016</i>
Telecommunications	<i>Carried over to FY2017</i>

Elements of the Charter Principles updated during the reporting year included the 'Facilitation of harmful products and services' principles. This deals with positive activities being used to support negative activities, for example, medical services provided to the military; environmental management services provided to the coal industry.

## Targets for FY2016

Sector Framework	Subsector to be updated
Consumer discretionary	Consumer durables and apparel
	Consumer services
	Retailing and distribution
Consumer staples	Food and staples retailing
Energy and energy utilities	General framework
Financials	Sovereign debt
	Banks
	Insurance
	Diversified financials
Information technology	Software and services
Issues Framework	Gender discrimination (new)

## Proxy Voting

Australian Ethical is driven by positive social and environmental purpose and is a strong advocate for corporate and industry behaviour change. We believe that our actions will empower others to behave in a way that enhances the wellbeing of everyone. The exercise of voting rights may have the potential to influence corporate governance and policy. As a signatory to the United Nations Principles for Responsible Investment (UNPRI), we are committed to being an 'active' owner, by voting on shareholder issues and participating in collective engagement activities.

In exercising these rights, Australian Ethical takes into account the following principles:

- The preservation and increase of the value of the investment in the best interests of investors in the Australian Ethical Trusts
- Improving and upholding the governance of investee companies
- The relative performance of the investee company
- The application of the Australian Ethical Charter to the resolution under consideration.

The guiding principle of Australian Ethical's Proxy Voting Policy is that voting rights should be exercised and proxy votes should be cast in a way designed to ensure that proxies are voted in the best interests of the investors in the Australian Ethical Trusts.

Our Chief Investment Officer is responsible for the implementation of the policy and the Head of Ethics is involved where voting rights are exercised for the purpose of encouraging better management of social and environmental impacts.

Australian Ethical holds nominal shares (0.00185%/\$21,583) for the purposes of encouraging change in the following companies:

- BHP Billiton Limited
- Australia and New Zealand Banking Group Limited
- Commonwealth Bank Of Australia
- National Australia Bank Limited
- Santos Limited
- BP Plc
- Royal Dutch Shell

Australian Ethical's full Proxy Voting Policy and summary of voting records are available on the Australian Ethical website.

## Case study - NAB Climate Bonds

Our fixed income investments can raise just as many complex ethical issues as our share investments. The Climate Bonds issued by National Australia Bank (NAB) in late 2014 are a good example. The proceeds raised from the bonds were allocated to fund loans NAB had made to windfarm and large scale solar projects. Although we don't invest in NAB we did choose to invest in their Climate Bonds. To assess the Climate Bonds we needed to look not only at the specific renewable energy projects linked to them, but also the broader lending activities of NAB as issuer of the bonds. We also needed to assess both the bonds' immediate impact as well as the expected future impact of the bonds (and of future climate bond issues).

The more straightforward part of our review of the bonds was evaluation of the linked renewable energy projects. Wind and solar energy are strongly positive under our Ethical Charter for their capacity to supply energy to enhance human well-being and help alleviate poverty, without the global warming and other adverse environmental impacts of fossil fuels.

More complex issues arose when we considered the details of the relationship between the Climate Bonds and (1) the windfarm and solar projects and (2) with NAB, a significant lender to the fossil fuel sector. To explain how we analysed these issues requires some additional background on the 'structure' of the bonds, the broader climate / green bond market and our ethical approach to the banking system.

### The bonds

The NAB Climate Bonds are interest bearing debt obligations of NAB. The proceeds of the issue are 'ring fenced' to the solar and wind loans (and other eligible renewable energy project finance loans). This means that although the funds can flow into general corporate funds of NAB, they then need to be allocated to the nominated projects or other eligible investments. This flexibility allows the money raised to be used for new solar or wind projects if some of the existing loans are repaid (or kept in cash type assets if NAB does not make sufficient new renewables loans).

Notwithstanding this allocation of the money invested to renewables loans, the bonds are 'general recourse' to NAB. This means investors can claim repayment from NAB even if the project loans default; and that investors do not have a mortgage or other security over the wind and solar projects.

This sort of structure is aligned with the international Climate Bond Standards, and there is independent verification of compliance by NAB and the Climate Bonds with the Climate Bond Standards.

### The broader climate and green bond market

The climate and broader green bond market has the potential to help drive much needed additional investment to renewables and other clean economy investments like energy efficient technologies and infrastructure. The Climate Bonds Initiative is dedicated to mobilising the US\$100 trillion global bond market for climate change solutions. It reported in July that there are now US\$600 billion of 'climate-aligned bonds', a 20% increase from 2014.

Australian Ethical strongly supports the green bond market. But we believe the market should be monitored carefully to ensure that it is fulfilling its potential to drive capital to climate solutions. In the context of climate bonds issued by banks, it's important to ensure that the bonds do in practice help shift lending from emissions intensive to climate friendly sectors.

### The ethical impact of the NAB Climate Bonds

Climate bonds are in many ways tailor made for an ethical investor. Large companies are typically involved in some way in both positive and negative activities and we often need to balance the impacts of these different activities. A bond which directs our investment towards only those activities of the bond issuer which we like (such as renewables projects) can eliminate the need for this often difficult balancing exercise.

### Application of Australian Ethical's screening process:

We used our screening frameworks for the banking sector (relevant to the issuer, NAB) and energy sector (relevant to the wind and solar projects funded by the Climate Bonds).

#### Relevant positive Charter element:

Wind and solar energy are strongly positive under our Ethical Charter for their capacity to supply energy to enhance human well-being and help alleviate poverty, without the global warming and other adverse environmental impacts of fossil fuels:

- h. activities which contribute to human happiness, dignity and education
- k. the alleviation of poverty in all its forms
- e. The amelioration of wasteful or polluting practices

#### Relevant negative Charter element:

- There are no negative elements of the Charter directly relevant to the Climate Bonds, though some are relevant to other activities of NAB.

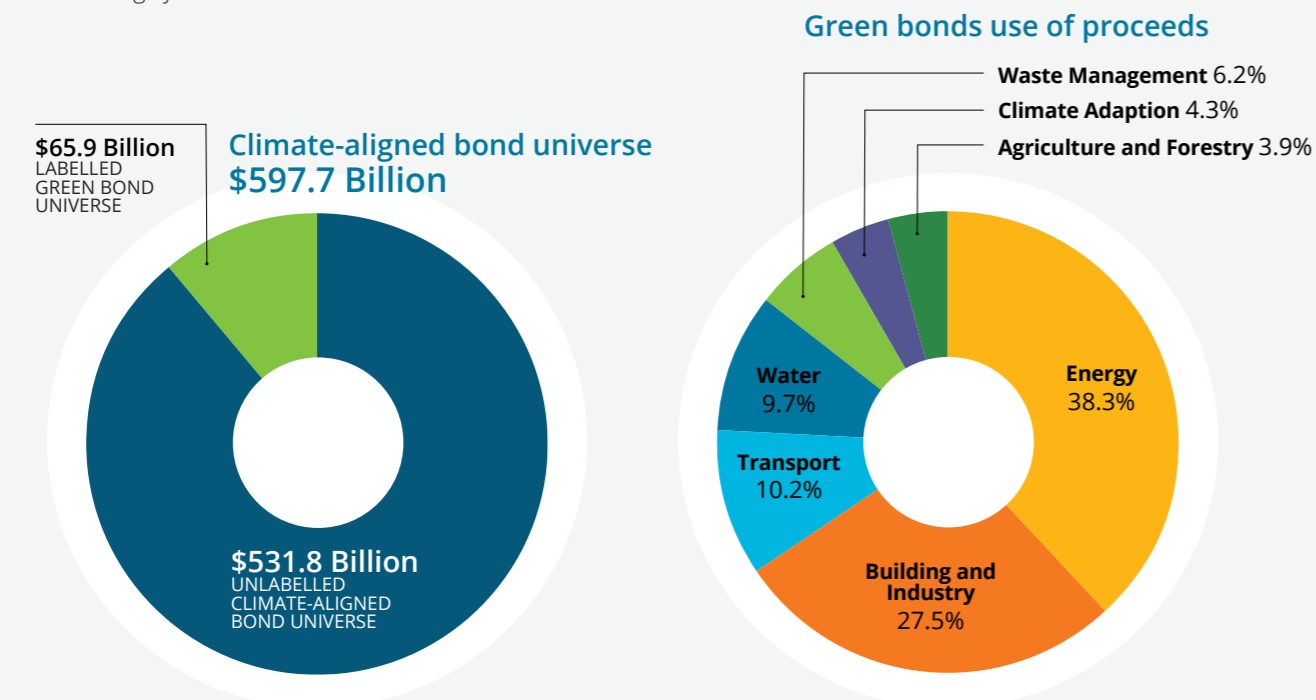
### Application of the Banking Framework

- Banks contribute to the efficient allocation of capital across society and the economy. When assessing a bank under our Banking Framework we look at the way it fulfils this function, including the business and personal activities which its lending supports. For example, residential property lending is generally viewed positively as we assess homes to be 'appropriate buildings' under paragraph (l.) of the Charter. But lending to the coal sector is viewed negatively as unnecessarily polluting and causing unnecessary harm to humans, animals and the environment (paragraphs (i) and (iii) of the Charter). We also consider non-lending activities of the banks such as financial planning. Whilst we view financial planning itself as a Charter positive activity, we are only too aware that the way some banks have delivered financial planning advice has been far from positive.

In the context of the NAB Climate Bond we therefore needed to consider whether our investment in those bonds would support only NAB's existing and new wind and solar lending, or whether it might also support NAB's lending to negative industries. For example, the raising of money by NAB for climate projects may 'free up' other funding for purposes we don't like. There's also a risk of 'greenwash' – that the issue of Climate Bonds to fund existing renewables loans will draw attention away from the need for banks (and investors in them) to take decisive action to shift much more capital from emissions intensive to climate friendly sectors.

We assessed these risks by considering:

- NAB lending to high emissions sectors (including absolute lending levels, growth/reduction trends, lending as a percentage of total lending and lending relative to big 4 bank peers)
- NAB lending to renewables and other sectors of the clean economy, including the additional level of transparency of this lending as a result of the Climate Bond issue
- NAB's climate policy and the integration of climate and other social and environmental risks into their lending decisions and engagement with their borrowers
- We assessed these factors based on terms of the Climate Bonds, lending and other data published by the bank, third party research and direct discussion with NAB staff. Based on all this, we concluded that the NAB Climate Bonds and future climate bond issues would fulfil their potential to drive additional capital to renewables and other climate friendly projects. We will keep this assessment and our investment under review by actively monitoring NAB's future lending to renewables projects and beyond.



Source: <https://www.climatebonds.net/2015/07/report-launch-climate-aligned-bonds-universe-5977bn-2015-opportunities-climate-focused>

# Our Investments



## Message from David Macri, Chief Investment Officer

Performance has again been a major highlight this year. Our flagship fund, the Australian Shares Fund, generated a return of 17.1% - an outstanding result given the return of the All Ordinaries index was just 5.7% for the 12 months. The fact we don't invest in resources definitely helped as the sector delivered a negative 16.6% to their long suffering shareholders. However this isn't the main reason for the Fund's great relative performance. Indeed the Fund's benchmark, the S&P/ASX Small Industrials index which excludes the resources sector, returned 7.2%. This means the Fund outperformed its benchmark by an amazing 9.9%. This result ranks the Fund 2nd in the Mercer Investment Performance Survey for Retail Australian Shares (All Cap) funds, a survey which consists of 99 funds.

Also pleasing is the performance over the longer term. It has delivered 9.8% p.a. since its inception over 20 years ago compared to its benchmark return of 6.6% p.a. Much of the outperformance has been driven by Australian Ethical's superior ability at selecting outperforming small cap stocks (those outside the S&P/ASX 100 index).

We are excited at now being able to offer our investors a new dedicated Fund focussed solely on the small cap segment of the market. The Emerging Companies Fund was launched 1 July 2015 and we hope to replicate the success of the Australian Shares Fund by adopting the same disciplined process which has led us to become one of the most consistent top performing fund managers in the country.

This great performance was recognised and rewarded with the Fund winning the Responsible Investments category at the 2015 Money Management awards. It is a great achievement and cements our position as the most committed ethical or responsible investor in the country. The fact that we back this up with an unwavering focus on generating great performance for our investors means that we not only help to make the world a better place by directing our investors' money to companies that are contributing positively to the environment and/or society, but we are helping our investors create wealth.

We are living proof that investors do not need to compromise on investment performance in order to invest ethically. I often wonder what kind of world we could create should all investors adopt a similar approach, and indeed what type of world could we be living in if all decisions were made with an ethical conscience.

**David Macri**  
Chief Investment Officer

## Funds Under Management

Managed fund returns to 30 June 2015\*

	1 year	3 years (pa)	5 years (pa)	10 years (pa)
Balanced Trust	8.5%	12.0%	7.9%	4.6%
Smaller Companies Trust - Retail	17.1%	18.6%	12.1%	9.4%
Smaller Companies Trust - Wholesale	19.0%	20.4%	n/a	n/a
Larger Companies Trust - Retail	12.1%	20.1%	10.2%	5.3%
Larger Companies Trust - Wholesale	13.6%	21.7%	n/a	n/a
Fixed Interest Trust - Retail	4.3%	4.7%	n/a	n/a
Fixed Interest Trust - Wholesale	5.2%	n/a	n/a	n/a
Cash Trust	2.2%	3.4%	4.0%	4.3%
International Equities Trust	13.3%	23.5%	7.9%	n/a
Advocacy Fund - Retail	12.0%	18.9%	11.3%	n/a
Advocacy Fund - Wholesale	13.5%	20.1%	n/a	n/a

\* NB: New fund names were released 1st July, 2015

## Super (accumulation) returns to 30 June 2015

	1 year	3 years (pa)	5 years (pa)	10 years (tpa)
Defensive	1.4%	2.0%	2.9%	3.4%
Conservative	4.9%	4.8%	4.5%	n/a
Balanced	10.1%	11.0%	7.1%	4.2%
Growth	11.7%	14.1%	7.5%	4.1%
Advocacy	13.2%	17.6%	10.4%	n/a
Smaller Companies	19.9%	19.2%	12.0%	9.1%
International shares	14.4%	21.3%	7.2%	n/a

## Comparative Performance

Performance across our funds and superannuation options has been excellent with many funds and options delivering above median performance over the year according to the regular survey published by consulting firm Mercer (based on Mercer's Peer Group Category as at 30th June, 2015).

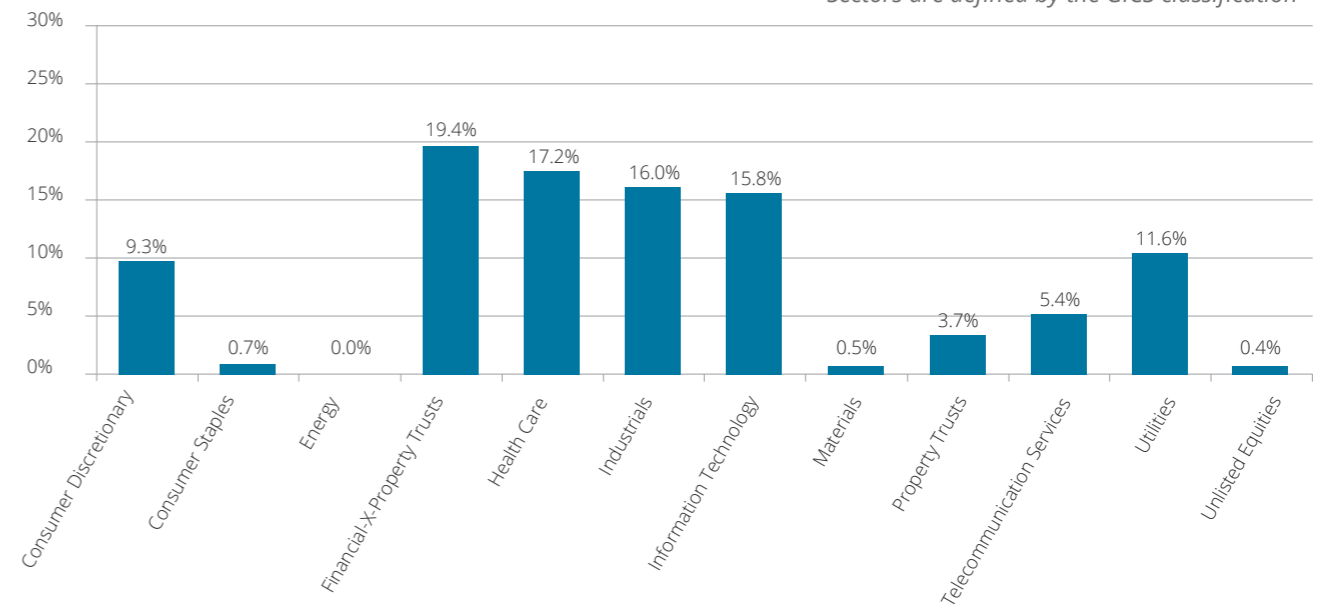
Managed Fund	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Cash	3rd	2nd	1st	1st	1st
Fixed Interest	3rd	-	-	-	-
Balanced	3rd	3rd	4th	2nd	2nd
Diversified Shares	1st	1st	1st	1st	1st
Advocacy	1st	1st	1st	-	-
Australian Shares	1st	1st	1st	1st	1st
International Shares	4th	2nd	4th	3rd	-

Superannuation Accumulation Options	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Defensive	3rd	3rd	2nd	2nd	2nd
Conservative	4th	4th	4th	-	-
Balanced	3rd	3rd	4th	3rd	3rd
Growth	1st	1st	4th	4th	4th
Smaller Companies	1st	1st	1st	1st	1st
International	4th	4th	4th	4th	-
Advocacy	3rd	3rd	3rd	-	-

## Portfolio breakdown

### Investments by sector

% as at 29 June 2015

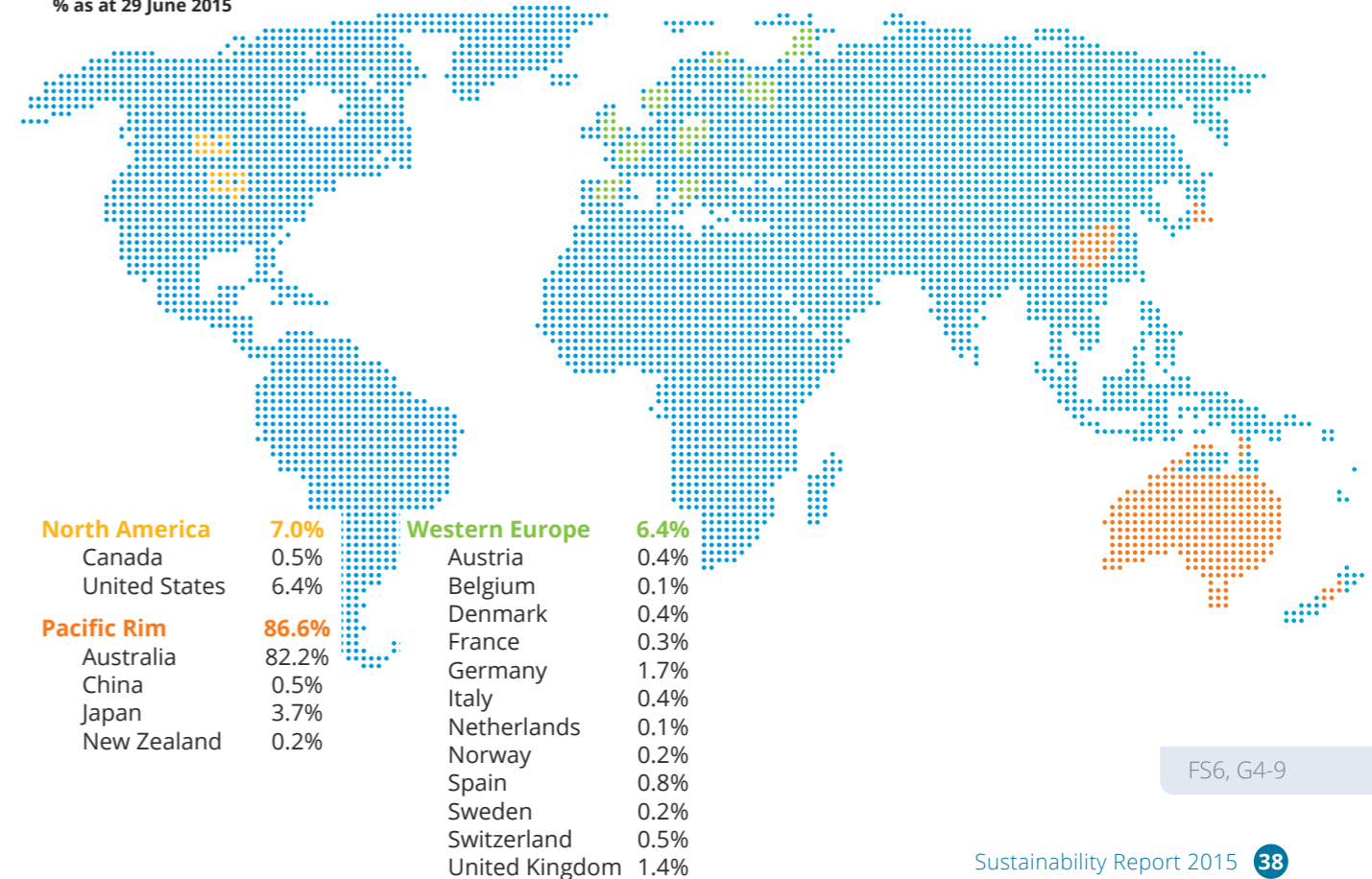


#### Notes:

- The majority of Australian Ethical energy investments are accounted for in the IT sector
- Sectors are defined by the GICS classification

### Investments by region

% as at 29 June 2015



**We seek out positive investment that support:**



*People, quality and sustainability*

 Clean Energy	 Sustainable Products	 Medical Solutions	 Innovative Technology	 Responsible Banking
 Healthcare	 Recycling	 Energy Efficiency	 Education	 Aged Care

**We avoid investments that harm:**



*People, animals, society and the environment*

 Coal	 Coal Seam Gas	 Oil	 Weapons	 Tobacco
 Logging	 Exploitation	 Gambling	 Human Rights Abuses	 Harmful Products

**Who we invest in**

**Ansell**



**ANSELL** manufactures safety-focussed products in four main areas: Medical, including gloves for surgeons; Industrial, including industrial hand protection; Specialty Markets and Sexual Wellness, including condoms. Ansell's safety products are positive under the Australian Ethical Charter. Australian Ethical also considers the contribution of condoms to family planning and individual health to be positive under the Charter.

*Australian Ethical Charter cross-check elements:*

**h.** Activities which contribute to human happiness, dignity and education

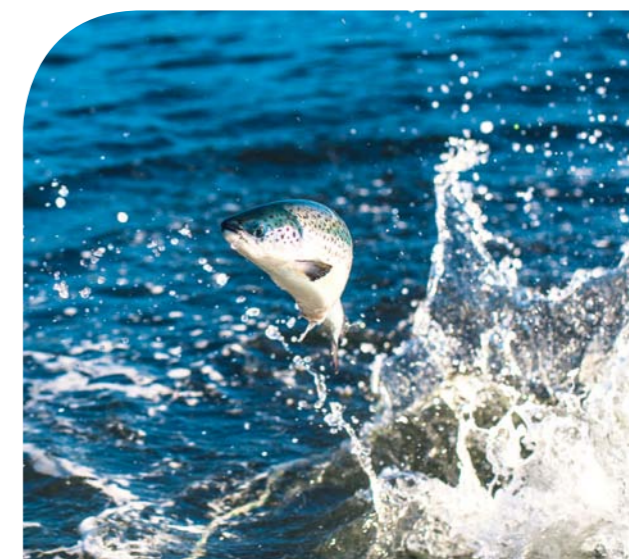
[www.ansell.com](http://www.ansell.com)

**Tassal**

**TASSAL** operates salmon farms in south-eastern Tasmania. Producing over 19,000 tonnes of salmon in FY2014, the company is helping to reduce society's reliance on wild-caught fish, which are often netted with highly destructive fishing methods. Ninety percent of the world's fisheries are reported to be over- or fully- fished. Since 2012, Tassal has been working closely with the World Wildlife Fund to be the first aquaculture operation in the Asia-Pacific region to undergo and achieve Aquaculture Stewardship Council certification across all marine and freshwater operations.

The company has facilities and practices that meet the Best Aquaculture Practices standards globally; including a reduced reliance on antibiotics, as well as enhancing environmental protection and community engagement in the area. Leaders in new innovation in aquaculture, the company has developed and now uses a robot that prevents the growth of algae, and therefore reduces the amount of pollution entering the waterways.

Fish farming also causes harm to animals and the environment. Although an area where much more research is required, there is growing evidence of the potential for fish suffering although fish can be killed more humanely in an aquaculture environment compared to commercial ocean fishing. Also, whilst the amount of wild fish feed for salmon farming is reducing, this level needs to reduce further in order for salmon farming to be sustainable in the long term. There are also risks of pollution to surrounding waterways and of the spread of disease.



On balance we consider that, as a leader in sustainable aquaculture, Tassal's activities are aligned with the Australian Ethical Charter. We will continue to monitor their progress and the impacts of their operations.

*Australian Ethical Charter cross-check elements:*

**f.** the development of sustainable land use and food production  
**iii.** harm to animals and the environment

[www.tassal.com.au](http://www.tassal.com.au)

# Our People

## Appen Limited



**APPEN** is a globally focused company that provides speech and search language technology data and services in more than 150 languages and dialects, to leading technology companies and government agencies.

By facilitating non-English recognition and translation technologies, Appen increases access to internet search, increasingly a critical portal to information, products and services. More generally information technology can also facilitate the efficient use of resources, helping to reduce waste and pollution. The company is well positioned to leverage strong growth in large markets in content relevance (search, e-commerce, applications) and speech recognition. Appen boasts long and stable relationships with some of the largest tech companies in the world and brings carefully developed process IP that provides competitive advantage.

**Australian Ethical Charter cross-check elements:**

- d.** the development of appropriate technological systems
- e.** ameliorate waste or pollution
- h.** activities which contribute to human happiness, dignity and education

[www.appen.com](http://www.appen.com)

## Meridian Energy

New Zealand's largest electricity generator, **MERIDIAN** produces about 30% of New Zealand's electricity from 100% renewable energy – with the bulk of the generation fleet being in the South Island. Meridian is also New Zealand's largest hydro-generator and largest wind farm operator; both technologies offering low operating costs and long operating lives. Meridian manages 47% of the country's total hydro storage and its electricity production levels accordingly have a material impact on New Zealand's wholesale electricity prices. In addition to electricity generation, Meridian is also one of the country's largest electricity retailers. This 'gentailer' model helps mitigate variability in wholesale prices by taking a position on both sides of the wholesale market. Beyond New Zealand, Meridian has established a successful track record as a developer and operator of wind farms in Australia and has also established a fledgling retail operation in that market under the Powershop brand.

**Australian Ethical Charter cross-check elements:**

- e.** the amelioration of wasteful or polluting practices
- h.** activities which contribute to human happiness, dignity and education

[www.meridianenergy.co.nz](http://www.meridianenergy.co.nz)



Our people are our greatest asset – we say it often and with good reason. It is only with the determination and dedication of our people that we can serve our clients, generate long-term value for our shareholders and contribute to the community. We focus on cultivating and sustaining a diverse work environment and workforce, which is critical to meeting the unique needs of our diverse client base and the communities in which we operate.

Our goals are to maximize individual potential, increase commercial effectiveness, reinforce the firm's culture, expand our people's professional opportunities, and help them contribute positively to their greater communities. Focusing on cultivating and sustaining a diverse work environment and workforce supports these goals.

- Our key areas of focus in the reporting year were:
- Employee wellbeing
- Developing a new remuneration structure and revised benefits
- Providing new learning and development initiatives.

Our annual employee survey is one of our key indicators of employee engagement with the company. In FY2015, our employee participation rate increased to 94% from 88% the previous year, and we have maintained our top quartile presence in the AON Hewitt Best Employer Group scores in Australia and New Zealand. Our actual employee engagement score has dropped by 5% over the previous year from 78% to 73%, however, we have sustained relatively high employee engagement over recent years during a time of high business growth.

Employees told us that this year they have increased satisfaction levels (in comparison with last year) in:

- An appropriate opportunity to share in financial rewards
- Support of learning and development initiatives
- A sense of accomplishment and pride in working for Australian Ethical

Employees told us that we could improve in the following areas:

- Develop a greater understanding of career pathing and possibilities
- Greater communication and collaboration across teams
- Greater work/life balance
- More enjoyment of day to day work tasks
- Better understanding and execution of performance management

We have listened to our employees, and our focus areas will include these areas identified for improvement during the next reporting year.

## Remuneration

In 2014 we introduced a new remuneration structure aimed at providing better alignment between employees and shareholders, a more direct link for employees between effort and reward and better employee retention. The new structure has already created an improved perception of pay and rewards, greater than any other variable in the employee engagement survey. All permanent employees participate in our employee share plan reflecting our Charter commitments.

In a small team such as Australian Ethical everyone plays a part in delivering superior results and the remuneration model applies to all employees with greater portions of remuneration at risk for more senior employees. This ensures we retain the team that is delivering strong returns for shareholders as well as building long-term value for our company. (Our new remuneration structure and its communication have been developed taking into account views from shareholders). We will continue to review our remuneration arrangements to ensure they remain effective in attracting and retaining the best talent to drive Australian Ethical forward. Our remunerations policy is updated annually. Our Remuneration Report within the Annual Report provides a detailed overview of Australian Ethical's remuneration policy and structure, framework, actual remuneration, statutory reporting and governance.

## Diversity and Equal Opportunity

The Australian Ethical Diversity Policy encourages diversity in ethnicity, gender, language age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking styles, experience and education. The policy is reviewed annually. Our employee engagement survey results indicate that 85% of employees feel we have a work environment that is open, accepts individual differences and values diversity.

Our Diversity Policy contains the following key aspects:

- We must recognise the value of individual differences and manage them in the workplace
- The Board must establish measurable objectives for achieving gender diversity in the workplace
- An annual review of progress against these objectives must be conducted.

G4-DMA Employment, G4-DMA Training and Education, G4-53, G4-DMA Diversity and Equal Opportunity

## Diversity Targets

Australian Ethical's diversity targets are guided by the ASX Corporate Governance Principles and Recommendations, FSC requirements – Standard 20 and the Workplace Gender Equality Agency. We are also guided by industry norms as set by the Australian Institute of Company Directors, the Australian Council of Superannuation Investors and the UN Women's Empowerment Principles, to which we signed a commitment during the reporting year.

In 2012, Australian Ethical adopted a target of 25% female representation on our Board and Senior Management team of 25% by 2013 and 40% by 2016.

Our progress against our targets is:

	2013 (Actual)	2014 (Actual)	2015 (Actual)	2016 (Target)
Board	33%	40%	40%	40%
Senior Management	22%	14%	14%	40%
Employees	30%	29%	34%	50%

Industry and international comparisons are:

	AICD	ACSI	Westpac	UK	Norway
Board	30%	30%	30%	25%	40%
Senior management	n/a	n/a	50% *	21%	20%
Target date	2018	2017	2017		

\* Women in Leadership includes Executive, Senior Manager and Manager

While we have achieved our Board diversity targets, despite considerable effort over the past three to four years when filling management roles to shortlist female candidates for the Senior Management Team, we were unable to successfully recruit suitable candidates that had the required skills. In a number of cases the role was held open for lengthy periods (up to a year) to maximise this opportunity.

Our overall employee representation has increased with 80% of new hires in the last 12 months being female. This is positive progress particularly given that the opportunity for smaller organisations to change the gender composition of their workforce tends to be more limited than those for larger organisations. Turnover rates are generally lower and there are smaller numbers of women, so achieving gender targets can often be more challenging.

## Plans to improve gender diversity

Our plans to grow gender diversity centres around the following areas of focus:

### Recruitment

Ensure that our recruitment and selection practises contain no impediments to female candidates being fairly considered including:

- Ensuring sufficient female candidates are sourced for the long list of applicants, proactively sourcing candidates where possible
- Including female representatives in the interview process where applicable for the job role.

## Remuneration

Ensure that there is no gender inequality in our remuneration practices at Australian Ethical. It should be noted that while the pay ratio of women to men shows a 22% gap, this is due to an underrepresentation of women on the senior management team, and not a gap in pay for 'like' roles.

## Flexibility and support

Ensure that workplace practices are sufficiently flexible within the constraints of meeting business demands so as to not discourage any female applicants or career progression. Also provide assistance and advice with family, personal and well-being issues through our Employee Assistance Program and wellbeing initiatives at work.

## Networking opportunities

Encourage networking opportunities both internally and externally, the latter through industry groups such as Women in Super, and Women in Banking and Finance.

## Training, education and career development

Employee training needs at Australian Ethical are determined by a variety of inputs, such as annual performance management or discussions, and manager recommendations. We ensure that the learning and/or development need is genuine and then define the competency or skill that needs to be improved on. Our human resources manager presents various learning and development options, which include not only formal training, but connecting with industry and various other initiatives.

Employees are set annual Key Performance Indicators (KPIs) that reflect critical success factors to Australian Ethical. Regular formal and informal feedback on performance and KPIs, and formal performance and career development reviews take place up to two times per year.

All (100%) of Australian Ethical employees are included in the performance management system which includes a focus on career development, strengths building and focus.

Our employee engagement survey revealed that employees would like to see an improvement in how Australian Ethical handles education, career development and performance management. Previous years have seen a focus on short term training needs, and we recognise that a stronger, more meaningful development plan aligned to employee strengths and development areas is needed. This will form an integral part of the performance management process for FY2016.

Our challenge is to execute a performance management systems with more rigour and greater management attention to the extent where we need to do more development of managers as coaches. We will adopt a bottom up approach by engaging with employees to better understand how we can improve career pathing and develop career opportunities for them.

During the reporting year, we reviewed and increased our training budgets for employees. A range of new in-house training opportunities were provided, from both internal resources and tailored training from external providers. These included: privacy reform, performance management and induction training. Also conducted was a 'Business series' – to help employees understand the function of each department, including purpose and goals and a number of 'Purpose and Values' workshops to further develop our key understanding of how employees would like to see Australian Ethical develop in future years. Our 'Edible Ethics' lunchtime series focussed on topical ethical case studies to facilitate discussion and foster a deeper understanding of ethics and our business. We also screened lunchtime documentaries on topical ethical issues.

Externally facilitated training included an 'advice landscape' update for our client relations team, networking skills, resilience training specifically for our front-line staff, and training on presentation skills.

We are in the process of working with a third party to develop the first set of online training modules which will be rolled out to all Directors and employees to complete upon commencement with Australian Ethical and then on an annual basis. The first set of modules will cover Conflicts Management, Privacy, Whistleblowing, Share Trading and Code of Conduct. It is expected that these modules will be rolled out in August 2015.

## Communicating with our Employees

A focus for Australian Ethical during the reporting year was the development of our Purpose and Values workshops for both employees and the senior management team. The consolidation of the majority of our Canberra employee base to Sydney in FY2013 saw a significant turnover rate (48%), and 14 newcomers to the organisation. In times of any major change, it is important to review, refine and discover new ways of doing things so that going forward, our internal vision is aligned. All finalised, approved policies and procedures are made available to employees and Directors.

## Employee Benefits

Benefits offered to our employees form an integral part of our remuneration package and the employee value proposition that we offer to all employees in promoting and developing best practice reward and benefits programs. The purpose of offering employee benefits is to ensure that we align our reward policies with our business performance and standards. The updated employee benefits program for the reporting year was designed based on the outcomes of employee feedback, a senior management team brainstorm and discussion, research on what other employers offer and from the general uptake and feedback on various wellbeing initiatives, and the positive impact on morale.

Acknowledging that the health and happiness of our employees is extremely important, a 'Wellbeing Lunchtime series' included the 'Pursuit of Happiness' lunchtime series; 'Employee Awareness: Mental Health in Workplace' sessions and a meditation series. We have also created a new wellbeing room in the office, where meetings can be held on the beanbags or utilised as a mindful space. The space is also used for our quarterly massages.

Various other employee benefits include:

- Novated car leases benefit packaging on GST for all employees
- Employee personal development program activities, which includes a choice of gym membership, yoga, public speaking, dancing and art classes\*
- Recognition of service bonus for every five years of employment
- Fully paid paternity leave of two weeks for new dads/ partners where the mother/partner has taken paid parental leave and is the primary carer\*
- Twelve weeks paid parental leave and paid SG superannuation contributions while an employee is on parental leave up to twelve months.

*\*Increase in benefit or new benefit for FY2015*

These benefits form part of the new annual wellbeing program for employees that also includes free flu vaccinations, organic fruit in the kitchen, an annual ergonomic check and return-to-work coaching for employees who return to the workplace after a period of prolonged absence (for example, juggling work and home commitments, recovering from a lengthy illness).

G4-57, G4-58, G4-LA2, G4-DMA Occupational Health and Safety, G4-LA6, G4-DMA Labour and Management Relations

## Health and Safety in the Workplace

The health and safety of our employees is very important to us. While we work in an environment that does not have a high incidence of workplace injury, we take steps to ensure both the physical and mental wellbeing of all Australian Ethical employees. A workplace health and safety register is updated regularly and we consult with employees in meetings as is our duty of care. Management of health and safety procedures is reviewed on an as needs basis.

During the reporting year, two minor injuries were sustained at our head office with eight hours of lost time recorded. Ergonomic training and an individual ergonomic assessment was conducted for all employees during the reporting year. This was followed up by the purchase of specific aids for a number of employees including a standing desk, foot rests, keyboard rests and chairs that allow height modifications. Flu vaccinations are provided annually and during FY2016, we will roll out health screens for all employees. As outlined previously, we conducted awareness sessions around mental health in the workplace and provide employees with the opportunity to undertake activities that promote good health and wellbeing. A monthly health and wellbeing flyer is also circulated to all employees.

## Management Relations

Australian Ethical's management approach is to consult with employees around changes that may impact their work and/or the business. Every two years, an employee representative is elected by employees, with whom employees can choose to discuss any concerns, issues or complaints around their employment, regardless of their nature of severity, in accordance with the formal grievance procedure. The employee representative can choose to discuss these issues with the management team and escalate the issue to the Board if required. No grievances were reporting during the year. All employees are notified of operational changes by either the Managing Director or their direct manager, as soon as is reasonably practicable. Our grievance process is reviewed on an as needs basis.

## Disclosure

All actual, perceived and potential conflicts of relevant duties or interests must be reported to the Risk and Compliance Manager, and recorded on the Register of Relevant Duties or Register of Relevant Interests. All trading in Australian Ethical shares, and all investments in the Managed Funds or the Super Fund, by Directors and employees, is subject to prior approval by the Australian Ethical Chair, Managing Director and/or Company Secretary as appropriate. These actions must be recorded by the Company Secretary on the Register of Personal Trading Requests and Approvals. All trading activity undertaken by Directors and employees must be reported to the Risk and Compliance Manager on a quarterly basis.

## Communication and Training

Other operational policies in place to ensure compliance with regulatory requirements by the Australian Securities and Investments Commissions (ASIC), Australian Prudential Regulation Authority (APRA) and the Australian Transaction Reports and Analysis Centre (AUSTRAC) include:

- Anti-Money Laundering and Counter-Terrorism Financing Program
- Fraud Risk Management Policy
- Share Trading Policy
- Conflicts Management Policy
- Fit and Proper Policy
- IT Acceptable Use Policy
- Whistleblowing Policy
- Expenditure and Payments Policy
- Standing Employee Authorisations

All policies are reviewed annually.

## Volunteering

During the reporting year, Australian Ethical's volunteering provided employees with an opportunity to spend some time at Sydney's Loaves and Fishes restaurant, run by the Exodus Foundation, to provide free healthy and nutritious meals for people in need. Employees also participated in blood donations with the Red Cross. A total of 120 volunteer hours were logged with 16 employees contributing to one day each.

A new initiative for Australian Ethical employees for FY2016 is the allocation of two full days each year for community volunteering during working hours. In previous years, the volunteering program operated more on an ad hoc basis.

Many employees will spend time participating in volunteer work with the following organisations in Sydney:

## Wayside Chapel

The Wayside Chapel provides showers, low-cost meals and clothing for the most disadvantaged members of the community, provides referrals for short and long-term crisis accommodation and housing and counselling clinics. The organisation draws people out of social isolation and invites them into the healing place of community. People marginalised by homelessness, mental health issues and substance abuse can turn to Wayside for compassion, tolerance and support. Volunteering will involve a tour of the Kings Cross area, including safe injection site, and preparation of food for clients.

## Triple Care Farm

Triple Care Farm helps rehabilitate 16 – 24 year olds suffering with substance abuse, mental illness, homelessness and family breakdown. The farm provides an ideal environment of peace and healing for troubled youth, most of whom present with both mental health and drug and alcohol issues. The organization provides a holistic, tailored, 12 week program to rehabilitate youth and help them to re-engage with education and find pathways to employment. Volunteering will include painting and re-fencing of coops.

## Kayak Clean Up with Landcare Australia

Landcare is a grassroots movement that harnesses individuals and groups to protect, restore and sustainably manage Australia's natural environment and its productivity. In the past 20 years, corporate volunteer teams across Australia have partnered with Landcare to plant over 30,000 trees, eradicate noxious weeds and help restore and reinvigorate numerous sites across Australia. Volunteering will include bush regeneration, weeding, and planting.

## Animal Welfare League

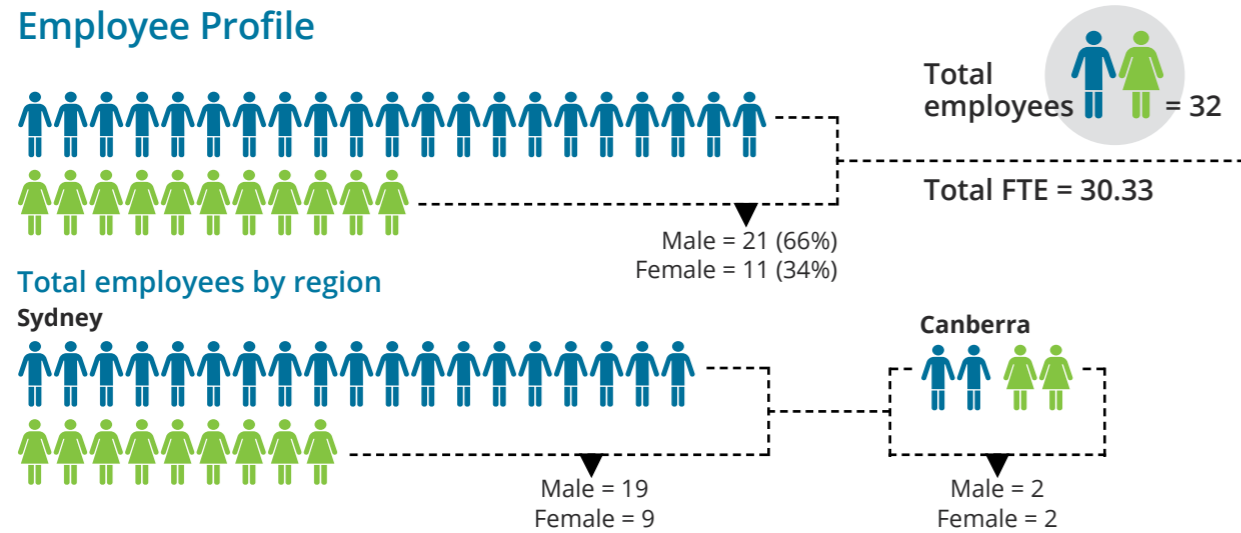
Animal Welfare League NSW is a registered charity that has been caring for surrendered, neglected and abandoned animals for over 55 years. Animals require regular attention and socialisation, to maximise their opportunities of being suitable for adoption. Pups and kittens in particular need human interaction to learn how to play and be comfortable with people, which will help with training as they get older. Volunteering will include socialisation with the animals, and ground maintenance and gardening.

## Kickstart Mentoring Program

The KickStart Mentoring Program is a volunteer-based, goal-focused program mentoring disadvantaged, isolated and problematic youth living on the fringe of society. During mentoring sessions, the mentor's role is to help direct and support young people in positive life decisions, and helping them to develop both short and long term goals, assisting them as much as possible to reach these goals. Volunteering will include one-on-one mentoring once a month for a minimum of three months.

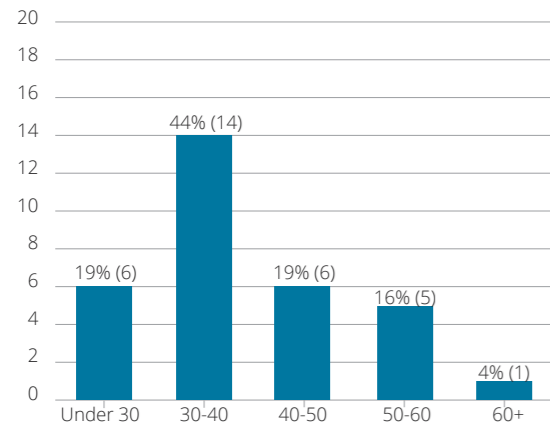


## Employee Profile

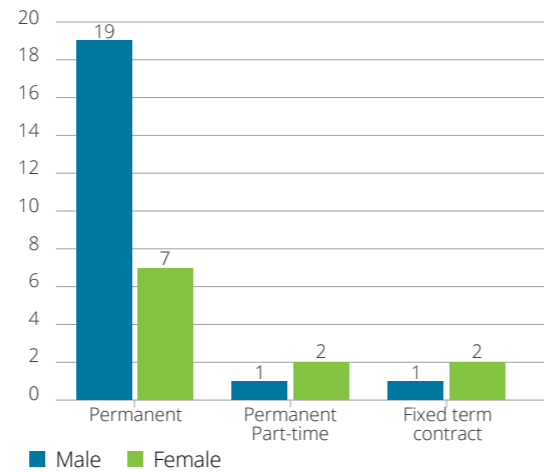


### Total employees by region

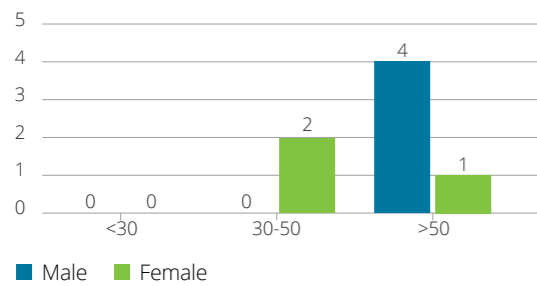
### Total employees by age



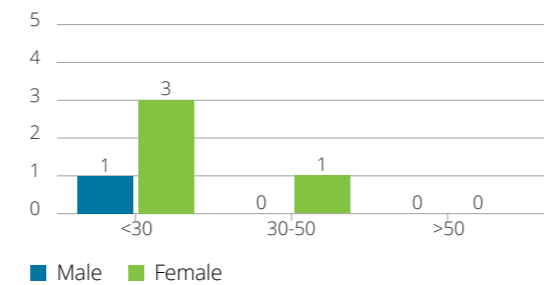
### Total number of employees by employment contract and gender



### Age range of board members



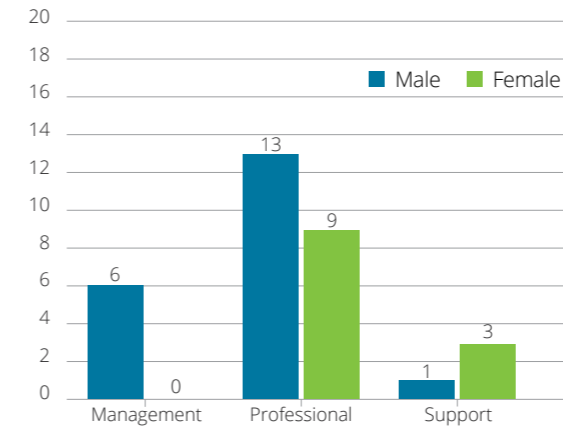
### Age range of new hires



**Notes:**

- Male 20%
- Female 80%
- < 30 years - 80%
- 30-50 years - 20%
- 80% of new hires were employed in Sydney

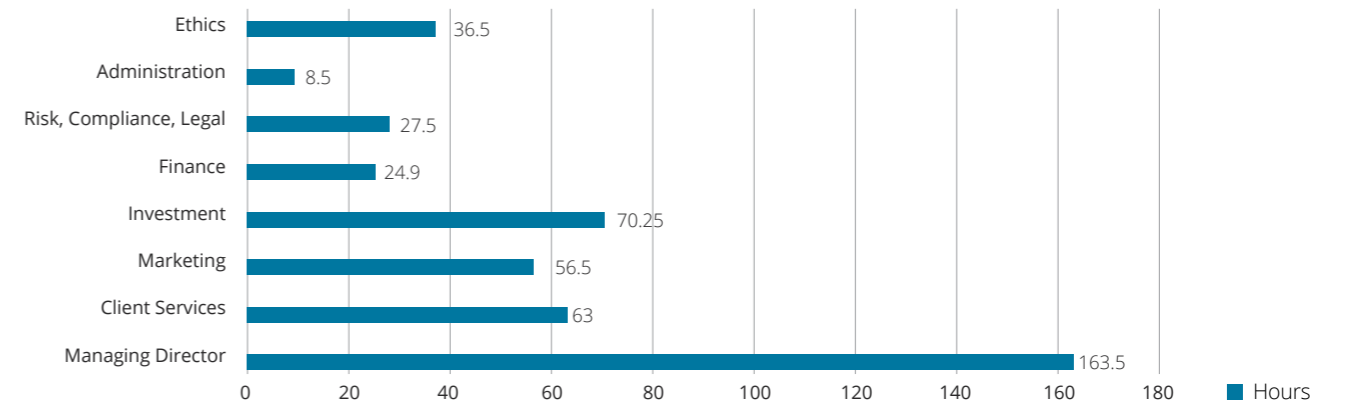
## Employees by employment type



## Average training hours per employee by gender

	Male	Female
Management	79 hours	67.5 hours
Professional	40.3 hours	19.6 hours
Support	6 hours	9.75 hours

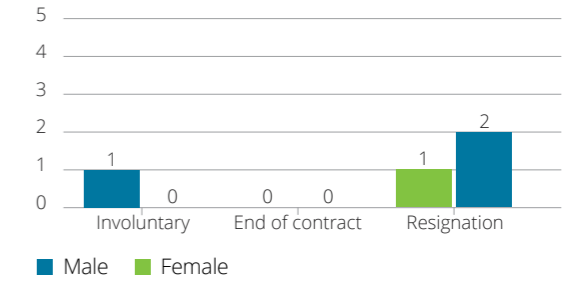
## Average hours of training per employee category



## Ratio of basic salary and remuneration of women to men by employee category

	2010-11	2011-12	2012-13	2013-14	2014-15
Management	0.59:1	0.65:1	0.68:1	0.63:1	N/A
Professional	0.87:1	0.64:1	0.61:1	0.66:1	0.78:1
Support	0.92:1	0.87:1	1.02:1	1.66:1	1.34:1

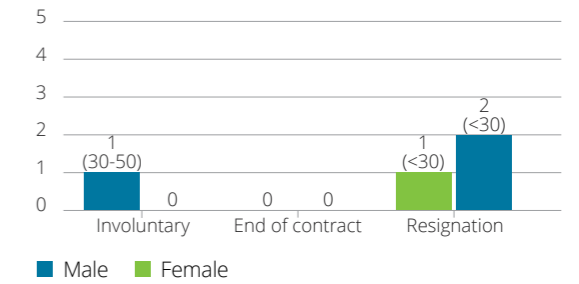
## Employee turnover by gender



**Notes:**

- Australian Ethical experienced a turnover rate of 15.6%, of which 3% was involuntary turnover due to a termination of employment, and 3% due to the end of a fixed term contract comprising 8 hours/week.
- All resignations were from the Sydney office

## Employee turnover by age



# Community Grants and the Australian Ethical Foundation

## Community Grants

Each year, 10% of Australian Ethical's pre-tax profit is donated to organisations making a positive difference in the world through our Community Grants program. These organisations are working to address humanitarian, environmental and animal welfare needs. Since the program began, over \$1.8 million has been donated to charitable, benevolent or conservation purposes through the program – one of the highest percentages of a listed company's profits donated to charity in Australia. The 2014 Community Grants program was delayed for six months, as initial discussions were underway around the yet to be formed Australian Ethical Foundation. In the 2015 financial year, \$370,000 has been provisioned for payment to the Australian Ethical Foundation, of which \$230,000 will be used for the Community Grants program.



G4-EC1

### 2015 Community Grant Recipients

#### \$20,000 Grant Recipients

##### *Angel Place (NSW)*

- Providing more than 18,000 hotel rooms per year to homeless young children and their families

##### *Green Connect (NSW)*

- Social enterprise that creates jobs that help the environment, for resettled refugees and young people

##### *Environmental Defenders Office (NT)*

- Law reform and advocacy project focusing on changes needed to allow Northern Territory Civil and Administrative Tribunal to hear challenges under environmental, mining, petroleum and planning laws

##### *Animalia Wildlife Shelter (VIC)*

- Provides emergency and short and long term care for injured, sick and orphaned Australian wildlife, releasing them back into the wild once rehabilitated

##### *Animal Aid Abroad (Afghanistan)*

- Six month program to provide 'pop-up' roadside workshops, run by qualified vets and farriers to provide vaccinations and hoof repairs, and educate Afghan muleteers about the importance of caring for their animals

#### \$15,000 Grant Recipients

##### *Abundant Water (Laos)*

- Provision of clay pottery filters to 400 households across four remote villages without access to clean water

##### *East Gippsland Rainforest Network (VIC)*

- To restore endangered rainforest areas and provide employment pathways for local indigenous peoples by hiring the Gunaikurnai Land and Waters Aboriginal Corporation to deliver the restoration work

#### \$10,000 Grant Recipients

##### *With Compassion & Soul (Borneo)*

- To provide for the building of three separate Sun Bear enclosures for rescued bears that are ill, injured or malnourished

##### *Orangutan Project (Indonesia)*

- Patrolling the Bukit Tigapuluh National Park and buffer zone where over 165 Sumatran orangutans have been released

### 2014 Community Grant Recipients

#### \$20,000 Grant Recipients

##### *Free to Shine (Cambodia)*

- Girls scholarship program to prevent sex trafficking

##### *Mungalla Aboriginal Corporation for Business (QLD)*

- Up-skilling unemployed indigenous youth for environmental outcomes

##### *Tennant Creek Transport Inc. (NT)*

- Providing much-needed transport for one of the most socially-disadvantaged communities in Australia

##### *Port Phillip Housing Association (VIC)*

- Community garden project designed to build social connection and skills among rooming house tenants

##### *The Orangutan Project (Indonesia)*

- Funding Wildlife Protection Units of local people to patrol the national park and prevent poaching

#### \$10,000 Grant Recipients

##### *The Kokoda Track Foundation (Papua New Guinea)*

- Micro lending program for women to address poverty and provide clean energy alternatives

##### *Timor Leste Vision (East Timor)*

- Project to install a reliable water system to deliver clean water to the remote village of Hatete

##### *Australian Cervical Cancer Foundation (Kiribati)*

- HPV vaccination program to protect women in Kiribati against cervical cancer

##### *Kids Under Cover (VIC)*

- Scholarships for youth at risk of homelessness to complete their secondary education

##### *The Exodus Foundation (NSW)*

- Sustainable Communities project to reduce the environmental impact of Exodus' food programs for the homeless

##### *The Pyjama Foundation (QLD)*

- Funding Pyjama Angels who provide individual attention and support to children in foster care

G4-EC1

## 2015 Community Grant Recipients

### \$10,000 Grant Recipients (cont.)

#### *Wildlife Asia (Indonesia)*

- Deployment of a dedicated rhino patrol and monitoring team in the Kluet River Valley to patrol the forests

#### *Sleepy Burrows (NSW)*

- Upgrade of sanctuary that cares for wombats by rescuing, rehabilitating and releasing orphaned, injured and humanised animals back into the wild

#### *Assisi Aid Projects (India)*

- Provides counselling, education, business and livelihood training for single women through skilled training in tailoring, organic farming, animal raising, savings clubs and financial literacy

#### *Free to Shine (Cambodia)*

- Expansion of program to identify girls at a high risk of being targeted by sex traffickers and provide them with enrolment in school

#### *Australian Red Cross (SA)*

- Healthy Living Outreach program will provide critical health and wellbeing checks to remote Aboriginal communities in partnership with the Royal Flying Doctors Service

#### *Indigo Foundation (Indonesia)*

- Establishment of five community co-operative gardens to provide food security and nutrition, access to fresh water, and income generation for women that work the gardens

#### *Alternative Technology Association (Timor Leste)*

- Training and employment of a local electrician to audit and repair installed solar systems and development of a community run maintenance business model

### \$5,000 Community Grants Recipients

#### *A Girl & Her World (Fiji)*

- Support of girls to stay in or return to school in addition to helping their mothers start small businesses so they can support their daughters at school and meet other family needs

#### *Incredible Tip Shop (QLD)*

- Expansion of scrap recovery program by purchasing a vehicle and employing two new permanent part time jobs for disadvantaged jobseekers in Mackay

## 2014 Community Grant Recipients

### \$10,000 Grant Recipients (cont.)

#### *Sir David Martin Foundation (NSW)*

- Contributing to 12 week rehabilitation programs for youth fighting addiction, mental health issues and homelessness

### \$5,000 Grant Recipients

#### *Jewish House (NSW)*

- Refurbishment of the homeless shelter to accommodate pets of the homeless

#### *The Deli Women & Children's Centre (NSW)*

- Safe Healing project for women who have suffered domestic violence and abuse, especially those from Aboriginal or CALD backgrounds

#### *Animal Aid Abroad (Egypt)*

- Revitalisation of the Port Said Equine clinic and training a local team to treat working equines

#### *Liberian Community Action for Unity, Social & Economic Development (VIC)*

- Establishment of a 'Newlife Restaurant' social enterprise to provide skills training and employment opportunities for the West African community

#### *Delivery Cycles (VIC)*

- A social enterprise providing employment opportunities for marginalised groups, especially refugees, through the establishment of a food delivery business

## Community Grant Recipient Highlight: Mungalla Aboriginal Corporation - \$20,000

The Mungalla Aboriginal Business Corporation represents the local Nywaigi Aboriginal people who have a connection to the grand Mungalla station, north of Townsville in tropical north Queensland. The station hosts a positive story of association between the first European settlers in the area and the Nywaigi. This organisation chose to share the rich history and culture of the local people through tours to the public, also showcasing 230 hectares of wetland restoration projects on the property. The traditional Nywaigi lived in harmony with the environment according to their Tjukurpa – a complex set of laws and beliefs (and for which there is no equivalent English word) that was strictly followed to maintain society, ecology, and culture. Their local culture was passed on orally, through dance and art, and is closely connected to the natural history and beauty of the area. Australian Ethical's grant specifically supported the up-skilling of unemployed Indigenous youth for the positive environmental and social outcomes of Mungalla station, as well as to help continue to verbally pass on the rich cultural history of the Nywaigi. The grant also supported the traditional owners in continuing to work on the biodiversity restoration projects for the wetlands. After receiving the Australian Ethical grant, Mungalla station has grown to support training people from all over Queensland, and has seen groups of overseas visitors come to the area to hear what is an overwhelmingly encouraging story of cultural connection in Australia.

*"On behalf of the Mungalla Aboriginal Business Corporation we would like to extend a big thank you to the funding support from the Australian Ethical community. The majority of your funding is a true investment in our human resource and our country. Your investment has been in Zorran Cassidy... a Nywaigi traditional owner who is a 19 year old young man that has been employed through the Mungalla Aboriginal Business Corporation. He is a young man who is in the forefront of the efforts in rehabilitation of the country here on Mungalla Station. Zorran also educates the world on the traditional owner's efforts here in conservation and land management on our wetlands and waterways ... literally... by the hundreds of students and visitors locally, regionally and internationally who visit Mungalla Aboriginal Tours via our tourism enterprise. Zorran now is about to begin his Conservation and Land Management Certificate II. On behalf of the directors here at Mungalla Aboriginal Business Corporation and the traditional owners we would like to say a big thank you for the support and investment in our people and our country" Jacob – Mungalla Aboriginal Business Corporation*



## Community Grant Recipient Highlight: Australian Cervical Cancer Foundation - \$10,000

Cervical cancer is the biggest cancer killer of women in Kiribati, a small island nation located on the equator in the Pacific Ocean. The Human Papillomavirus (HPV) is the virus that causes cervical cancer and several other deadly cancers in men and women. This vaccine along with available cervical screening can help make cervical cancer an almost entirely preventable disease. In Kiribati, to date, the Australian Cervical Cancer Foundation (ACCF) has facilitated the vaccination of 3,000 girls thanks to special no-profit pricing of the Gardasil HPV vaccine.

*With the support of Australian Ethical Investment, ACCF has ensured that over 500 schoolgirls (aged 10 years old) will be vaccinated in 2016, by directly funding the purchase of the HPV vaccine. Tiero Areieto is the representative for the Ministry of Health and Medical Services assisting ACCF on the ground to ensure the vaccination program achieves its objectives. As the Cytologist & Women's Health Specialist in Kiribati, Tiero is thrilled to be working with ACCF to deliver this life-saving vaccine to young Kiribati girls. "Let me take this opportunity to thank you for the wonderful work Australian Cervical Cancer Foundation does for us and for the women of Kiribati. I tried to find an English word that I can say to express our heart-felt gratitude but couldn't so I'll just say thank you so much again."*



## Community Grant Recipient Highlight: Animal Aid Abroad – Egypt \$5000

Animal Aid Abroad has been involved with the welfare of animals in Egypt since 2007. In partnership with the Egyptian Society of Animal Friends (ESAF), in 2014, the organisation launched mobile animal clinics in the city of Port Said. Animal Aid Abroad works very hard to bring awareness and give assistance to grass roots groups in very poor regions of the world to help working animals.

Weekly clinics are sponsored solely by Animal Aid Abroad Inc. and veterinary treatment is provided by a team of ESAF vets and paravets. The clinics provide free treatment for horses, donkeys and other farm animals. Nose bands, fly veils and brochures in English and Arabic on horse and donkey care are also provided.

Australian Ethical's grant helped to buy medications and equipment for the clinics, which also helped to kick start the program sooner than planned. Animal Aid Abroad had already committed to funding weekly clinics in the Pyramids area and villages in Cairo and the Port Said and Cairo clinics are still operating, thanks in part to Australian Ethical.

Said a goat farmer in Port Said, *"We have never had anyone help us with our animals before. I am very happy and my family thank you."*

A donkey owner said, *"I have a family of seven and this donkey is all we have to make money to feed my family. He works hard to bring water to the city every day."*



## Australian Ethical Foundation

The Board of Australian Ethical approved the constitution of the new not-for-profit entity Australian Ethical Foundation Limited during the reporting year. The foundation will manage Australian Ethical's Community Grants program which has in previous years been managed through Australian Ethical Limited. A position will be created within Australian Ethical to help establish the Foundation and with initial management. At the time of writing this report, Australian Ethical is working towards making the Foundation a public ancillary fund to which individuals and organisations can make donations or bequests.

The creation of the Foundation will provide more flexibility for Australian Ethical to support the impact investment sector by defining a process around how we will invest in social enterprises by using social bonds and making loans to social enterprises.

## References

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Responsible Investment Association Australasia, (2015). *Responsible Investment Benchmark Report 2015 Australia*. [online]

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United Nations Principles for Responsible Investment. (2015). *Signatory base AUM hits \$59 trillion - Principles for Responsible Investment*. [online]

Unpri.org. Available at: <http://www.unpri.org/whatsnew/signatory-base-aum-hits-59-trillion/> [Accessed 17 Aug. 2015].

# Glossary

## All Ordinaries Index

A stock index comprised of the largest 500 companies listed on the ASX. The All Ordinaries Index is weighted by market capitalisation with the ASX responsible for calculating and distributing the index and its returns

## ASAE 3000 Assurance Standard

A standard that establishes requirements and provides application and other explanatory material regarding the assurance practitioner's responsibilities for accepting, conducting and reporting on assurance engagements other than audits or reviews of historical financial information covered by Australian Auditing Standards or Auditing Standards on Review Engagements

## ASX Corporate Governance Principles and Recommendations

Principles and Recommendations set out by the ASX Corporate Governance Council that recommends corporate governance practices for entities listed on the ASX that are likely to achieve good governance outcomes and meet the reasonable expectations of most investors in most cases

## Australian Council of Superannuation Investors

The Australian Council of Superannuation Investors (ACSI) provides independent research and advice to assist its member superannuation funds to manage environmental, social and corporate governance (ESG) investment risk

## Assets under Management (AUM)

The total market value of investments managed by a mutual fund, money management firm, hedge fund, portfolio manager, or other financial services company

## Australian Institute of Company Directors

A national organisation that is committed to excellence in corporate governance

## Basic earnings per share

A measurement of the amount of a company's profit that can be allocated to one share of its stock

## Climate Bond

A bond is a type of loan which companies, governments, and banks use to finance their projects or business. Climate bonds are used to finance – or re-finance - projects needed to address climate change. These projects range from wind farms, solar and hydropower plants, to rail transport and building sea walls in cities threatened by rising sea levels

## Climate Bonds Initiative

An organisation that promotes investment in projects and assets necessary for a rapid transition to a low-carbon and climate resilient economy

## Climate Bond Standard

A screening tool for investors and governments designed to assist them to assess climate and green bonds including the way funds raised by the issue of the bonds are used to deliver climate change solutions

## Cumulative returns

The aggregate amount that an investment has gained or lost over time, independent of the period of time involved

## Decarbonisation

The reduction or elimination of carbon dioxide and other greenhouse gas emissions from human activity

## Dividends

The distribution of a portion of a company's earnings, decided by the board of directors, to shareholders

## Financial Services Council (FSC)

A not-for-profit organisation that represent the interests of members, members' clients and customers, all investors and superannuation fund members, life insurance policy holders, users of financial advice and trustee services

## FTSE 100

A stock index comprised of the largest 100 companies listed on the London Stock Exchange. The Index is weighted by market capitalisation with the FTSE Group responsible for calculating and distributing the index and its returns

## Funds under Management

The market value of assets that an investment company manages on behalf of investors

## Future Economy Group

The Future Economy Group comprises business and environmental leaders who have joined forces to research and advocate for innovation and the recognition of the importance of natural capital to Victoria's economy

## Global Industry Classification Standard (GICS)

GICS is used as a basis for S&P and MSCI financial market indexes in which each company is assigned to a sub-industry, and to a corresponding industry, industry group and sector, according to the definition of its principal business activity

## International equities funds

A mutual fund that can invest in companies located anywhere outside of its investors' country of residence

## Mercer

A global consulting firm in investments and other areas

## Montreal Pledge

A program supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI). The pledge allows investors (asset owners and investment managers) to commit to measurement and disclosure of the carbon footprint of their investment portfolios

## MSCI World ex Australian Index

An index comprised of stocks in Developed Markets (excluding Australia). The Index is weighted by market capitalisation with MSCI Inc. responsible for calculating and distributing the index and its returns

## Net Promoter Score

An index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand

## Portfolio Decarbonisation Coalition

A multi-stakeholder initiative that will drive GHG emissions reductions on the ground by mobilising a critical mass of institutional investors committed to decarbonising their portfolios

## Proxy voting

A ballot cast by one person on behalf of another. One of the benefits of being a shareholder is the right to vote on certain corporate matters

## Responsible Investment Association Australasia (RIAA)

The peak industry body representing responsible and ethical investors across Australia and New Zealand

## S&P/ASX 100 Index

A stock index comprised of the largest 100 companies listed on the ASX. The index is weighted by market capitalisation with S&P responsible for calculating and distributing the index and its returns

## S&P/ASX 200 Index

A stock index comprised of the largest 200 companies listed on the ASX. The index is weighted by market capitalisation with S&P responsible for calculating and distributing the index and its returns

## S&P/ASX 300

A stock index comprised of the largest 300 companies listed on the ASX. The index is weighted by market capitalisation with S&P responsible for calculating and distributing the index and its returns

## S&P Small Industrials Index

An index comprised of stocks in the S&P/ASX 300 index but excludes stocks in the S&P/ASX 100 index. The index is weighted by market capitalisation with S&P responsible for calculating and distributing the index and its returns

## SG contributions

Superannuation Guarantee (SG) contributions are compulsory contributions to an individual's superannuation savings

## SMSF

Self-Managed Super Fund - a trust structure that can be used to manage retirement savings on behalf of its members

## Unconventional Gas

Gas that is found in complex geological systems and can be difficult to extract, requiring new technological solutions for extraction e.g. coal seam gas, shale gas, and tight gas

## UNPRI

United Nations Principles for Responsible Investment – a not for profit organisation that is instrumental in developing responsible investment awareness and capacity among the global investment community

## United Nations (UN) Women's Empowerment Principles

A set of principles for business offering guidance on how to empower women in the workplace, marketplace and community

## Workplace Gender Equality Agency

An Australian Government statutory agency created by the *Workplace Gender Equality Act 2012*. The Agency is charged with promoting and improving gender equality in Australian workplaces

# Appendix

## Our Material Issues

The Global Reporting Initiative sustainability reporting framework identifies stakeholder inclusiveness, understanding the sustainability context and relating the organisation's activities to the context, and materiality as key principles in defining report content – the first two principles informing the third - what is material to an organisation?

Our methodology for determining the issues material to Australian Ethical was further refined in this reporting year. A formal materiality assessment was once again undertaken specifically for the preparation of this report. It is important to note that the materiality matrix presented is a reflection only of the senior management team's views on how Australian Ethical's internal and external stakeholders view these topics, and does not represent the view of our other key stakeholder groups: clients, shareholders and employees. Our key stakeholder groups are identified as those on whom our activities directly impact, and in turn, can have a significant impact on the way we do business. Surveys were undertaken with these additional groups after the formal materiality assessment with the senior management team, and key areas of interest with these stakeholder groups are outlined further in the report. We hope to refine this process further in the preparation of the FY2016 Annual and Sustainability Report.

In future reports we will more fully embrace the stakeholder inclusiveness principle and present stakeholder views together with those of our internal stakeholders. Our materiality assessments will become more robust over time as we embed the process as a management tool within the company.

We do believe that the topics addressed throughout this report reflects that we understand the sustainability context of our business activities and impacts on our clients, shareholders, employees, and the world around us.

Various GRI Aspects were identified as material to Australian Ethical under each of the following key themes:

- Responsible Investment
- Responsibility to Employees
- Advocacy Activities
- Products and Services
- Responsibility to Clients
- Operational
- Corporate Governance
- Business Strategy

## Our methodology:

Potentially relevant topics sourced (69) from:

- Sustainability Accounting Standards Board (SASB) Asset Management and Custody Activities Research Brief
- International Integrated Reporting Council (IIRC) reporting framework
- FY2014 Materiality Assessment

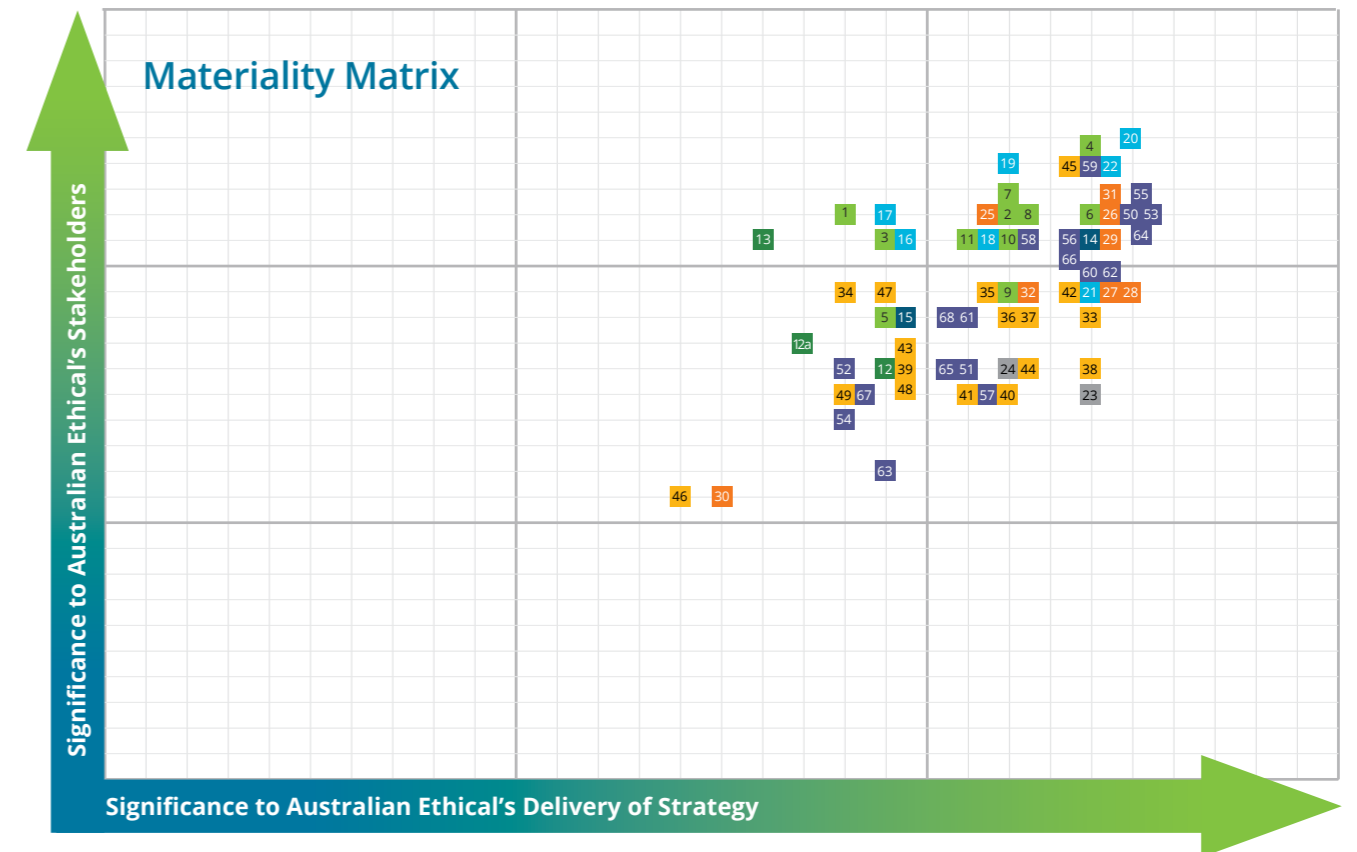
These topics fell within the broad category groups of Responsible Investment, Advocacy, Product & Services; Responsibility to Employees; Responsibility to Clients; Operational Matters; Governance and Business Strategy

Eight senior management staff (two additional staff to FY2014) were interviewed and asked to prioritise each topic in a materiality matrix

Responses were collated and averaged to provide a ranking for each topic

Validation of topics by Australian Ethical's Managing Director & CEO.

**Notes:**  
The GRI Aspects, and the boundary (internal and/or external to Australian Ethical) for each Aspect is identified in the GRI Content Index.  
Topics identified underneath each GRI Aspect are shown in the materiality matrix.



### Responsible Investment

- 1 Human rights
- 2 Unconventional energy products
- 3 Animal rights
- 4 Design to deliver environmental and/or social benefits
- 5 ESG risk assessment and management, incl. due diligence
- 6 Business strategy: climate change affecting business
- 7 Environmental and social aspects in long term strategies
- 8 Environmental impacts of investments, products and services
- 9 Audit screening and practices of environmental and social impacts of investments
- 10 Active ownership
- 11 Socially responsible investment and local development

### Advocacy Activities

- 12 Australian Ethical as an influencer in public policy
- 12a AEI role in influencing 'Big 4' bank disclosure
- 13 Community Grants & Sponsorships

### Products & Services

- 14 Product development
- 15 Provision of financial product advice

### Responsibility to Clients

- 16 Financial consumer protection
- 17 Financial literacy
- 18 Product disclosure and labelling
- 19 Customer privacy
- 20 Customer satisfaction
- 21 Marketing and ethical advertising
- 22 Access to services

### Operational

- 23 Supply chain management - outsourcing of functions
- 24 Data management

### Responsibility to Employees

- 25 Diversity and equal opportunity
- 26 Employee education and development
- 27 Employment conditions
- 28 Recruitment and retention
- 29 Compensation and benefits
- 30 Labour relations and union practices
- 31 Employee health, safety and wellness
- 32 Staff resourcing

### Corporate Governance

- 33 Solvency: internal controls and regulations
- 34 Adherence to international best practices/norms
- 35 Compliance
- 36 Executive board and remuneration and compensation schemes
- 37 Gender participation on governance bodies
- 38 Risk management
- 39 Voting policies: Voting shares for environmental or social issues

### Business Strategy

- 40 Regulatory and legal challenges
- 41 Policies, standards, codes of conduct
- 42 Business ethics and competitive behaviour
- 43 Shareholder engagement
- 44 Board structure and independence
- 45 Executive compensation
- 46 Lobbying and political contributions
- 47 Anti-corruption
- 48 Supply chain standards and selection
- 49 Supply chain engagement and transparency
- 50 Long-term value creation
- 51 Short-term value creation
- 52 Demographic changes affecting business
- 53 Economic performance
- 54 Access to new markets
- 55 Long term viability of core business
- 56 Accounting for externalities
- 57 Research, development and innovation
- 58 Product societal value
- 59 Product pricing
- 60 Product quality and safety
- 61 New competition in 'ethical' super
- 62 Falls in financial markets
- 63 Liability insurance
- 64 Investment strategies
- 65 Business continuity
- 66 Change in market conditions
- 67 B-Corp Certification
- 68 Growth and increased knowledge of ethical topics and activities by stakeholders

# GRI Content Index

General Standard Disclosures		Reference
<b>Strategy and Analysis</b>		
G4-1	Statement from the Managing Director	pp. 5, 6
G4-2	Key impacts, risks and opportunities	pp. 5, 6, 20, 21, 25-27, 35
<b>Organisational Profile</b>		
G4-3	Name of the organization	Front cover
G4-4	Primary brands, products, and services	pp. 10, 12
G4-5	Location of headquarters	p. 10
G4-6	Countries located	Australia only
G4-7	Nature of ownership and legal form	p. 13
G4-8	Markets served	pp. 17, 18
G4-9	Scale of the organisation	pp. 10, 12, 38
G4-10	Employee profile	p. 47
G4-11	% of employees covered by collective bargaining agreements	No employees (0%) are covered by collective bargaining agreements
G4-12	Supply chain	p. 15
G4-13	Significant changes in the reporting period	Australian Ethical Investment Limited Annual Report 2015 p. 14
G4-14	Precautionary approach/principle	pp. 22, 23
G4-15	Commitments to externally developed economic, environmental and social charters, principles, or other initiatives	pp. 14, 25-30
G4-16	Memberships	p. 14
<b>Identified Material Aspects and Boundaries</b>		
G4-17	Entities included in reporting	p. 2
G4-18	Process for defining the report content and the Aspect Boundaries and implementation of the Reporting Principles for Defining Report Content	p. 57
G4-19	Material Aspects identified in the process for defining report content	p. 57
G4-20	Internal Aspect Boundaries	GRI Content Index
G4-21	External Aspect Boundaries	GRI Content Index
G4-22	Restatements from previous reporting periods	There are no restatements from the previous reporting periods
G4-23	Significant changes from previous reporting periods in Scope and Aspect Boundaries.	There are no significant changes from previous reporting periods in Scope, Aspect or Boundary.

General Standard Disclosures		Reference
<b>Stakeholder Engagement</b>		
G4-24	Stakeholder groups engaged by Australian Ethical	pp. 17, 18, 27-31, 57
G4-25	Basis for identification and selection of stakeholders	pp. 17, 18, 27-31, 57
G4-26	Approach to stakeholder engagement	pp. 17, 18, 27-31, 57
G4-27	Key topics and concerns raised through stakeholder engagement, and responses	pp. 17, 18, 27-31, 57
<b>Report Profile</b>		
G4-28	Reporting period	p. 2
G4-29	Previous report	Australian Ethical Investment Limited Annual and Sustainability Report 2014
G4-30	Reporting cycle	Annual
G4-31	Contact details	p. 1
G4-32	'In accordance' option	p. 2
G4-33	Policy and current practice in seeking external assurance for the report, including scope and basis of any external assurance	p. 2
<b>Governance</b>		
G4-34	Governance structure and committees	p. 13
G4-35	Process for delegating authority for sustainability topics from the highest governance body to senior executives and other employees	Australian Ethical Investment Limited Annual Report 2015 p.33
G4-36	Executive level position with responsibility for sustainability topics	Head of Ethics
G4-37	Processes for consultation between stakeholders and the highest governance body on sustainability topics	pp. 17, 19. An ethics report is prepared by the Head of Ethics, which, coupled with the Managing Directors Report provides information on sustainability topics which is presented to the Board.
G4-38	Composition of the highest governance body and its committees	Australian Ethical Investment Limited Annual Report 2015 p. 33
G4-39	Chair as an executive officer and his function	Australian Ethical Investment Limited Annual Report 2015 pp. 34, 35
G4-40	Nomination and selection processes for the highest governance body and its committees	Australian Ethical Investment Limited Annual Report 2015 p. 33.

General Standard Disclosures		Reference
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed and communication to stakeholders	Australian Ethical Investment Limited Annual Report 2015 p. 36
G4-42	Highest governance body's and senior executives' roles in the development, approval and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to sustainability impacts.	Australian Ethical Board Charter: <a href="https://www.australianethical.com.au/wp-content/uploads/2015/05/AEI_Board-Charter_Final_9-July-2015.pdf">https://www.australianethical.com.au/wp-content/uploads/2015/05/AEI_Board-Charter_Final_9-July-2015.pdf</a> and Australian Ethical Investment Limited Annual Report 2015 p. 33
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of sustainability topics	Australian Ethical Investment Limited Annual Report 2015 p. 34. Updates on ethical frameworks and ethical reports are also provided by Head of Ethics
G4-44	Processes for evaluating the highest governance body's performance with respect to the governance of sustainability topics, and independence and frequency. Actions taken in response to evaluation of the body's governance performance on sustainability topics.	Australian Ethical Investment Limited Annual Report 2015 p. 34. No formal processes exist for evaluating the Board's governance of sustainability topics.
G4-45	Highest governance body's role in identifying and managing sustainability impacts, risks and opportunities, including the highest governance body's role in implementing due diligence processes and the role of stakeholder consultation in supporting the body	The Board manages sustainability risks, impacts and opportunities through the risk register and corporate strategy. Due diligence is undertaken monthly by the senior management team and Ethical Advisory Group and reported to the Board.
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for sustainability topics	Australian Ethical Board Charter: <a href="https://www.australianethical.com.au/wp-content/uploads/2015/05/AEI_Board-Charter_Final_9-July-2015.pdf">https://www.australianethical.com.au/wp-content/uploads/2015/05/AEI_Board-Charter_Final_9-July-2015.pdf</a>
G4-47	Frequency of the highest governance body's review of sustainability impacts, risks and opportunities	Reviews take place at a minimum annually as per requirements of the risk management strategy. Strategic planning takes place biannually.
G4-48	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered.	The Managing Director and General Counsel approve the material Aspects to be reported on and provides final approvals of the sustainability report.

General Standard Disclosures		Reference
G4-49	Process for communicating critical concerns to the highest governance body	The Managing Director has the authority to escalate critical matters to the Board. Board meetings take place four to six times per year. If the concern is related to a compliance issue, the Compliance Manager has a reporting line and obligation to report to the Chair of the Audit Committee, who in turn is a Non-Executive Director. The Company Secretary has a reporting line to the Chair of the Board.
G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanisms used to address and resolve them	There were no critical concerns that needed to be communicated to the Board during the reporting year.
G4-51	Remuneration policies for the highest governance body and senior executives	Australian Ethical Investment Limited Annual Report 2015 pp. 18, 23 pp. 73, 78
G4-52	Process for determining remuneration and relationship with remuneration consultants if used	Australian Ethical Investment Limited Annual Report 2015 p. 31
G4-53	Process to seek stakeholder views on remuneration, including the results of votes on remuneration policies and proposals	p. 42, Australian Ethical Investment Limited Annual Report 2015 p. 31
G4-54	Ratio of the annual total compensation for the organisation's highest paid individual to the median annual total compensation for all employees	2.96:1
G4-55	Ratio of % increase in annual total compensation for the organisation's highest paid individual to the median % increase in annual total compensation for all employees	78.68:1. The highest paid individual's salary decreased by 5% and the median salary increased by 0.1%
Ethics and Integrity		
G4-56	Code of ethics	Australian Ethical Investment Limited Annual Report 2015 p. 35
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity such as helplines or advice lines	pp. 44-46
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisational integrity through line management, whistleblowing mechanisms or hotlines	pp. 16, 46



Specific Standard Disclosures			
Disclosures on Management Approach & Indicators	Reference	Notes	Internal or External Boundary (I/E)

**Category: Economic**

**Economic Performance**

G4-DMA		pp. 7, 23, 24		
G4-EC1	Direct economic value generated and distributed	pp. 7-9, 36, 37, 49-51 Annual Report pp. 23, 24, 59	Australian Ethical has no matched giving process. Where staff or customers donate this is not tracked. There are also no community partnerships in place nor in-kind contributions. Management costs are not accounted for in our community giving activities.	I & E
G4-EC2	Financial implications, risks and opportunities for the organisation's activities due to climate change	pp. 5, 6, 20, 25-27		
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Not applicable	Not relevant as staff members are free to choose their own superannuation fund. The company's liability is limited to make the Superannuation guarantee contributions.	
G4-EC4	Financial assistance received from government	Not applicable	No financial assistance is received from the government	

**Category: Environment**

**Supplier Environmental Assessment**

G4-DMA		pp. 23, 24		
G4-EN32	% of new suppliers that were screened using environmental criteria	p. 23		E
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	p. 28		

Specific Standard Disclosures			
Disclosures on Management Approach & Indicators	Reference	Notes	Internal or External Boundary (I/E)

**Category: Social (Sub-category: Labour Practices and Decent Work)**

**Employment**

G4-DMA		p. 42		
G4-LA1	Number and rate of new employee hires and employee turnover by age group, gender and region	pp. 47, 48		I
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 45	Part time employees enjoy benefits at a pro-rata level. Independent contractors and agency temps are not eligible for benefits	
G4-LA3	Return to work and retention rates after parental leave by gender	Not applicable	Only one person has taken paternal leave for two weeks during the reporting year	

**Labour and Management Relations**

G4-DMA		p. 45		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specific in collective agreements	Not applicable	Minimum notice periods are not specified in contracts.	I

**Occupational Health and Safety**

G4-DMA		p. 45		
G4-LA5	% total workforce represented in formal joint management/worker health and safety committees that help monitor and advise on OHS programs	Not applicable	Australian Ethical does not have nor is obliged to have a worker health and safety committee.	
G4-LA6	Type of injury, rates of injury, occupational diseases, lost days, absenteeism and number of work related fatalities	p. 45	No absenteeism as a result of injury. One female and one male recorded injury.	
G4-LA7	Workers with a high incidence or high risk of diseases related to their occupation	Not applicable	Australian Ethical does not work in an environment that poses threat or risk of injury or disease.	
G4-LA8	Health & safety topics covered in formal agreements with trade unions	Not applicable	Australian Ethical employees are not represented by trade unions	

Specific Standard Disclosures			
Disclosures on Management Approach & Indicators	Reference	Notes	Internal or External Boundary (I/E)
<b>Training and Education</b>			
G4-DMA		p. 42	
G4-LA9	Average hours of training per year per employee by gender and employee category	p. 48	I
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Not applicable	A transitional assistance program for employees leaving Australian Ethical does not formally exist, however, would certainly be provided if deemed necessary.
G4-LA11	% of employees receiving regular performance and career development reviews by gender and employee category	p. 44	
<b>Diversity and Equal Opportunity</b>			
G4-DMA		pp. 42-44	
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	p. 43	I
<b>Supplier Assessment for Labour Practices</b>			
G4-DMA		pp. 23, 24	
G4-LA14	% of new suppliers that were screened using labour practices criteria	p. 15	E
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	Not applicable	No negative labour practices impacts were identified

Specific Standard Disclosures			
Disclosures on Management Approach & Indicators	Reference	Notes	Internal or External Boundary (I/E)
<b>Category: Social (Sub-category: Human Rights)</b>			
<b>Investment</b>			
G4-DMA		p. 23	
G4-HR1	Number and % of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	p. 23	E
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including % of employees trained	Not applicable	No employees were trained on human rights policies or procedures
<b>Supplier Human Rights Assessment</b>			
G4-DMA		pp. 23, 24	
G4-HR10	% of new suppliers screened using human rights criteria	pp. 15, 23	E
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Not applicable	No negative human rights practices impacts were identified
<b>Category: Social (Sub-category: Product Responsibility)</b>			
<b>Product and Service Labelling</b>			
G4-DMA		p. 16	
G4-PR3	Product and service information required by Australian Ethical procedures for product and service information and labelling, and % of significant product and service categories that are subject to this.	p. 16	I
G4-PR4	Number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by outcome	Not applicable	There were no substantiated incidents of non-compliance with regulations and voluntary codes

Specific Standard Disclosures			
Disclosures on Management Approach & Indicators	Reference	Notes	Internal or External Boundary (I/E)
G4-PR5	Results of surveys measuring customer satisfaction	p. 17	
<b>Marketing and Communications</b>			
G4-DMA		p. 16	
G4-PR6	Sale of banned or disputed products	pp. 5, 6	
G4-PR7	Incidents of non-compliance with regulations and voluntary codes concerning marketing communications by type of outcome	Not applicable	There were no incidences of non-compliance with regulations and voluntary codes concerning marketing communications
<b>Customer Privacy</b>			
G4-DMA		p. 16	
G4-PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Not applicable	There were no substantiated complaints regarding customer privacy
<b>Compliance</b>			
G4-DMA		p. 16	
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not applicable	\$0 – there were no fines for non-compliance
<b>Product Portfolio</b>			
DMA		pp. 22-24, 39	
FS6	% of portfolio for business lines by region, size and sector	p. 38	The Australian Ethical Charter screens for risks in environmental and social impact. Australian Ethical does not collect data on the size of companies within its investment portfolio on number of employees.
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose		All of Australian Ethical's products and services are designed to benefit society and the environment, however, they are not broken down by purpose

Specific Standard Disclosures			
Disclosures on Management Approach & Indicators	Reference	Notes	Internal or External Boundary (I/E)
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose		All of Australian Ethical's products and services are designed to benefit society and the environment, however, they are not broken down by purpose
<b>Audit</b>			
DMA		p. 24	
<b>Active Ownership</b>			
DMA		p. 32	
FS10	% and no. of companies held in the portfolio with which the reporting organisation has interacted on environmental or social issues	p. 27	E
FS11	% of assets subject to positive and negative environmental or social screening	p. 23	
<b>Category: Social (Sub-category: Society)</b>			
<b>Supplier Assessment for Impacts on Society</b>			
G4-DMA		pp. 23, 24	
G4-SO9	% of new suppliers that were screened using criteria for impacts on society	pp. 15, 23	E
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	Not applicable	No negative societal practices impacts were identified

# Independent Assurance Statement



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## Independent Limited Assurance Report in relation to Australian Ethical Investment Limited

To the Management and Directors of Australian Ethical Investment Limited

We have carried out a limited assurance engagement in order to state whether anything has come to our attention that causes us to believe that the subject matter detailed below ('Subject Matter'), and as presented in the Australian Ethical Investment Limited Sustainability Report 2015 ('the Report'), has not been reported and presented fairly, in all material respects, in accordance with the criteria ('Criteria') below.

### Subject Matter

The Subject Matter for our limited assurance engagement included:

- Selected sustainability performance data ('Selected Performance Data') listed in Table 1 for the year ended 30 June 2015.

Table 1: Selected Performance Data

Data	GRI Indicator and Description
Active ownership	FS10: Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues
Parental leave	G4-LA3: Return to work and retention rates after parental leave, by gender
Gender diversity	G4-LA12: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity
Governance	G4-40: Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members
Ethics and integrity	G4-58: Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.
Remuneration	G4-54: Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country
	G4-55: Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.

The subject matter did not include:

- Data sets, statements, information, systems or approaches other than the Selected Performance Data and related disclosures
- Management's forward looking statements
- Any comparisons made against historical data.

### Criteria

The following criteria have been applied:

- Global Reporting Initiative Sustainability Reporting Guidelines ('GRI G4') available at <https://www.globalreporting.org/resource/library/GRI-G4-Part2-Implementation-Manual.pdf>
- Global Reporting Initiative Financial Services Sector Disclosures based on the Financial Services Sector Supplement ('GRI G4') available at <https://www.globalreporting.org/resource/library/GRI-G4-Financial-Services-Sector-Disclosures.pdf>

### Management's Responsibility

The management of Australian Ethical Investment Limited is responsible for the preparation and fair presentation of the Subject Matter in accordance with the Criteria, and is also responsible for the selection of methods used in the Criteria. No conclusion is expressed as to whether the selected methods are appropriate for the purpose described above. Further, Australian Ethical Investment Limited's management is responsible for establishing and maintaining internal controls relevant to the preparation and presentation of the Subject Matter that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate criteria; maintaining adequate records and making estimates that are reasonable in the circumstances.

### Assurance Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Subject Matter based on our assurance engagement conducted in accordance with the Australian Standard on Assurance Engagements 3000 (revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ASAE 3000') and the terms of reference for this engagement as agreed with Australian Ethical Investment Limited.

Our procedures were designed to obtain a limited level of assurance on which to base our conclusion, and, as such, do not provide all of the evidence that would be required to provide a reasonable level of assurance. The procedures performed depend on the assurance practitioner's judgement including the risk of material misstatement of the Subject Matter, whether due to fraud or error. While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls.

Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems, which would have been performed under a reasonable assurance engagement.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

### Summary of Procedures Undertaken

Our procedures included but were not limited to:

- Conducting interviews with key personnel to understand the process for collecting, collating and reporting the Selected Performance Data during the reporting period
- Checking that the calculation criteria have been correctly applied as per the methodologies outlined in the Criteria
- Identifying and testing assumptions supporting calculations

### Use of our Limited Assurance Engagement Report

We disclaim any assumption of responsibility for any reliance on this assurance report, or on the Subject Matter to which it relates, to any persons other than management and the Directors of Australian Ethical Investment Limited or for any purpose other than that for which it was prepared.

### Independence and Quality Control

In conducting our assurance engagement, we have met the independence requirements of the APES 110 Code of Ethics for Professional Accountants. We have the required competencies and experience to conduct this assurance engagement.

### Limited Assurance Conclusion

Based on the limited assurance procedures conducted, nothing has come to our attention that causes us to believe that the Selected Performance Data for the year ended 30 June 2015, as reported in Australian Ethical Investment Limited Sustainability Report 2015, have not been reported and presented fairly, in all material respects, in accordance with the Criteria.

Dr Matthew Bell  
Partner, EY  
Sydney, Australia  
20 October 2015

Ernst & Young



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Australian Ethical Investment Ltd (ABN 47 003 188 930; Australian Financial Services Licence No. 229949) is the Responsible Entity and Investment Manager of the Australian Ethical Managed Investment Funds. Interests in the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743; Fund Registration No. R1004731) are offered by Australian Ethical Investment Ltd by arrangement with its subsidiary and trustee of the Super Fund, Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733, Registrable Superannuation Entity Licence No. L0001441).

The information contained in this Update is general information only, and does not take into account your individual investment objectives, financial situation or needs. Before acting on it, you should consider seeking independent financial advice that is tailored to suit your personal circumstances and should refer to the Financial Services Guide, Product Disclosure Statements and Additional Information Booklets available on our website ([www.australianethical.com.au](http://www.australianethical.com.au)).

Certain statements in this Update relate to the future. Such statements involve known and unknown risks and uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from expected future results. Australian Ethical Investment Ltd does not give any representation, assurance or guarantee that the events expressed or implied in any forward looking statements in this Update will actually occur and you are cautioned not to place undue reliance on such statements.

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