



Sustainability Report 2018

MAKING
IT REAL

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Year in review

The last year in particular has been a tumultuous one in financial services as the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) has highlighted institutionalised behaviours that have been shocking but not wholly unexpected. We believe the cultural weakness that allows such behaviours to exist, points to a system that is still based on maximising profit at all costs.

It is therefore not surprising we are seeing a deterioration of trust in all institutions in Australia¹. Even before moves against former Prime Minister Malcolm Turnbull, trust and confidence in the federal government had ebbed from 82% in 2008 to 46% in May 2018.² Australian Ethical has a unique leadership opportunity under these circumstances, because 65% of those surveyed trust businesses, in particular CEOs, to take the lead on change and not wait for government to impose it.

This demand for ethical leadership will only accelerate over time, as the millennial generation have high expectations that business should be a force for positive social change³. By 2025, this socially engaged group will represent 75% of the workforce⁴.

This reset of expectations is gaining recognition and is translating into a real shift in the allocation of capital, with more than half (56%⁵) of Australia's investments now being invested through some form of responsible investment strategy. What's more, over the 12 months of FY18 there was a 188% increase in core responsible investment funds, those using negative or positive screening, a sustainability themed approach, impact investment or community finance. This is heartening to see but consumers must be vigilant to ensure 'green' marketing slogans are matched by a rigorous and responsible approach to investing.

Australian Ethical has had more than 30 years' experience applying the principles of our broad-based ethical charter to ensure our investments align with a sustainable future. We are true to our ethical label through and through. The way we invest, the way we recruit, the way we treat our employees and suppliers, the decisions made by our Trustee, are all governed by our Ethical Charter.

Our own growth story demonstrates that people are recognising and responding to this value proposition. Our year-on-year growth has been phenomenal. In just three years from 1 July 2015 we grew funds under management by 33%, 38% and 31% respectively. In 2018 we grew our super membership by 17% to 41,518, this on the back of significant growth in 2016 and 2017, making us the fastest growing super fund in Australia over the last five years.⁶ This is in an industry where the average growth in member numbers per fund declined by 1% in 2017⁶.



“ In 2017 I was lucky enough to visit Kenya and to meet Sudan the last male northern white rhinoceros. I met the rangers and learnt about their conservation program. It was awful to hear about his passing in March this year. Seeing a species disappear before your eyes makes our mission even more compelling and urgent. We'll never get them back.

Climate change is having an impact on the wellbeing of our planet. We use the power of good money to help combat the most critical challenge of our generation. We need to make this challenge real for people, so capital is moved away from the damaging and depleting economy and into the new economy of renewable, sustainable, future-building endeavour.”

Phil Vernon, Managing Director and CEO, Australia Ethical

Year in review (continued)

Challenges

Our growth has presented us with operational challenges. In 2017 our employees led a comprehensive and transparent unit pricing error rectification process, true to our commitment to member outcomes. Not surprisingly under these stressful circumstances which included managing record member growth, our employee engagement survey⁷ results declined from the 70%^s into the 50%^s. This result was of great concern to the Board and the senior leadership team and we responded by investing in additional resources and capabilities, restructuring for scalability and with a concerted focus on employee communication and wellbeing programs. These initiatives have paid off. Our May 2018 employee engagement survey places us back in the top quartile of employers at 78%⁸, a result backed up by a modest employee turnover rate of 12%.

Given the growth in responsible investing, there is no surprise we have seen increased competition. Mainstream funds and investment managers are introducing 'sustainable' choices for customers and focusing on this aspect in their marketing. We welcome the awakening of the power of good money, but are concerned

that some of these providers are using sustainability as a marketing opportunity rather than a belief system. This clamour for the 'green dollar' has particularly manifested itself in digital advertising, where significant demand has led to increased costs.

Increased scrutiny

This year saw a substantial step up in scrutiny from government and regulators. As part of ongoing consultation the Productivity Commission presented its proposals for the future of Super. We believe its focus on member outcomes is a welcome reminder to the industry that we are here for our members, not just our shareholders. If the proposed concept of the 'best in show' shortlist is introduced, we believe it is critical that any shortlisted superfund should be required to demonstrate it has rigorously integrated Environmental, Social and Governance (ESG) factors into its investment decision making. Indeed, we believe disregarding ESG will expose super members to serious financial risks, and said as much in our submission to the Productivity Commission. We also recommended to the Commission that any shortlist should include at least one ethical investment option.

Advocacy

From an advocacy perspective we engaged with more than 300 companies during the year, either directly or collaboratively to influence them to make a positive change on an issue of concern during the year. We were particularly pleased that two companies we engaged with directly are stopping services to live animal exporters and one bank ruled out any new thermal coal lending.

Fully-featured products

We continued to enhance our product offering in 2018. As part of our transition to our new super administrator we introduced forward daily unit pricing, bringing us in line with industry best practice. For our managed fund clients we introduced a wholesale version of our Balanced Fund, to complete the suite of wholesale investment options.

During the period we elected into a new tax regime for our managed funds. The new attribution managed investment trust (AMIT) regime enables our funds to carry forward under-distributed and over-distributed amounts without any adverse administrative tax consequences. These changes did not impact our funds' distribution policy.



In 2018, a greater proportion of wholesale flows in the revenue mix contributed to reduced revenue margins. In FY19, we have planned fee reductions for some of our retail managed funds, along with reductions for select options in our super fund which will also have an impact in revenue.

A raft of regulatory Super changes including the new \$1.6 million transfer cap limiting the amount that can be transferred from super to the pension phase, the reduction of the concessional and non-concessional contribution caps and changes to the tax treatment of transition to retirement members came into effect from 1 July 2017. New fees and costs disclosure requirements for super and managed funds also went live from 1 July 2017. Australian Ethical successfully implemented these moves towards greater transparency and comparability.

Transparency

We continue to adapt best practice when it comes to transparent reporting. This year we have chosen to report to a number of sustainability standards and frameworks, including the Global Reporting Initiative (GRI) Standards, the Taskforce on Climate Related Disclosures (TCFD), and the

Sustainable Development Goals (SDGs).

We have chosen these in particular as they align with our commitment to transparently report how we conduct our business, and allow us to incorporate current, emerging and future sustainability issues into our business model.

As part of our GRI reporting process this year, we conducted a formal materiality assessment with Australian Ethical's employees, senior management and the Board specifically to prepare for this report. The methodology and outcomes of the materiality assessment are outlined in the following pages.

I hope you enjoy reading the Australian Ethical 2018 Sustainability Report.

PHIL VERNON
Managing Director and
Chief Executive Officer

1. 2018 Edelman Trust Barometer
2. Griffith University and Transparency International survey, May 2018
3. Deloitte's Seventh Annual Millennial Survey, May 2018
4. Millennials – the global guardians of capital, UBS, June 2017
5. 2018 Responsible Investment Benchmark Report, Responsible Investment Association of Australasia (RIAA)
6. Super Insights Report 2018, KPMG
7. Aon Hewitt Best Employers 2017
8. Aon Hewitt Best Employers 2018

Year in review

\$2.8 billion
IN FUNDS UNDER MANAGEMENT



\$36 million
REVENUE

\$5 million
PROFIT AFTER TAX



35.3%
RETURN ON EQUITY*



467 cents
BASIC EARNINGS PER SHARE

41,500+ SUPER MEMBERS

119,000+ FOLLOWERS ON SOCIAL MEDIA

17% INCREASE SINCE FY17

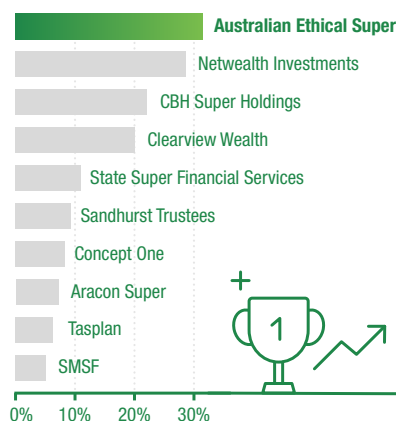
ENGAGEMENT OF 225%¹

No.1

FASTEST GROWING SUPER FUND

in Australia over the last five years by number of members²

AVERAGE ANNUAL MEMBER GROWTH



NET FLOWS

UP
14%

SHARE INVESTMENTS PRODUCED

66% less CO₂



THAN BENCHMARK^{3^}



Nil INVESTMENT IN FOSSIL FUELS⁴



Best for the World

STATUS BY B CORPS⁶



Nil INVESTMENT IN NUCLEAR⁵

6x more



INVESTMENT IN RENEWABLE POWER GENERATION THAN THE GLOBAL SHARE MARKET⁷

\$710,000



PROVISIONED FOR COMMUNITY IMPACT IN FY19

Equality in leadership

BOARD COMPOSITION



+48 NPS

NET PROMOTER SCORE FOR OUR MANAGED FUNDS⁸



+78%

EMPLOYEE ENGAGEMENT⁹

+53 NPS

NET PROMOTER SCORE FOR OUR SUPER FUND⁸

1. Sprout Social statistics as at 30 June 2018 2. KPMG Super Insights Report 2018. Published 16 May 2018 3. Emissions intensity of Australian Ethical share investments compared to benchmark of S&P ASX 200 Index (for Australian shareholdings) and MSCI World ex Australia Index (for international shareholdings). Calculated as at 31 December 2017 4. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). 5. A report by PAX and the International Campaign to Abolish Nuclear Weapons (ICAN) noted Australian Ethical as the only Australian firm to make it on the 'Hall of Fame' list. (Do not invest in any nuclear associated companies and applied no revenue threshold for companies for manufacture of weapons, uranium mining, and nuclear generation.) 6. Recognised by B Lab as 2018 Best for the World (top 10%) of companies in the category of Governance 7. Proportion of our share investments in renewable power generation compared to global share market 8. Australian Ethical Brand Research, Pollinate, March 2018. 9. Aon Hewitt Best Employers 2018

* Attributable to shareholders ^ Assured by KPMG.

Three year scorecard

How we are measuring our progress

- Growth in good money measured by funds under management and growth in super members
- Good governance of our business measured by sustainable profit and share price
- Progress towards a net zero emissions investment portfolio by 2050 measured by our CO₂ equivalent emissions versus the benchmark* and our proportional investing in renewables to support the transition to a two degree+ world
- Alignment of our sustainability impact to the global Sustainable Development Goals
- Tracking of companies engaged with and outcomes of advocacy
- Growth in funding provided for community impact
- Stakeholder satisfaction is measured by the annual employee engagement survey and annual Net Promoter Surveys (customer satisfaction) conducted for members and investors.

Metric		2016	2017	2018	Trend	Page
Growth in good money	Total FUM	\$1.56bn (+78%)	\$2.15 bn (+38%)	\$2.82 bn (+31%)	●	3
	Super members	26,342 (+24%)	35,352 (+34%)	41,518 (+17%)	●	3
Good governance	Profit after tax	\$3.0 m	\$2.9 m	\$5.0 m	●	8 Annual Report
	Share price	\$81.11	\$94.60	\$135.00	●	38
Net zero emissions by 2050	Operational Scope 1 & 2 emissions [#]	44.2	41.5	50.0	●	26
	Operational Scope 3 emissions [#]	75.4	36.6	36.5	●	26
	Offsetting of Scope 1, 2 & 3 emissions	100%	100%	100%	●	26
	Carbon intensity of share investments compared to benchmark*	40% less	66% less	66% less	●	25
	Proportion of our share investments in renewable power generation compared to global share market	n/a	n/a	6 x	●	26
Sustainability impact	Alignment to the global SDGs	n/a	2.2 x benchmark*	3.4 x benchmark*	●	28
Engaging for good	Companies engaged with through advocacy	76	More than 80	More than 300	●	30
	\$ provisioned for community impact	\$220,000	\$280,000	\$710,000	●	40
	Social media community	100,000	110,000+	119,000+	●	37
Stakeholder satisfaction	Managed fund NPS	n/a	n/a	+48	●	36
	Super NPS	+55	+55	+53	●	36
	Employee Engagement	77%	55%	78%	●	34

* The Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian share holdings) and MSCI World ex Australia Index (for international share holdings).

[#] Units are tonnes of CO₂ emissions per annum (tCO₂-e p.a.)

+ The 2015 United Nations Climate Change Conference held in Paris from 30 November to 12 December 2015 set a target to limit global temperature rise to two degrees Celsius, the temperature threshold it determined was necessary to avert some of the most severe effects of climate change.

For over 30 years we have been true to our Ethical Charter. Our employees, our clients and, our shareholders choose us because:

We are
**FOSSIL-FUEL
FREE¹**

We are
**TOBACCO
FREE**

We are
**NUCLEAR
WEAPONS
FREE**

WE DO NOT invest in businesses involved in cruelty to animals

WE DO invest in sustainable, future-building businesses

WE PRIDE ourselves on our ethical business practices

WE ACTIVELY ENGAGE with businesses to advocate for positive change

WE OFFER a comprehensive range of investment options catering to all risk appetites

WE DONATE 10% of our profits² to not-for-profit organisations

¹ Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). Assured by KPMG

² Before deducting bonus and grant expense.

An ethical approach to business

We believe that the power of money can be harnessed to deliver both competitive returns and positive change for society and the environment.

Since our inception in 1986, our Ethical Charter has guided all investment decisions and underpinned our business practices.

The four strategic pillars of our business

- 1 Ethical leadership**
Be a bold ethical voice and drive change for good.
- 2 Professional investment management**
Deliver long term competitive financial returns for our clients.
- 3 Sustainable business**
Be of a scale that meets customer needs, shareholder returns and delivers significant social and environmental impact.
- 4 Competitive products**
Offer a unique set of fully featured ethical wealth management products for the conscious consumer

Our business model

We offer investment solutions for the conscious consumer. Our customers can choose from a suite of eight managed funds, or from the 13 investment options offered in our super fund, safe in the knowledge that all the underlying companies and investments in our portfolio have passed our comprehensive ethical screening process[^]. We publish the names of our [investee companies](#) on our website.

Our inhouse investment team manage the investments of the fund, working closely with the inhouse ethics research team to ensure all of our investments both meet our Ethical Charter and deliver sustainable, competitive returns.

Customers can access our products directly via our online forms or by contacting our client services team. Customers may also access us through their employer, where Australian Ethical Super is their default fund, via a choice selection, or through their financial adviser.

OUR PRODUCTS



Australian Ethical Super

- 7 ethical investment options
- Default Death & TPD insurance
- Voluntary income protection
- Flexible additional cover available



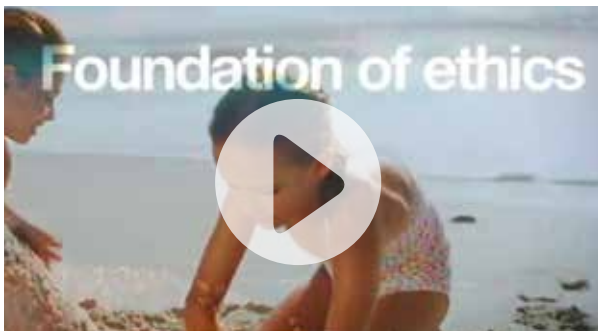
Australian Ethical Pension

- 6 ethical investment options
- Flexible payment options
- Reversionary beneficiary available
- Minimum investment \$30K



Australian Ethical Managed Funds

- 30-year performance track record
- 9 ethical managed funds
- Retail and wholesale pricing options
- Minimum retail investment \$500



youtube.com/watch?v=a_fuQE9PoEQ

[^] Assured by KPMG. Please note the Advocacy Fund has provision to buy shares in companies that don't pass our ethical charter for the purposes of advocacy.



An ethical approach to business

Managing risk

As our business grows, it is vital our business model and processes are fit for purpose. In FY18 we conducted a comprehensive review of our risk management practices, with particular focus on the super side of the business.

This review was conducted at every level of the business and included a risk workshop with the Board and senior management team to identify and confirm the material risks. With these outcomes to guide us, we then implemented a new risk management framework to place risk awareness at the start of every conversation.

On a more tactical level, we reviewed all the relevant policies and procedures to make them more meaningful and usable on a day-to-day basis. Finally we coordinated a bottom-up review with all staff to confirm the requirements of our Business Continuity Plan.

Ethical supply chain

We invest and manage our business, conscious of our impact on the world around us. As this diagram shows, key inputs to our supply chain are major outsourced functions required to 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. We also screen investee companies for alignment with our Ethical Charter. Where possible we source certified B Corporations as providers.

During the reporting year, we changed to Mercer as administrator of our super fund. We also divested from AMP when its non-compliance with our Ethical Charter became evident in the proceedings of the Royal Commission.



Mercer - super fund administrator
Metlife - insurance to super fund members
Boardroom - registry provider for managed funds
National Australia Bank - custodial services, banking and lending facilities
KPMG - auditors

INPUT
 Major outsourced functions

INPUT
 Investee companies



OUTPUT
 Ethically screened super, pensions and managed funds



INTERMEDIARIES
 Advisers, platforms and employers



RECIPIENT
 Super and pension members, managed fund investors



RECIPIENT
 Grants made to not-for-profit organisations through the Australian Ethical Foundation and impact investments



GOOD BUSINESS
 Capital directed to and advocacy for, better business

Ethical investing – the heart of

Our Ethical Charter requires us to grapple with complex problems and far-reaching consequences and to examine issues on their merits from many angles. Our Charter is the compass we use to navigate through the ethical complexities of our investment and business decisions.

We have managed our clients’ money with the utmost care and responsibility for over 30 years. During this time the Charter has remained unchanged. We offer a suite of ethical investment options designed to cater to every risk profile. All our investments are governed by the same rigorous ethical investment process.

We have shown that you do not need to compromise on long-term performance if you choose to invest ethically. In fact, we believe that incorporating ethics into our investment process actually helps us identify investment risks and

opportunities earlier than most other funds.

For example, we have been assessing companies’ exposure to climate change risk for decades, not years. And we have been investigating which companies will thrive in a world where an ageing demographic is a significantly dominant force.

We construct our portfolios to be well diversified, and actively look for ‘future-building’ investments that will drive a sustainable economy and society, while delivering returns for our investors.

The investable universe

Investment ideas come from many sources, from our investment analysts scouring the markets for good investment opportunities, our portfolio managers filtering potential investments that match the portfolio criteria, or from our ethics research

analysts screening the global equity market for companies that meet our ethical criteria.

Our assessment of a possible investment idea against the Charter is neither one-dimensional nor static. If on balance, we believe a business is beneficial for the long-term benefit of the planet, people or animals, then we can make the investment and apply our influence to help achieve that goal. On the other hand, if a business is initially assessed as aligned with our Charter, but over time makes a change that moves them out of alignment, we will attempt to influence them back to the right path, or divest.

Once an investment has met the Charter, our investment team employs their more than 100-years of aggregate investment know-how to make the best investment decisions for our clients.

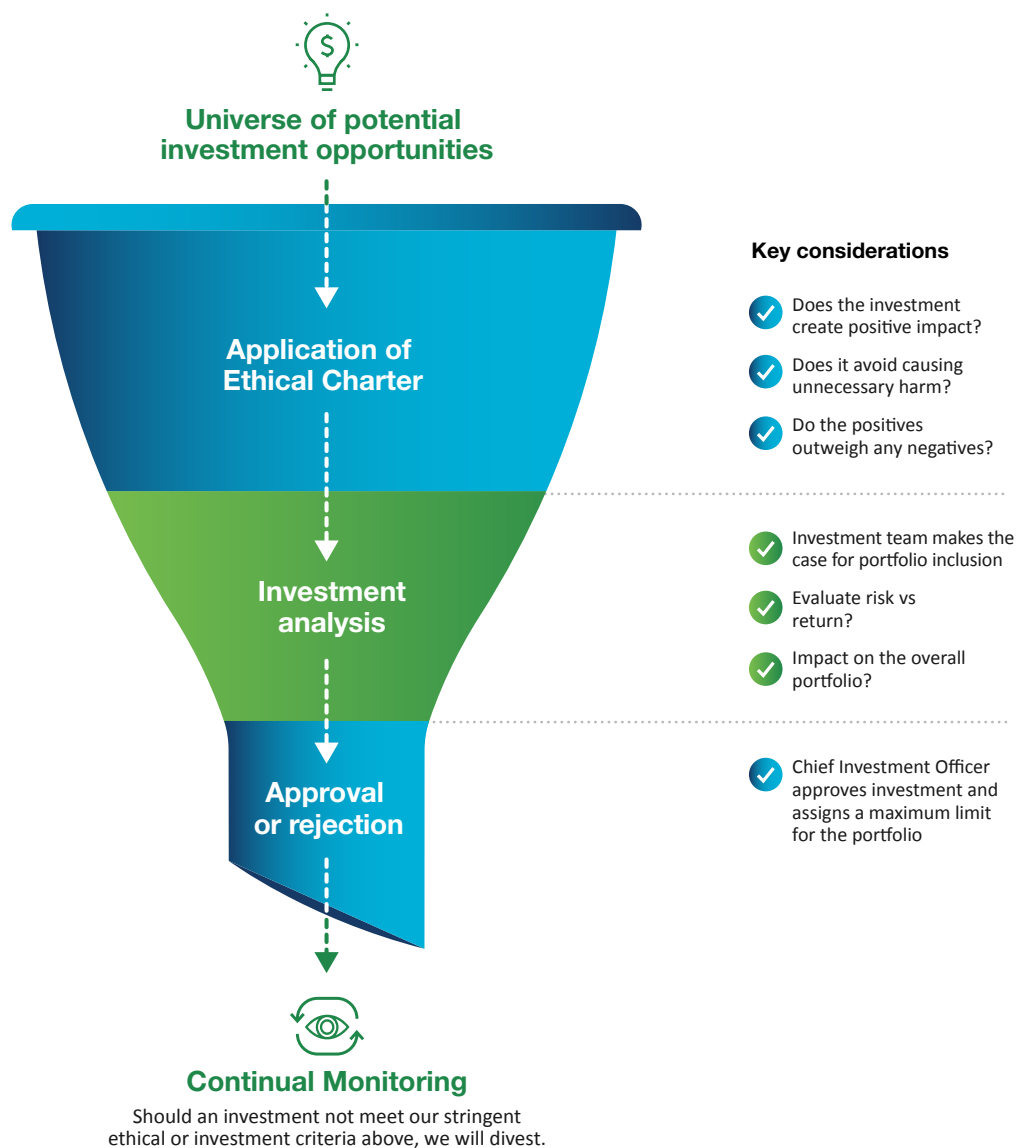
100 years of know-how

Name	Responsibilities	Industry experience (no. of years)
David Macri, CFA	CIO & Portfolio Manager (Balanced fund)	19
Andy Gracey	Portfolio Manager (Australian Shares & Emerging Companies funds)	24
Ray Gin	Portfolio Manager (Diversified & International Shares funds) Analyst (Financials, Industrials)	31
Tim Kelly	Portfolio Manager (Fixed Interest & Income funds)	16
Mark Williams, MBA	Analyst (Utilities, REITs, Industrials)	11
Mike Murray, CFA	Analyst (Healthcare, Biotech, Health Insurance)	20
Deana Mitchell, CFA	Analyst (Technology)	18
Jason Huang	Quantitative Analyst	6

what we do

How do we choose what to invest in?

By filtering ideas through three lenses.



Our Ethical Charter[©] – unchanged since 1986

Australian ethical shall seek out investments which provide for and support:

- a) the development of workers' participation in the ownership and control of their work organisations and places
- b) the production of high quality and properly presented products and services
- c) the development of locally based ventures
- d) the development of appropriate technological systems
- e) the amelioration of wasteful or polluting practices
- f) the development of sustainable land use and food production
- g) the preservation of endangered eco-systems
- h) activities which contribute to human happiness, dignity and education
- i) the dignity and wellbeing of non-human animals
- j) the efficient use of human waste
- k) the alleviation of poverty in all its forms
- l) the development and preservation of appropriate human buildings and landscape

Australian ethical shall avoid any investment which is considered to unnecessarily:

- I. pollute land, air or water
- II. destroy or waste non-recurring resources
- 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
- IV. market, promote or advertise, products or services in a misleading or deceitful manner
- V. create markets by the promotion or advertising of unwanted products or services
- VI. acquire land or commodities primarily for the purpose of speculative gain
- VII. create, encourage or perpetuate militarism or engage in the manufacture of armaments
- VIII. entice people into financial over-commitment
- IX. exploit people through the payment of low wages or the provision of poor working conditions
- X. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- XI. contribute to the inhibition of human rights generally

Grow the good



australianethical



Our approach to GRI materiality

As part of our Global Reporting Initiative (GRI) reporting process this year, we conducted a formal materiality assessment with our employees, senior management and Board. We have integrated these insights with feedback gathered from other key stakeholder groups, our clients, our shareholders and the community we live and work in. We have used their perspectives to identify GRI material topics.

Our key stakeholder groups are identified as those on whom our activities directly impact, and who in turn, can have a significant impact on the way we do business. We constantly engage with our key stakeholders as described on page 58. These interactions support our belief that the topics addressed in this report correctly reflect the sustainability context of our business activities and our impacts on clients, shareholders, employees, and the world around us.

Material topics are those that our key stakeholders believe are the most important for our ongoing and sustainable success. They complement the financial reporting in our annual report. In 2018, the topics deemed most significant to our success by stakeholders are highlighted in the top right quadrant of the materiality matrix and are:

- Screening of investments
- Assessment of environmental & social risk
- Engagement with investee companies
- Active ownership, and
- Ethics and integrity

In addition, the two topics on the left hand side, Transparency of our investment portfolio and Staff training on Australian Ethical products & services were rated as being of less significance, but were also ranked as poorer performing.

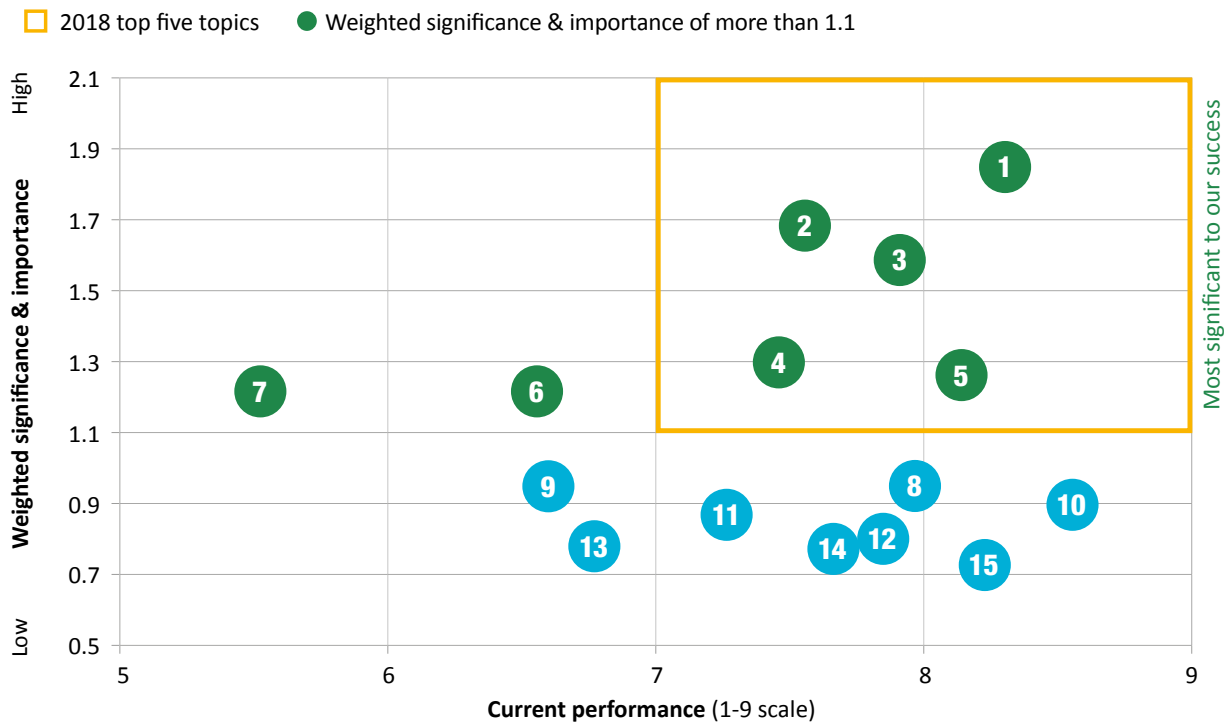
Other topics in the top 15 were:

- Compliance, Auditing investments, Economic performance, Credibility of investment team, Anti-corruption, Stakeholder engagement, Values and culture and Customer service.

Our top 15 material topics have been mapped to the GRI Standards to provide the framework for this report. The GRI Context Index on page 48 can be used to navigate to this information.

Materiality matrix

Most significant and important topics vs performance



2018 topics - numbered in order of importance

1. Screening of investments
 2. Assessment of environmental & social risk
 3. Engagement with investee companies
 4. Active ownership
 5. Ethics & integrity
 6. Staff training on Australian Ethical products & services
 7. Transparency of investment portfolio
-
8. Compliance
 9. Auditing investments
 10. Anti-corruption
 11. Economic performance
 12. Credibility of investment team
 13. Stakeholder engagement
 14. Values & culture
 15. Customer service

Important topics reflected in previous years

	2017	2016
Screening of investments	●	●
Assessment of environmental & social risk	●	●
Engagement with investee companies	●	●
Active ownership	●	●
Ethics & integrity	●	
Auditing investments	●	
Anti-corruption		●
Economic performance	●	
Credibility of investment team	●	
Values & culture	●	

Net zero – making it real

Achieving zero carbon emissions requires fundamental changes to the way we produce and consume. Investors have a crucial role to play, and we're driving change in three ways:

- our investment choices
- our advocacy and engagement on climate action and policy, and
- reducing and offsetting our own operational emissions

Climate impact tops the list

Climate change tops the list of current threats facing people, animals and the environment. It is already causing harm through more extreme weather, rising sea levels and species extinction, with flow on effects for human health and well-being.

In this section we continue our GRI reporting focus, but also address the key topics recommended by the Task Force on Climate-related Financial Disclosures (TCFD), which are: strategy (climate impacts and our investment response and zero emissions target); management and governance of climate risk; and the metrics we use to measure and manage our climate performance.

The principal direct impact of global warming on Australian Ethical's business is on our investment portfolios. The prospects and value of the businesses we invest in are exposed to risks and opportunities flowing from the many effects of climate change.

Rising sea levels and extreme weather are already changing where and how buildings and infrastructure can be safely built. Changes in temperature and rainfall are affecting the productivity and viability of different types of agriculture.

Government climate policy action and inaction can radically alter the prospects of companies' products and technologies. A price on carbon and higher clean air standards will favour renewables over fossil fuels. Tougher emissions restrictions on new vehicles will help hybrid and electric over conventional vehicles.

Consumer climate action also affects business values when consumption choices favour businesses helping to reduce greenhouse gas emissions, and shun big contributors to global warming.

We've summarised the timing of key climate impacts in the table below. Although some more severe consequences of climate change may arise only in the longer term, the regulatory and consumer action taken in the short-term can accelerate both positive and negative impacts on the value of investments.

Beyond more immediate impacts on climate sensitive industries like energy and transport, climate change has

flow-on effects across the economy. With commitment to strong climate action, the growing availability of cheap and decentralised clean energy will invigorate many existing industries and enable new ones. But if we are slow to act, growing inequality and the displacement of people from areas hardest hit by climate change will cause widespread social and economic disruption.

Three stages of climate change

<p>Short term 0-3 years</p>	<ul style="list-style-type: none"> • Nearer term physical impacts of temperature increase such as more extreme weather and fires, and flow-on effects on climate sensitive sectors such as agriculture. • Changes in customer demand due to evolving expectations for climate action by business. • Changing government energy and climate policies and regulation such as tougher emissions standards and carbon pricing.
<p>Medium term 3-10 years</p>	<p>In addition:</p> <ul style="list-style-type: none"> • Progressive physical impacts of temperature increase such as increases in sea level, and consequential technological, supply chain and other business and social disruption, including impacts on human health and well-being. • Growing pressure on threatened species. • Disruption of global trade from international disagreements about climate action and inaction. And from changing patterns of production and demand and growth.
<p>Long term 10-100+ years</p>	<p>In addition:</p> <ul style="list-style-type: none"> • Social, political and economic disorder from climate harm suffered by people (including their displacement) and from increased inequality because different groups and countries suffer more harm than others. • Disrupting effect of potential and actual conflict between countries.

Investment approach to climate

Our **Ethical Charter** applies to all our investment strategies and products. It requires us to assess short, medium and long term impacts on people, animals and the environment.

It guides us to invest in a way which minimises dangerous climate change. Key features of our approach related to climate risk and opportunity are:

Negative screening

We don't invest in fossil fuel companies or other companies assessed to be obstructing the action needed to limit warming to well below 2 degrees. When we invest in the energy sector, for example, we require a positive contribution to the transition to a renewable energy system, and any fossil fuel revenue of a company must be below our thresholds (a maximum of 5% to 33%). In the banking sector, we exclude banks if they are not aligning their lending activities with the transition needed to limit warming well below 2 degrees.

Positive screening

We invest in companies producing renewable energy and increasing energy efficiency, and otherwise supporting the urgent transition to a below 2 degree-future. These investments include wind, solar, hydro and geothermal energy, battery storage, LED lighting, insulation, sustainable buildings and clean energy technology start-ups (through the Artesian Clean Energy Seed Fund).

Influencing companies

We engage with companies to influence alignment of their businesses with the transition to zero emissions. This includes better management of climate impacts from the way a company's products and services are produced,

supplied, consumed and disposed. We encourage better measurement and reporting of direct and indirect greenhouse gas emissions; emissions reduction target setting; and analysis of the resilience of the company's business strategy to different climate scenarios. We aim to reduce companies' contribution to global warming as well as reducing climate-related harm to their business prospects. Through engagement we also build our own understanding of climate-related risk. We exercise our positive influence through private engagement, voting at company meetings, public praise or criticism, shareholder resolutions and divestment.

Investment portfolio management

Our assessment of investment opportunity and risk is informed by our ethical assessment of the climate impacts of companies and industry sectors and the way their products and services are produced, supplied, consumed and disposed of. This informs our buy, sell and portfolio management decisions.

For example, company prospects and valuations in the energy sector are affected by our assessment of the future regulatory environment for the sector. In the property sector, our positive assessment of Investa Property Group took account of their sustainability leadership, including their zero emissions target, building efficiency, renewable energy use, and collaborations with the Clean Energy Finance Corporation (CEFC)

and the Australian Business Roundtable for Disaster Resilience and Safer Communities. (The Roundtable is focused on reducing the social and financial impact of natural disasters.)

Targets

We are targeting net zero emissions for our investment portfolio by 2050. This target date has been set in line with the recommendations of the Australian Climate Change Authority, but we will continue to work to move more quickly.

Investment industry influence

We encourage other investors to use their influence to support the transition to a below 2 degree world. We do this by sharing our experience of the opportunities and challenges presented by responsible investor climate action.

Public policy advocacy

Through policy submissions, consultation with government and our public voice we encourage more effective climate policy, including better energy policy, carbon pricing and corporate climate disclosure.

Measurement, transparency, accountability

We measure and report our climate performance, including the emissions intensity of our share investments (carbon footprinting); the alignment of investments in the power sector with the changes needed to limit warming to 2 degrees; and the emissions avoided by our investment in selected renewable and energy efficiency companies.



Climate risk management

We identify, assess and manage material climate-related risks through our investment process. For example, our investment screening and company engagement guides us to sectors and companies which align their businesses with the transition needed to limit global warming to well below 2 degrees. These companies are better positioned to manage many climate-related risks, such as the risk of an introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all investment portfolios.

Governing sustainability

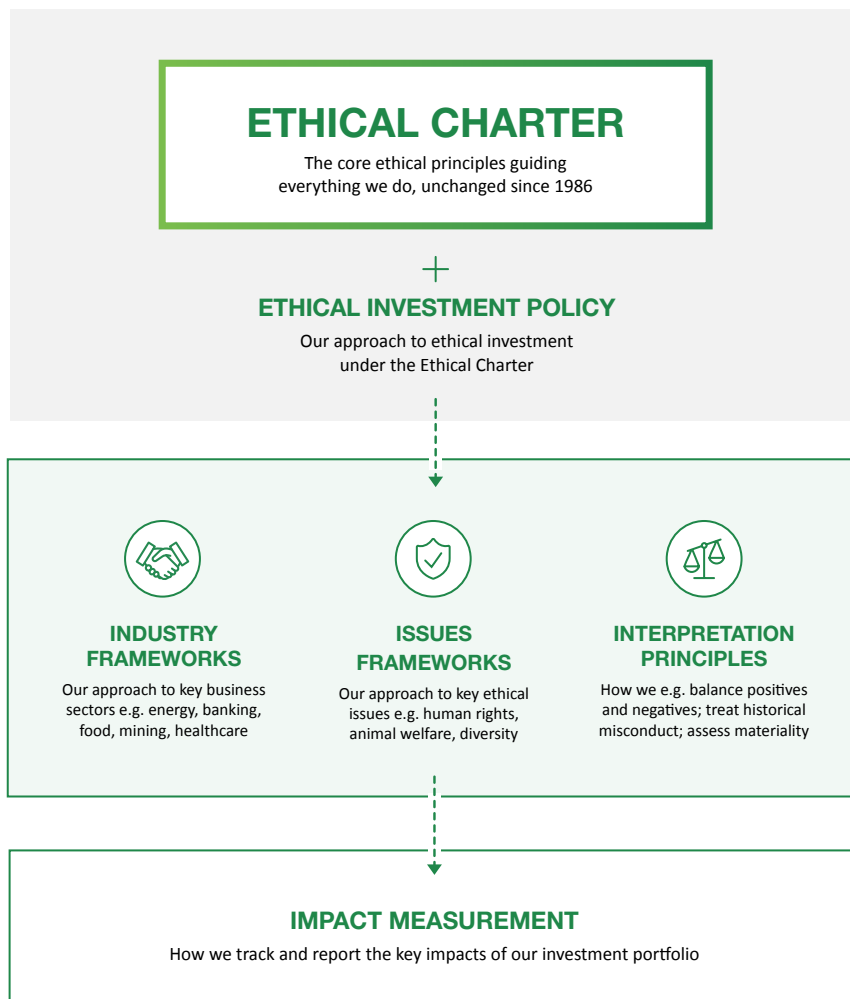
Our approach to ethical investment is governed by our Ethical Charter. The Charter principles are given life through frameworks, a number of key policies and measurements systems.

Implementation of our Ethical Charter across our investment activities is overseen by the Ethical Advisory Group (EAG), comprising the Managing Director, Chief Investment Officer

(CIO) and Head of Ethics Research. The climate-related work of the EAG includes the ongoing review of our ethical screening for emissions intensive sectors and setting climate advocacy and engagement priorities. The Board has oversight of the EAG through their quarterly review of EAG activity and of critical ethical issues.

Our ethics research team monitors existing and emerging ethical risks (including climate-related risks) using diverse company, industry, government, responsible investment, scientific, civil society and news sources. The team assesses whether these developments require review of our existing ethical assessments of companies and industry sectors, including our company engagement priorities. The work of the ethics research team is overseen by the EAG and in turn the Board.

Our carbon footprinting and 2 degree alignment checks help us test the effectiveness of our management of climate risk. We do not model the impact of different emissions and temperature increase scenarios on the value of our investment portfolios. Our ethical investment approach recognises the power which investors have to help positively shape the future. If investors only choose companies with strategies aligned to a 2-degree future, then investors will proactively help to bring about a world which effectively limits warming. By shifting capital from fossil fuels to renewables, investors help to bring down the price of renewable energy, they encourage investment in more flexible electricity grids and energy storage, and they contribute constructively to a sensible public discussion about energy policy. These investors, particularly universal investors like super funds, are also acting in the financial interests of their clients because we believe that risk-adjusted returns will be better in a low-warming world than a high-warming one.



Our carbon footprint

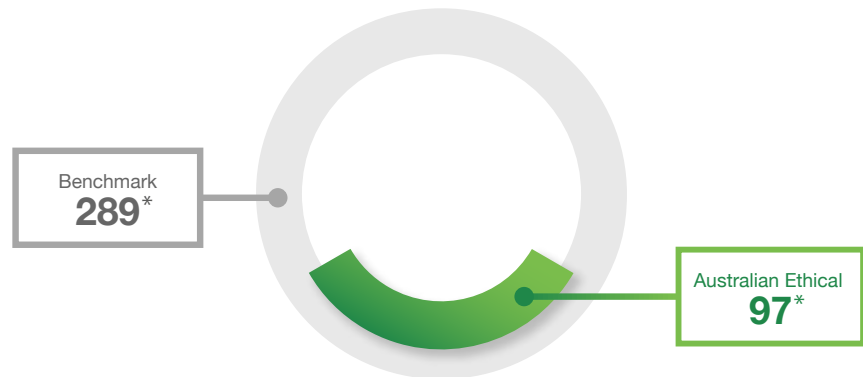
The carbon footprint of our investments is one way to check the effectiveness of our ethical investment approach to manage climate risk and support the transition to zero-emissions. The carbon footprint of our share investments at the end of 2017 was a third of the market benchmark*.

At a sector level, this comes from our very low exposure to high emission industry sectors such as mining, and our significant exposure to low emission sectors such as healthcare and information technology (IT).

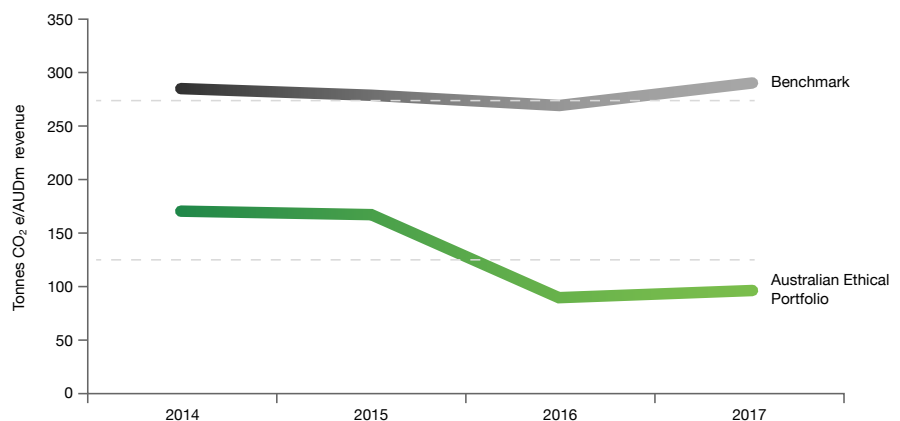
We also lower our carbon footprint by choosing to invest in lower-emission- companies within industry sectors. For example, we are a significant investor in the usually high-emission utilities sector. But our investment in that sector includes the three companies with the lowest carbon footprints in the benchmark: renewables companies Infigen Energy and Meridian Energy, and UK water utility United Utilities Group Plc.

Spark Infrastructure, Covanta and Veolia Environment are the three most carbon intensive companies in our portfolio. Despite their significant operational emissions, their businesses are aligned with our Ethical Charter (electricity transmission, waste management and environmental services). Spark Infrastructure is the biggest contributor to our carbon footprint, with almost all of its emissions coming from energy lost (mostly as heat) when electricity passes through Spark's transmission and distribution networks.

Our share portfolio is 66% less carbon intensive than the benchmark*^



Our carbon footprint target is net zero emissions



* Carbon footprint and carbon intensity are measured in tonnes CO₂ e/AUDm revenue. The Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian share holdings) and MSCI World ex Australia Index (for international share holdings).

We assess our share investment footprint based on the carbon intensity of the companies we invest in. The carbon intensity is calculated from direct and some indirect emissions of the companies relative to their revenue. The portfolio carbon intensity has been assessed by Trucost, part of S&P Global, that provides analysis of carbon and other environmental impacts of companies and portfolios. The analysis of Trucost is copyright © 2018 S&P Trucost Limited. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without permission from S&P Trucost Limited.

Current carbon footprinting methods don't do a good job of including emissions produced, or emissions saved, from use of a company's products by customers. This means that the carbon footprint of a company can misrepresent the company's positive and negative climate impacts. For example, the footprint of a coal mining company generally doesn't include the emissions from the burning of its coal by its customers. And the footprint of a company manufacturing wind turbines doesn't generally include the emissions savings enjoyed by its customers and the planet from generation of zero emissions electricity. We take these limitations of footprinting into account when we interpret footprint data for individual investments and our broader portfolio. This is discussed further [here](#).

^ Assured by KPMG.

Our renewable capacity delivering a 2 degree world

In 2018, we used analytic tools from the European 2° Investing Initiative (2ii) to assess whether our share investment in power generation is aligned with the massive shift to renewables that is needed to limit warming to 2 degrees. Our analysis showed that:

- Our share investment in renewable power generation is proportionately about six times that of the global sharemarket.
- The growth in renewable power generation capacity, represented by our current share investments and projected over the next five years, is aligned with what is required to limit warming to below 2 degrees (under the SDS and B2DS scenarios discussed below).

The 2ii tools look at the current power generation capacity of companies as well as their projected new capacity over the next five years. We applied the 2ii tools to our shareholdings at the end of 2017. We assessed the projected increase in renewable power generation (including solar, wind and hydro) over the next five years against the International Energy Agency Sustainable Development Scenario (SDS) and Beyond 2 degrees

Scenario (B2DS). The SDS is a scenario of transformation of the global energy system to limit global warming to well below 2 degrees; to provide universal access to modern energy by 2030; and to dramatically reduce premature deaths from air pollution. The B2DS is a more aggressive energy emissions reduction scenario, with the energy sector reaching carbon neutrality by 2060 to limit future temperature increases to 1.75°C by 2100.

Operational emissions are 100% offset

We track, mitigate and offset 100% of our Scope 1, 2 and 3 emissions. In FY18 we had 50.11 tonnes of Scope 1 & 2 emissions (direct emissions from our operations and the generation of electricity used in those operations). This was an increase of 18% from 41.5 tonnes in 2017 and reflects the significant growth in staff numbers. On a per capita basis, our Scope 1 & 2 emissions increased slightly at 0.86 tonnes per employee, compared to 0.84 tonnes in FY17. Our Scope 3 emissions from travel were 36.5 tonnes in FY18, which was the same as FY17 despite the 18% increase in headcount.

This year we again purchased premium offsets from the Kariba REDD+ project which teaches farmers to sustainably increase their productivity, which in turn prevents further land clearing.

Operational emissions (tCO2)	FY16	FY17	FY18	Trend
Scope 1 & 2 (total)	44.2	41.5	50.11	●
Scope 1 & 2 (per employee)	1.26 (35)	0.84 (49)	0.86 (58)	●
Scope 3	75.4	36.6	36.5	●
Offsetting of Scope 1, 2 & 3 emissions	100%	100%	100%	●

6 x MORE INVESTMENT
in renewable power generation
proportionally than the global
sharemarket.



Sustainable Development Goals (SDGs): impact now 3.4 times the market

One measure of the impact of companies is the annual revenue they earn from products and services which are helping to meet the Sustainable Development Goals (SDGs). The SDGs identify seventeen goals which governments, business and civil society need to achieve to build a just and sustainable future, including climate action, reducing inequality and responsible consumption and production.

The table on the next page shows the value of selected 'sustainable impact' products and services produced annually by Australian and international companies that we invest in. We estimate this as **3.4** times the sustainable impact of an equivalent investment in the overall sharemarket.¹



youtube.com/watch?v=mrK3QdcR5vE



Our investment in sustainable impact

	Sustainable impact revenue per \$1 million invested	Investment examples	Sustainable impact examples	Contributing to Sustainable Development Goals
Alternative Energy	\$23,670 9 times market	JA Solar Contact Energy, Infigen Energy Mercury NZ	Wind, geothermal, solar and hydro electricity	
Energy Efficiency	\$14,800 4 times market	East Japan Railway Fletcher Building Valeo S.A. NEC Corp	Low emissions transport Technologies for more efficient fuel and power use	
Green Building	\$5,940 2.5 times market	Lend Lease Stockland Mirvac	Certified green buildings	
Sustainable Water	\$3,440 6 times market	Xylem Inc. Veolia Environnement United Utilities Group Plc	Water supply, treatment and recycling	 
Pollution Prevention	\$16,460 6 times market	Sims Metal Management Darling Ingredients Cleanaway Waste Management	Waste treatment and recycling Purification of auto exhaust gas	
Nutrition	\$0 0 times market	We continue to look for listed companies aligned with our Ethical Charter and improving affordable access to nutrition.		 
Affordable Real Estate	\$1,750 2 times market	LendLease Barratt Developments HCP, Inc	Low-income residential and senior housing	
Major Disease Treatment	\$3,190 1 times market*	Resmed Inc CSL Limited Amgen Inc.	Antibiotics Vaccines Hepatitis and breathing treatments	
Sanitation	\$2,190 1.5 times market	Essity Aktie. Toto Ltd Fortune Brands	Baby care, feminine care, wound care and other hygiene products Plumbing products	
SME Finance	\$1,070 3 times market	Intesa Sanpaolo SPA Skandinaviska Enskilda Banken	SME lending and leasing	
Education	\$570 12 times market	Pearson Plc Seek Limited	Digital learning tools for teachers, learners and researchers	

¹ The revenue estimates in the table are for selected positive products and services which are produced by Australian and international companies whose shares we invest in and that have been analysed by global research firm MSCI ESG Research LLC for their "sustainable impact". MSCI ESG Research have done this analysis for 78% of our share investments (by value). We assume that the \$1 million is invested in listed shares of these companies only. We do not take account of our other investments such as fixed income, unlisted investments or our investments in companies which are not analysed by MSCI ESG Research for sustainable impact. Since they only look at selected products and services, MSCI ESG Research's analysis of revenue from sustainable impact does not take account of all

positive contributions that companies make to the SDGs. The MSCI ESG Research calculation methodology makes many assumptions, further information is available here: [msci.com/esg-sustainable-impact-metrics](https://www.msci.com/esg-sustainable-impact-metrics). MSCI ESG Research exclude any sustainable impact revenue of companies which do not meet certain minimum ESG standards. However, we have adjusted their calculations to include sustainable impact revenue of companies excluded only because the companies have not been assigned an ESG rating by MSCI ESG Research. Using the MSCI ESG Research analysis we estimate our total sustainable impact to be 3.4 times the sustainable impact of investment of the same amount in the overall sharemarket. This estimate is based only on investment in

shares in companies which MSCI ESG Research analyse for sustainable impact. The overall sharemarket is a blend of the S&P ASX 200 Index (for Australian share holdings) and the MSCI World ex Australia Index (for international share holdings). The above analysis is based on our share investments as at 31 December 2017. Although we have used company research data provided by MSCI ESG Research, MSCI ESG Research is not responsible for the way in which we have used that data to calculate the above amounts. MSCI ESG Research accept no liability for any errors in their data or for our reporting and use of their data. * Many of the healthcare companies we invest in focus on research to develop new medical therapies, (i.e. before commercialisation and revenue generation) and this impact is not yet reflected in disease treatment revenue.



A real voice for change

During the year we saw more companies interested in engaging with ethical investors on environmental and social issues, even when they are not significant shareholders in the company. For many years Australian Ethical has used nominal 'advocacy holdings' of shares (for example \$500) to give it a voice on shareholder resolutions and at company AGMs so that we could publicly and privately engage with companies which are excluded from investment under our Ethical Charter.

While this continues to be an important approach in our investor advocacy, we find companies are increasingly happy to enter into dialogue on ethical and sustainability concerns without the requirement for a shareholding in the company. We're finding companies are increasingly alive to the risk of an adverse response from customers, regulators, politicians and responsible investors if the company fails to operate sustainably. Or, to use the language of the Royal Commission, if the company fails to meet community expectations. Companies see the views and voice of ethical investors as important to both understanding and influencing what fair and sustainable business practice looks like.

In short, they are joining, not avoiding the conversation.

[This table](#) gives an overview of some of our engagements during the year, including positive outcomes achieved. We can't claim credit for all this positive change. Many others are working hard on the same issues, including people inside the organisations that we try to influence. What is clear is that investors have a powerful role to play in shaping a better future.

We engaged more than 300 companies to influence positive change.

Two companies ceased services to live animal exporters.
One bank ruled out any new thermal coal lending.

Case study

ETHICS WRIT LARGE AT THE ROYAL COMMISSION

During the reporting year and beyond, the Royal Commission has raised deep questions about the integrity of many financial institutions. We saw the worst conduct from the last five years: terrible financial advice that destroyed financial futures; fees for no advice or charged to people no longer alive; reckless lending practices leading to too much debt; excessive interest rates and business failures. Much of this fuelled by employee bonus schemes that actually encourage bad outcomes for customers.

We invest in some of the companies appearing before the Commission, and we exclude others because we have previously assessed that they are not aligned with our Ethical Charter. Of the big four banks, at the time of writing we invest in Westpac and NAB, but not in CBA and ANZ. As part of our ongoing ethical reviews and engagements, we are monitoring the serious misconduct being reported, and are contacting key companies involved. We will continue to review our positions during the ongoing Royal Commission hearings, and will take into account Commissioner Hayne's findings and recommendations as they emerge.

If necessary we will divest or exclude companies. In May 2018 we divested from AMP. We concluded that AMP committed serious breaches of its duty to clients and misled the regulator, ASIC. Poor financial advice was compounded by failures to compensate clients and to discipline bad planners. These were not isolated problems, they were systemic and cultural. A key factor was the evidence that senior AMP executives in their advice business continued to incorrectly charge clients despite

recommendations from employees and legal advice to stop.

Why have we invested in these financial institutions at all? Banking provides important products and services, including home and business loans, investments, insurance and financial advice. These provide valuable services and opportunities to individuals and society as a whole when done properly. People are able to pursue personal and business plans, and safeguard their financial well-being and security.

So how do we promote the good and stop the bad? Under Royal Commission and public pressure, banks and insurers are already making some changes to improve outcomes for customers. These include changes to the way they pay and incentivise the people who sell their products, and changes to lending and insurance product design. There will be powerful recommendations for broader change from the Royal Commission. There's no silver bullet solution, but we're expecting to see pressure for:

- More investment in automated digital surveillance of key details of loans, advice and insurance given to customers, to help identify cases,



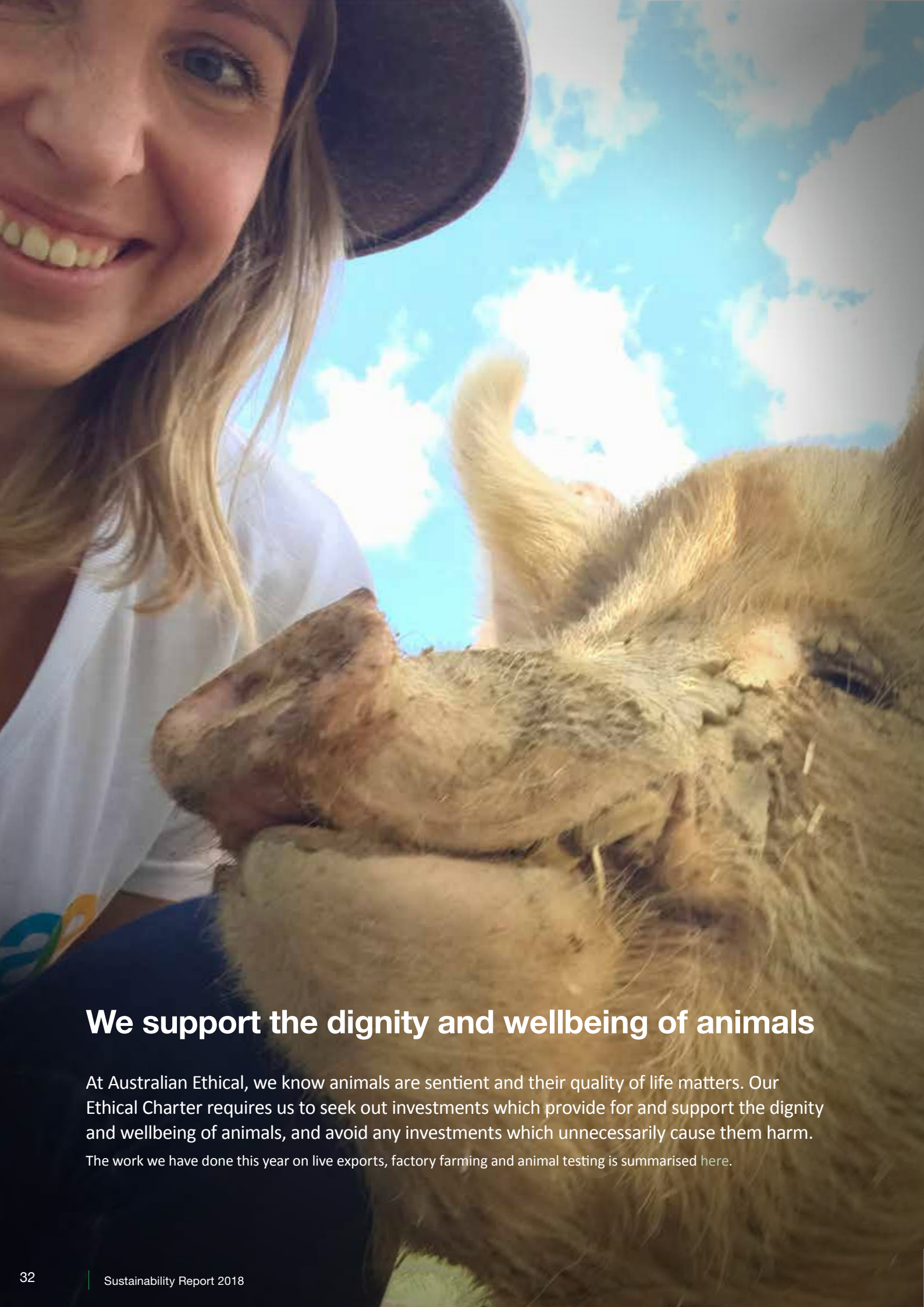
Ethical investors question the value of bank shares
Dr Stuart Palmer, Head of Ethics research

abc.net.au/news/programs/thebusiness/2018-05-04/ethical-investors-question-the-value-of-bank-shares/9729558

staff and business areas which need closer scrutiny to ensure customers' interests are protected.

- More effective sanctions for misconduct, including civil and criminal penalties, but also more meaningful internal consequences including pay reduction and dismissal.
- Stronger mechanisms to ensure senior executives and boards are made aware of misconduct and made accountable for ensuring it is remedied and that there are safeguards to prevent it continuing.
- Improved and continuing education of consumers to help them make informed financial choices.

Some of these changes have been attempted before and will be resisted by those comfortable with the status quo. Some measures which restrict wrong-doing may at the same time make important financial products and services more expensive. Facing these challenges, it will be crucial to maintain the public, political and investor momentum for genuine change to deliver a sustainable and trusted banking and investment system.



We support the dignity and wellbeing of animals

At Australian Ethical, we know animals are sentient and their quality of life matters. Our Ethical Charter requires us to seek out investments which provide for and support the dignity and wellbeing of animals, and avoid any investments which unnecessarily cause them harm.

The work we have done this year on live exports, factory farming and animal testing is summarised here.



Case study

TAKING A STAND AGAINST LIVE ANIMAL EXPORTS

Amanda Richman, Ethics Analyst

We believe the live export of animals causes great and unnecessary suffering and should stop. Earlier this year, Australians were shocked when they saw the undercover footage from five live sheep exports from Australia to the Middle East. The footage showed animals suffering from severe heat stress and dying en masse, animals being shipped at stocking densities so high some struggle to reach food and water and cannot sit or lie down, and new born lambs being born into this chaos. This was not an isolated case of cruelty. The industry has been plagued with animal welfare crises throughout its history. Even though we welcome any improvement to regulations or onboard monitoring, we believe no amount of regulation can make the marine transport of live animals safe or humane, especially over such great distances.

We were one of the first companies in Australia to state publicly that we do not support live export. We spoke to the media and wrote to the Federal Government calling for an end to the trade.

We also engaged with banks (who finance exporters), insurance companies (who insure livestock) and a port logistics provider, asking them to reassess their exposure to the live export trade. Two of these companies have stated they will not provide services to live exporters going forward.

As one of the ethics analysts I recently went to help Animals Australia with their live export [court challenge](#). Australian Ethical also promoted Animals Australia's petition to end live exports to our social media community.

Without knowing it many Australians may have been funding live animal exports through their super. We suggested people take action by asking their super funds, insurance companies, and banks whether they are investing, insuring or lending in support of live export. Australians should make an active choice to invest in positive, sustainable industries, such as renewable energy, and avoid businesses that cause harm, like live exporting, by investing their super with an ethical fund.

Our people

We believe that every employee has an impact on our company culture, and if we truly want to do well by our clients, then our culture has to be authentic inside and out. We take great care when recruiting to ensure we not only find fantastic, technically-capable people, but also people who connect with our ethos. In FY18 we welcomed 17 new starters (nine additional roles) in the areas of governance and compliance, marketing, operations, people and culture, finance, client services, investments and ethics. In an effort to identify values-aligned candidates, we diversified our recruitment approach by really encouraging existing employees to reach out to their networks as ambassadors for our brand. This has proved very successful.

Engagement

The annual employee engagement survey is a critical measure for our business and is built into the scorecards of our senior leaders. In 2018 our results returned to the high 70s (78%)¹ which was a very rewarding result after the drop to 55%² in the previous year. This decrease was a likely outcome of the high volume of change and growth experienced in the relevant period, and management focused on responding to the key areas of concern raised by employees: change management, leadership, communication, career opportunities and work/life balance. A monthly forum, the 'Culture Club' was created to enable representatives from all teams to provide a pulse check on the culture, a place to brainstorm initiatives and assess ideas to help with implementation.

1. Aon Hewitt Best Employers 2018
2. Aon Hewitt Best Employers 2017

Feedback from the survey and the work of the club has led to: a values workshop for all employees, the 'Amazing Ethical Race' event which combined values and team building; and a post implementation review of a major project to reflect on learnings as we put together our Project Management Office.

Employee engagement

2014	78%
2015	73%
2016	77%
2017	55%
2018	78%

Diversity

To ensure we reflect the community around us, and therefore benefit from a full range of thinking styles and approaches to work, we strive to achieve diversity with our employees across a number of dimensions including gender, age and ethnicity. Our employees

recognise this. In 2018 we scored 93% on Diversity & Inclusion. This was nine points above the Aon Hewitt ANZ Best Employers' benchmark.

In FY18 we became one of the few Boards on the ASX with 50:50 gender equality. The gender balance of our Senior Management team moved from 37% to 33% female (target is 40% of either gender). This is due to the splitting out of the Chief Financial Officer and Chief Operating Officer roles, increasing the number of males in the team to six. Our overall workforce gender balance sits close to target (50%) with 48% males and 52% females.

During the period, females experienced a higher retention rate than males. Of the two employees who were scheduled to return to work from parental leave, one returned. Both were female.

Progress against targets

Category	FY18 actual % female	FY18 Target % female
Board	50%	40%
Senior Management Team	33%	40%
Employees	52%	50%

Total number of employees by employment contract and gender

	Male	Female
Permanent	24	22
Perm P/T	1	9
Temporary Contractor	2	0
Total	27	31
58 employees (56 FTE)		

Employee turnover by gender

Category	Male	Female	Total
Involuntary	1	0	1
End of contract	2	0	2
Resignation	1	3	4
Total	4	3	7



Volunteer day at OzHarvest

Female-male average salary ratio

The pay gap ratio between average salaries of male and female employees has reduced from 27% in FY17 to 24% in FY18. Our analysis of pay data indicates that the most senior roles and higher paid investment roles in the organisation are held by a higher proportion of men than women. This imbalance is driving the pay gap, rather than a 'like-for-like' pay gap.

	Female:male average salary ratio	Pay gap
Management	87%	13%
Professional	85%	15%
Support	125%	-25%
Overall	76%	24%

Long-term sustainability

Our employees share in the success of our business as each is a shareholder. Everyone is entitled to a Short Term Incentive (STI) payment based on their individual performance. In addition, a Long Term Incentive is provided which requires the achievement of earnings per share growth and continued employment for three years. During the three years the shares are held in an Employee Share Trust, employees

receive dividends and are entitled to vote on company resolutions.

Performance management

Each year we translate our business strategy into critical success factors that are cascaded to our employees. Informal feedback on their performance and action towards these goals is provided throughout the year. This is supplemented by a more formal biannual performance and career development discussion which encourages learning and development. In the reporting year we adjusted our assessment criteria for all employees to include performance against values alignment and risk and compliance objectives.

Wellbeing

We know it can be challenging to balance your professional and personal life. To that end, we facilitate flexible working arrangements, provide \$2,000 per employee for training opportunities, provide 18 weeks paid parental leave for primary carers, two week's paid parental leave for secondary carers and we pay superannuation contributions while an employee is on parental leave for up to 24 months.

Our wellbeing program includes an annual health check and flu vaccination

in the office. During the year we also run meditation programs, yoga, boxing and scheduled corporate massages. Employees also participated in a variety of company- sponsored charity sports events throughout the year.

Volunteering

Every employee has two paid volunteering days a year, aligned to our three pillars of planet, people and animals. This year we helped out at Oz Harvest, Where Pigs Fly and Green Connect.

Values alignment

One of the other great benefits of working at Australian Ethical is the privilege of hearing first-hand from a number of exceptional individuals who are doing amazing things for the planet, people and animals. Visitors this year included Paul Hawken, the author of Drawdown, Leif Cocks, the founder and president of the Orangutan Project, and Danny Almagor, founder and CEO of Small Giants. Representatives from the Cerebral Palsy Alliance, Dressed for Success and the Smith Family also visited the office to outline their programmes. Australian Ethical's commitment to the Cerebral Palsy Alliance's 'September' was consequently impressive. With only 58 employees we were in the top 50 'steppers' of the 5000 or so companies that entered the event. This included major corporates with thousands of staff!



Our customers

Our customers by geography

ACT	Queensland	Victoria
1,197	4,129	11,462
433	913	2,217
NSW	South Australia	Western Australia
12,340	1,541	3,172
2,425	434	444
Northern Territory	Tasmania	
562	1,635	
71	302	

Key: Super Managed Funds 30 June 2018

Ninety-three per cent of our new super fund members join us directly via our online application, as do 75% of managed fund investors¹.

This is very different from the standard default super funds where people are, unless they exercise choice, defaulted into the fund chosen by their employer. Once people join, they rate their experience with us as one of the highest in the industry with a +53 Net Promoter Score for our super members and +48 for managed fund investors¹. These really are exceptional results that combined with one of the highest retention levels in the industry³ demonstrate we are delivering our promise to our customers.

Our clients are ambassadors of our brand and provide unprompted testimonials as comments on our digital advertising. Here's a sample of what they say:

"I have used Aust Ethical Super for years. I like knowing my super is invested in ethical companies."

"I have my superannuation with @australianethical and couldn't be more happy with the financial results. Importantly I am getting results without supporting fossil fuel, gambling, tobacco and weapons based industries."



The Amazing Ethical Race



Values alignment

In 2018 our clients told us that climate change, the environment and social equality were their key concerns. These results show great alignment with the principles of the Australian Ethical Charter.

The top three things our clients said they wanted from us were: “Tell me what my money is invested in and why”; “Better connect me with my money”; and “Publically advocate for the things I am passionate about”.

A better experience

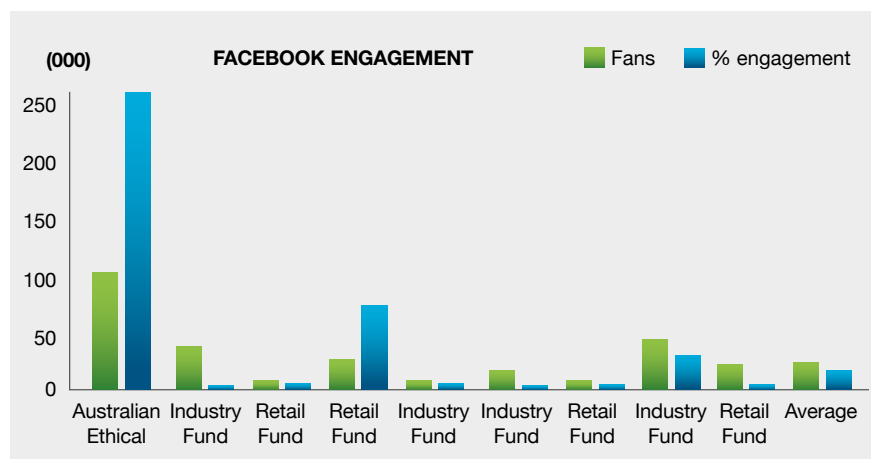
In late 2017 we rolled out the ‘Wow the customer’ program for our super members which defined our customer service and experience roadmap. We redesigned a number of our processes and communications after our journey mapping highlighted the key experiences that mattered to our super members. In 2019 we will continue this journey to ensure we keep ‘wowing’ our customers.

Another significant project to enhance customer experience was the move to Mercer as the administrator for our super fund. The planned transition blackout period in December slowed our super member acquisition rate for the quarter, but the move has delivered extended call centre hours and enhanced digital experiences for our members and their employers.

Leaders in social media

Our social media engagement is still market leading with more than 119,000 followers and a top decile 225% engagement rate on Facebook³. This is despite a drop in reach due to global Facebook algorithm changes. Though much of this engagement is prompted by our provocative Facebook ads, it’s also because our audience engages enthusiastically with our ethically-focused content.

Our leadership in the field was recognised by winning Social Media Campaign of the Year, in the Rainmaker Group MAX Awards.



Source: Sprout Social, July 2018



Brand

We launched our refreshed brand in October 2017 and over the reporting period have rebranded all our communications, collateral, digital presence and physical assets. The vivid new logo represents the sweet spot between finance and ethics with an Australian symbol — the gumleaf — at the intersection. The revived, saturated colours and use of emotive environmental imagery helps to tell our story and differentiate us from typical financial services providers.

To help our new brand come to life, we launched our first outdoor advertising campaign and challenged the traditional two-dimensional

paradigm by transforming a billboard in Carlton, Melbourne, into a sharable, living herb garden. People could smell, feel and taste the herbs and take them home. This was not the ‘normal experience’ when interacting with a super fund.

The campaign had great results with over 40% of people who saw the billboard researching ethical investing and 39% talking to friends and family about it. Brand awareness and consideration of Australian Ethical, by those who saw the billboard, also increased substantially¹.

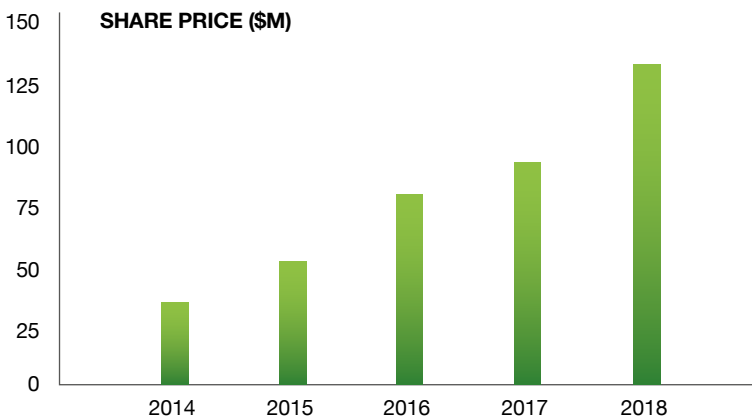
¹ Australian Ethical Research, Pollinate March 2018

² 2018 KPMG Super Insights

³ Sprout Social, July 2018

Shareholders

Our shareholders continue to enjoy sustained performance with our share price increasing 47% from \$94.60 at the end of FY17 to \$135.00 on 30 June 2018. In FY18 our total shareholder return was 47%, with a dividend of \$4.00, a 54% increase on FY17.



What does your supplier do for you ... and the

HELP YOURSELF TO SOME FRESH HERBS, CA



australianethical

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www.epnoutdoor.com.au

youtube.com/watch?v=e1HeV-tJ1ik&feature=youtu.be



Our community

Every year we distribute up to 10% of our yearly after-tax profits (before deducting bonus and grant expense) to charitable organisations and social impact initiatives, through the Australian Ethical Foundation. This commitment is embedded in our constitution.

Community Grants

Since 2000, our Community Grants program has provided more than \$2.5 million in financial support for not-for-profit organisations that contribute to humanitarian, environmental and animal welfare efforts in Australia and abroad. In 2018, we distributed \$360,000 to these [19 inspiring groups](#) for their wide and varied work for the planet, people and animals.

Selecting the successful charities from over 500 applications is a painstaking task assisted by our online voting process, where members, clients, shareholders, employees and the general public are asked to nominate their favourite projects. This year we received more than 12,000 votes.

Multi-year grant support

As our business growth has generated more funding for the Foundation, we have developed a more strategic approach to creating social and environmental impact. This involved looking closely at the impact we want to generate in areas of significant importance. As such, we've made the important decision to begin supporting charities on a multi-year basis with larger philanthropic support. This has been done in addition to our existing Community Grants program.

We've worked with specific charities to understand where ongoing funding is required for their high impact projects and have committed to funding them

into the foreseeable future. We have selected one charity from each of our core focus areas: people, planet and animals.

Multi-year support is a commitment from us to generate deeper impact over a longer timeframe to try and address entrenched social and environmental issues. Over the coming year, we will be communicating the specifics of each multi-year grant and what it means to both the charity and the Australian Ethical community. A broad overview of our major multi-year support programme follows.



People

HUMAN RIGHTS WATCH

Human Rights Watch is an independent, international organization that works as part of a vibrant movement to advance the cause of human rights for all. We will support Human Rights Watch to explore and expose human rights abuses in supply chains throughout the developing world. Investigative research and an advocacy campaign will seek to improve the conditions and rights for young women.

Planet

THE WILDERNESS SOCIETY

The Wilderness Society is securing better laws for ecosystems that sustain us, and protections for Australia's wild places. We will support the Wilderness Society to strengthen, build capacity and empower communities across Australia to help protect key areas of forest.

Animals

FOOD FRONTIER

Food Frontier work to create a healthy, humane and sustainable food supply in Australia, New Zealand and the broader Asia Pacific Region. They are focussed on developing demand for, encouraging supply and advocating consumption of plant-based and 'clean' meats. We will support Food Frontier to develop the ecosystem for meat alternatives in Australia by fostering research, innovation, investment readiness and market development. By shifting demand to meat alternatives, we hope to greatly reduce animal suffering through current meat farming practices.

Impact Investing

We are also exploring opportunities to make strategic impact investments through the Foundation, where risk and return are traded off in order to generate high impact. We will be seeking investments where the social or environmental impacts are at least comparable to the impacts achieved by equivalent not-for-profit providers. Consequently, the investments might not meet the stringent criteria required for consideration in our main funds due to size, risk profile or return hurdles. All returns generated will be deployed to our granting programs.

In 2018, we invested in **Social Ventures Australia's** 'Diversified Impact Fund'. The fund will invest in impact investments across areas fundamental to improving lives of people in Australia: education, employment, housing, first Australians, disability and health.

Real impact

Some of the real impacts delivered by our Community Grant projects are highlighted below.

Protecting key species and forests in Indonesia

We have been supporting [The Orangutan Project](#) since 2014 by helping fund their Wildlife Protection Units (WPU) and Ecosystem Monitoring Units, which work to train locally-staffed ranger teams, monitor wildlife using camera traps, support Orangutan monitoring teams and conduct anti-poaching patrols. WPU's work in the most important areas across The Bukit Tigapuluh, particularly across critical buffer zones surrounding the landscape, where more challenging activities happen. The Bukit Tigapuluh (BTP) Landscape encompasses one of the largest remaining lowland forests in Sumatra.

KEY IMPACTS

Currently, our contribution helps support 80 local rangers working in The Bukit Tigapuluh Landscape which equates to:

- 38,000 hectares of rainforest protected
- 1,600 Orangutans protected
- Every ranger protects 10km² of rainforest and 20 Orangutans.

Protecting Orangutans in their natural environment costs 12 times less than rehabilitating and reintroducing into the wild. It also preserves many other species at the same time like Tigers and Elephants.

The WPU program is also an important community engagement activity, providing employment opportunities for locals who would otherwise be employed in logging and palm oil plantations. The rangers receive extensive training in emergency response first aid, wildlife crime investigation, surveying techniques and report writing.

Protecting and educating girls in Cambodia

We have been supporting [Free to Shine](#) since 2014 and have seen an amazing organisation grow and thrive. Free to Shine is a human rights organisation working in collaboration with communities and local governments in Cambodia to enable girls to grow into empowered female leaders. They believe children should be in schools, not brothels.

Through our community grants, we have supported the core work of Free to Shine, which focuses on helping keep young rural girls, at risk of sex trafficking, in school. This is achieved by supporting educational expenses, providing wrap around family support (through social workers and education officers), delivering community education programs, building new homes, distributing water filters and developing more village partnerships.

Since 2014 until today, our four years of support have contributed to help Free to Shine grow to:

- Enrol 743 girls in schooling (up from 200 in 2013)
- Deliver 600+ bikes,
- Supply 500+ water filters, Teach 100+ community classes
- Build 15+ houses
- Develop 50+ new village partnerships
- Employ 15+ staff (made up of education officers and social workers)

The culminating impact of all this work is that 743 girls have now been protected from sex trafficking. Furthermore, many girls and their families are now thriving, building stronger, more resilient futures for themselves and their communities.

743 GIRLS HAVE NOW BEEN PROTECTED FROM SEX TRAFFICKING.



38,000

HECTARES OF
RAINFOREST NOW
PROTECTED

1,600

ORANGUTANS
PROTECTED

Why we're a B Corporation

Australian Ethical was one of the founding Australian B Corporations in 2014. We were awarded B Corporation's 'Best for the World' in 2014 and every year since, ranking the company in top 10 percent of all B Corporations in the world.

We are unashamedly a profit-driven business, but we believe and have proven that you can deliver great financial outcomes for customers and shareholders, while making thoughtful decisions that are protective of the planet, people and animals. When the B Corporation movement and certification came to Australia a few years ago, it was a natural step for Australian Ethical to become involved. We were the first B Corporation listed on the Australian Securities Exchange (ASX), and in terms of revenue in FY18 we were the largest B Corporation in Australia.

As more businesses market themselves as ethical and sustainable, it can be difficult for consumers to know which businesses are genuine about their commitments.

B Corporation's rigorous standards ensure businesses are held accountable and customers can choose with peace of mind.

Our customers care deeply about the planet and their impact on the world around them. Our B Corporation certification helps to give them confidence that we truly do walk the talk.

Credentials 2018

B Corporation

- Certified by B Lab as “Best for the World”
- Certification shows that across our business we meet rigorous standards of social and environmental performance, accountability, employee engagement and transparency.

RIAA

- Responsible Investment Association of Australasia: *Certified Ethical Investment*

PRI

The PRI is the world’s leading proponent of responsible investment

- Strategy & Governance A+
- Listed Equity – Incorporation A+
- Listed Equity – Active Ownership – A
- Fixed Income SSA – A
- Fixed Income – Corporate Financial – A

Rainmaker Group

- 2018 MAX Awards Social Media Campaign of the Year

SuperRatings

- Fast Mover Award 2018

Australasian Reporting Awards

- Gold Award for 2017 Annual & Sustainability Report

Signatory to...

- CFA Institute Asset Manager Code
- Insurance in Superannuation Voluntary Code of Practice
- Women’s Empowerment Principles
- Investor 30% Club Statement of Intent (for 30% women directors of ASX200 companies by end 2018)

Memberships

- Association of Superannuation Funds of Australia Limited (ASFA)
- The Financial Services Council (member and involvement in various working groups)
- Responsible Investment Association Australasia Board member and represented on working groups
- Global Reporting Initiative (GRI)
- United Nations Principles for Responsible Investment
- United Nations Environment Program Finance Initiative
- The Global Investor Coalition on Climate Change
- Investor Group on Climate Change (on working groups)
- Portfolio Decarbonisation Coalition
- Future Business Council (FBC)
- Sustainable Business Australia (SBA)
- Australian Chapter of the 30% Club Investor Group
- B Corporation



The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.



Independent Limited Assurance Report to the Directors of Australian Ethical Investment Limited

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the Selected Sustainability Information, which has been prepared by Australian Ethical Investment Limited in accordance with management's reporting criteria for the period 1 July 2017 to 30 June 2018.

Information subject to assurance

The Selected Sustainability Information subject to this limited assurance engagement is restricted to the following quantitative and qualitative information as presented in the Sustainability Report 2018 ("the Report").

Selected Sustainability Information	Included in the following section of the Sustainability Report
Compliance with fossil fuel screens. The statement: "We are fossil-fuel free"	"We are fossil fuel free" on page 9
Percentage of assets subject to positive and negative environmental or social screening;	"Our business model" on page 11
Carbon footprint of equity share portfolios;	"Our carbon footprint" on page 25

Criteria used as the basis of reporting

The applicable criteria used as the basis of reporting are the GRI criteria and Management criteria, developed by Australian Ethical Investment Limited (combined "the criteria").

Basis for conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Selected Sustainability Information, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.



Summary of procedures performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant Australian Ethical Investment Limited personnel to understand the internal controls, governance structure and reporting process of the Selected Sustainability Information;
- reviews of relevant documentation;
- analytical procedures over the Selected Sustainability Information;
- agree, on a sample basis, the Selected Sustainability Information to source documentation;
- re-calculation, on a sample basis, of key calculations;
- evaluating the appropriateness of the criteria with respect to the Selected Sustainability Information;
- reviewed the Sustainability Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard defines limited assurance and material misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of the Selected Sustainability Information.

Use of this Assurance Report

This report has been prepared for the Directors of Australian Ethical Investment Limited for the purpose of providing an assurance conclusion on the Selected Sustainability Information and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Australian Ethical Investment Limited, or for any other purpose than that for which it was prepared.

Directors' responsibility

The Directors are responsible for:

- determining that the criteria is appropriate to meet their needs and the needs of intended users;
- preparing and presenting the Selected Sustainability Information in accordance with the criteria;
- establishing internal controls that enable the preparation and presentation of the [information subject to assurance] that is free from material misstatement, whether due to fraud or error; and

KPMG

Sydney

16 October 2018

Our responsibility

Our responsibility is to perform a limited assurance engagement in relation to the Selected Sustainability Information for the period 1 July 2017 to 30 June 2018, and to issue an assurance report that includes our conclusion.

Our independence and quality control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

GRI Content Index

General GRI Standard and Disclosure	Description	Page/Reference or further information
GRI 101: Foundation 2016		
GRI 102: General Disclosures 2016		
Organisational Profile		
102-1	Name of the organisation	Front cover
102-2	Activities, brands, products and services	Page 9, 11 and 29 Additional information is available at: australianethical.com.au/#
102-3	Location of headquarters	Sydney, Australia
102-4	Location of operations	Our sole office is located in Sydney, Australia
102-5	Ownership and legal form	Australian Ethical Investment Limited – Group Structure
102-6	Markets served	Pages 9, 36
102-7	Scale of the organisation	Page 34 and 36 Annual Report pages 6, 7 and 8
102-8	Information on employees and other workers	Page 34 All employees are based in Sydney In FY18, we experienced a significant increase (18.4%) in the number of employees in FY2018 with the rapid growth of the company. A small number of activities are performed for the business by consultants, from time to time. This data was prepared by our finance team as part of our annual reporting process.
102-9	Supply Chain	Pages 12 and 13
102-10	Significant changes to the organisation and its supply chain	Page 12

General GRI Standard and Disclosure

General GRI Standard and Disclosure	Description	Page/Reference or further information
102-11	Precautionary Principle or approach	Our Ethical Charter is aligned with the Precautionary Principle.
102-12	External initiatives	Pages 5, 21, 26, 29, 31, 32, 33, 35, 40, 41, 42, 44 and 45
102-13	Memberships of associations	Page 45
102-14	Statement from senior decision-maker	Pages 3-5
102-15	Key impacts, risks and opportunities	Pages 3-5, 10, 21-26
Ethics and Integrity		
102-16	Values, principles, standards and norms of behaviour	Pages 9 and 16 Code of Conduct Corporate Governance Statement Principle 3 Ethical Charter
102-17	Mechanisms for advice and concerns about ethics	<p>Employees are consulted on changes that may impact their work and/or the business. Every two years, an employee representative is elected by employees. In accordance with the formal grievance procedures, employees can discuss any concerns, issues or complaints around their employment, regardless of their nature of severity.</p> <p>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.</p> <p>During FY18, external grievance mechanisms available for superannuation complaints were the Superannuation Complaints Tribunal and the Financial Ombudsman Service.</p> <p>The internal compliance reporting tool “Tickit” is used to track, monitor and document issues. External grievance mechanisms are able to be reported through The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC).</p> Whistleblowing Policy
102-18	Governance structure	Corporate Governance Statement pp. 5 to 7 Principle 2 (Recommendation 2.1)
102-19	Delegating authority	Corporate Governance Statement Principle 7, pp.13 and 14

General GRI Standard and Disclosure	Description	Page/Reference or further information
102-20	Executive level responsibility for economic, environmental and social topics	<p>Ethical aspects of the investment process are overseen by Ethical Advisory Group (EAG). The EAG approves key frameworks which govern how the principles of our Ethical Charter are applied to different industry sectors and key ethical issues such as human rights and animal welfare. The EAG sets priorities for our advocacy and engagement activities, and resolves contentious ethical issues regarding specific investments (current or prospective). The EAG currently comprises Australian Ethical's Managing Director, Chief Investment Officer and Head of Ethics Research, with other internal and external input as appropriate. The board of directors has oversight of the EAG through reporting to the board of the activity of the EAG.</p> <p>Ethical Investment Policy</p>
102-21	Consulting stakeholders on economic, environmental, and social topics	<p>Pages 18, 22, 30, 34, 37 and 58</p> <p>Our Ethical Influencing</p>
102-22	Composition of the highest governance body and its committees	<p>Annual Report pages 26 and 27</p> <p>Corporate Governance Statement Principle 2 (Recommendations 2.1 and 2.3) pages 5 to 7</p>
102-23	Chair of the highest governance body	<p>Annual Report page 26</p> <p>Corporate Governance Statement Principle 2 (Recommendation 2.3) page 7</p>
102-24	Nominating and selecting the highest governance body	<p>Board Charter</p> <p>Board Renewal Policy</p> <p>Corporate Governance Statement Principle 2 (Recommendation 2.1), pages 5 and 6</p>
102-25	Conflicts of interest	<p>Conflicts Management Policy:</p> <p>Corporate Governance Statement Principle 3 (Recommendation 3.1) page 8</p> <p>Group Register of Relevant Interests</p> <p>Annual Report pages 26 & 27</p> <p>Conflicts Management Policy</p>
102-26	Role of highest governance body in setting purpose, values, and strategy	<p>Australian Ethical conducts an annual strategy review where Board and the management team include all aspects of purpose, values and strategy including sustainability.</p> <p>Board Charter</p>
102-27	Collective knowledge of highest governance body	<p>Corporate Governance Statement Principle 2 (Recommendation 2.6)</p> <p>Updates on ethical frameworks and ethical reports are also provided by our Head of Ethics Research. Board members have significant professional experience in sustainability topics as described in the Board biographies.</p>
102-28	Evaluating the highest governance body's performance	<p>The application of the Australia Ethical Charter to the company's business practices means that sustainability is a critical consideration for every decision made by the Board and indeed the business.</p> <p>Board Renewal Policy</p>
102-29	Identifying and managing economic, environmental and social impacts	<p>Corporate Governance Statement Principle 7 (Recommendation 7.1) pages 6, 13</p>

**General GRI
Standard and
Disclosure**

General GRI Standard and Disclosure	Description	Page/Reference or further information
102-30	Effectiveness of risk management processes	Page 12 Due diligence is undertaken monthly by the senior management team and Ethical Advisory Group and reported to the Board. Corporate Governance Statement Principle 7 (Recommendation 7.2)
102-31	Review of economic, environmental and social topics	Page 24 Refer to Disclosure 102-20
102-32	Highest governance body's role in sustainability reporting	The Managing Director and General Counsel approve the material aspects to be reported on and provide final approvals of the sustainability report.
102-33	Communicating critical concerns	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.
102-34	Nature and total number of critical concerns	There were no critical concerns that needed to be communicated to the Board during the reporting year. Mechanisms to address and resolve critical concerns are outlined in Disclosure 102-33
102-35	Remuneration policies	Remuneration Report (as part of the Annual Report) pages 8 to 25
102-36	Process for determining remuneration.	Remuneration Report (as part of the Annual Report), pages 8 to 25
102-37	Stakeholders' involvement in remuneration	Remuneration Report (as part of the Annual Report), page 14
102-38	Annual total compensation ratio	Ratio of the annual total compensation for the organisation's highest paid individual to the median annual total compensation for all employees is 3.11:1.
102-39	Percentage increase in annual total compensation ratio	The highest paid individual's salary increased by 0% and the median salary increased by -1%
102-40	List of stakeholder groups	Pages 11, 34, 36, 38, 40, 58 Our Ethical Influencing
102-41	Collective bargaining agreements	No staff are employed on collective bargaining agreements
102-42	Identifying and selecting stakeholders	Our approach to GRI materiality Page 18
102-43	Approach to stakeholder engagement	Pages 11, 34, 36, 37, 38, 40, 58 Our Ethical Influencing
102-44	Key topics and concerns raised	Pages 18, 19 Our Ethical Influencing

General GRI Standard and Disclosure	Description	Page/Reference or further information
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Annual Report (inside front cover)
102-46	Defining the report content and topic Boundaries	<p>The GRI Reporting Principles of Stakeholder Inclusiveness, Sustainability Context, Materiality and Completeness have been incorporated through:</p> <ul style="list-style-type: none"> • Our ongoing stakeholder engagement activities described in this report • The application of the Australian Ethical Charter through all of our investment and operational decisions that shows a critical understanding of the sustainability challenges that the world around us faces • A robust materiality assessment • The range of topics identified as material and supporting information for the reporting year FY2018. <p>The boundary for reporting includes Australian Ethical Investment Pty Ltd and its owned subsidiaries. Inputs into Australian Ethical's investment process are defined and reported as external to the organisation.</p>
102-47	List of the material topics	Pages 18 and 19
102-48	Restatements of information	There are no restatements from previous reporting periods
102-49	Changes in reporting	<p>Page 19</p> <p>For the FY2018 reporting year, we used ZOOiD and Awake's Materiality Assessment Tool (MAT) to determine the 15 most material topics to Australian Ethical, providing a more robust method for determining material topics than in previous years. In addition, we have transitioned from a Comprehensive report to a Core report, resulting in a more focused report. As a result of these changes, we have removed redundant disclosures and added relevant topics and corresponding relevant disclosures.</p> <p>There are no changes to the reporting boundary from the FY2017 reporting year.</p>
102-50	Reporting period	1 July 2017 to 30 June 2018
102-51	Date of the most recent report	22 September 2017
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Tom May, General Counsel and Company Secretary: tmay@australianethical.com.au
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI Content Index	The GRI Content Index is set out in this table.
102-56	External assurance	<p>Data relevant to selected material indicators has been assured by KPMG using the ASAE3000 Assurance standard. KPMG has issued an independent limited assurance report.</p> <p>Pages 46-47</p>

Topic Specific GRI Standard and Disclosure	Description	Page/Reference or further information	Internal/External Boundary
Economic Performance 2016			
	Management Approach (103-1; 103-2; 103-3)	Australian Ethical is for-profit business that provides investors with ethical investments that do not compromise on investment performance. At six-month intervals we report our economic performance to the market via an ASX release and documentation according to Corporations Act (2001). The market response to our disclosures is reflected in our share price and therefore our economic performance on behalf of shareholders. The performance of our super investment options and managed funds are published on our website (net of administration and investment management fees, taxes and other costs) monthly. Our performance is rated against our competitors by independent agencies such as Lonsec and SuperRatings.	
201-1	Direct economic value generated and distributed	Annual Report page 8	I (no limitations)
201-2	Financial implications and other risks and opportunities due to climate change	Pages 22, 23, 25-27	E (no limitations)
Anti-corruption 2016			
	Management Approach (103-1; 103-2; 103-3)	Australian Ethical's name and ethos means it must set a very high bar for its ethical business practices or risk substantial brand damage. Code of Conduct	
205-3	Confirmed incidents of corruption and actions taken	There were no incidents of corruption concerning Australian Ethical's business, its employees, or business partners, nor any public legal cases regarding corruption brought against Australian Ethical or its employees	I (no limitations)
Supplier Environmental Assessment 2016			
	Management Approach (103-1; 103-2; 103-3)	Page 15 <ul style="list-style-type: none"> 100% of investment agreements and contracts have been screened against the Australian Ethical Charter which excludes investments that: pollute land, air or water; destroy or waste non-recurring resources; or acquire land or commodities primarily for the purpose of speculative gain Australian Ethical will only use external investment services where the provision of those services to Australian Ethical is assessed to be aligned with the Ethical Charter All new suppliers are assessed for alignment with the ethical charter Ethical Investment Policy	
308-1	New suppliers that were screened using environmental criteria	All (100%) of Australian Ethical's operational suppliers and investee companies are screened against the Australian Ethical Charter	I (no limitations)

Topic Specific GRI Standard and Disclosure	Description	Page/Reference or further information	Internal/External Boundary
Training and Education 2016			
	Management Approach (103-1; 103-2; 103-3)	<p>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.</p> <p>Employee training, education and career development needs are evaluated through the performance management process, the annual employee engagement survey, and annual materiality assessment process.</p>	
404-1	Average hours of training per year per employee	<p>All employees complete 11 modules of compliance training in the first three months of joining. They must then refresh this annually, with additional training required when policies are updated or new policies are introduced.</p> <p>Five hours are spent on average on annual compliance training. In addition, more technical roles are required to complete 30 hours of CPD training each year, including for example, RG146 certification.</p>	I (no limitations)
Human Rights Assessment 2016			
	Management approach (103-1; 103-2; 103-3)	Page 15	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	<p>100% of investment agreement and contracts have been screened against the Australian Ethical Charter which excludes investments that: exploit people through the payment of low wages or the provisions of poor working conditions or that contribute to the inhibition of human rights generally.</p> <p>Australian Ethical will only use external investment services where the provision of those services to Australian Ethical is assessed to be aligned with the Ethical Charter.</p> <p>Ethical Investment Policy</p>	I (no limitations)

Topic Specific GRI Standard and Disclosure	Description	Page/Reference or further information	Internal/External Boundary
Supplier Social Assessment 2016			
	Management Approach (103-1; 103-2; 103-3)	Page 15	I (no limitations)
414-1	New suppliers that were screened using social criteria	Refer to Disclosure 412-3	
414-2	Negative social impacts in the supply chain and actions taken	Pages 10, 22, 32, 33 Our advocacy for animals Our Ethical Influencing	I and E (no limitations)
Marketing and Labelling 2016			
	Management Approach (103-1; 103-2; 103-3)	It is critical that Australian Ethical provides clear and comprehensible marketing and labelling of its products. Superannuation is very technical and is governed by many regulations that specify the way it is communicated to members. As super is compulsory, there are a large proportion of members who do not actively choose their own superannuation product or understand how it works. For this reason, Australian Ethical strives to use plain English wherever possible in its marketing and labelling. We use internal stakeholder feedback while shaping communication and monitor member feedback to ensure we are achieving this.	
417-1	Requirements for product and service information and labelling	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. Legal, Risk and Compliance managers monitor responsible marketing compliance by reviewing all disclosure documents before they are released. 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. Continuous Disclosure Policy Privacy Policy	I (no limitations)

Topic Specific GRI Standard and Disclosure	Description	Page/Reference or further information	Internal/External Boundary
417-2	Incidents of non-compliance concerning product and service information and labelling	There were no incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	I (no limitations)
417-3	Incidents of non-compliance concerning marketing communications	There were no incidents of non-compliance concerning marketing communications	I (no limitations)
Socioeconomic Compliance 2016			
Management Approach (103-1; 103-2; 103-3)		<p>Australian Ethical pursues opportunities to act both independently and collaboratively with other investors as well as with non-investment companies and groups. We are active participants in a number of investor organisations including the UN Principles for Responsible Investment, Responsible Investment Association of Australasia, Investor Group on Climate Change, Portfolio Decarbonisation Coalition, Financial Services Council and Association of Superannuation Funds of Australia Limited.</p> <p>Socio-economic compliance is central to our ethos and is managed through the EAG Committee who reports quarterly to Board.</p>	
419-1	Non-compliance with laws and regulations in the social and economic area	There were no fines for non-compliance with laws and regulations in the social and economic area.	I (no limitations)
Financial Services Sector Disclosures (G4)			
Audit			
G4-Disclosure on Management Approach		Pages 9, 15, 16, 22, 24 Ethical Investment Policy	I (no limitations)
Product Portfolio			
G4-Disclosure on Management Approach		Pages 9, 15, 16, 22, 24 Ethical Investment Policy	I (no limitations)
FS6	Percentage of the portfolio for business lines by specific region, size and by sector	Annual Report pages 7, 18, 20 and 21	
Active Ownership			

Topic Specific GRI Standard and Disclosure	Description	Page/Reference or further information	Internal/External Boundary
G4-Disclosure on Management Approach		<p>Australian Ethical pursues opportunities to influence better management by companies of their impacts on people, animals and the environment i.e. to increase positive and reduce negative impacts. This may include influencing through private engagement, voting, public praise or criticism, shareholder resolutions and divestment.</p> <p>Australian Ethical will pursue opportunities to measure and report on the impact of its action to further the aims of the Ethical Charter. This is important as a tool both for increasing impact and for demonstrating impact to Australian Ethical members and other clients and stakeholders.</p> <p>Proxy Voting Policy</p>	
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues	<p>We do not track the percentage of companies within our portfolio regarding engagement, as our investment portfolio changes throughout the year. However, we have engaged with more than 300 companies this year (including those we do and don't invest in) to influence them to greater alignment with the principles of the Australian Ethical Charter.</p> <p>Our Ethical Influencing</p> <p>Ethical Investment Policy</p>	I (no limitations)
FS11	Percentage of assets subject to positive and negative environmental or social screening	<p>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).</p> <p>Ethical Investment Policy</p>	I (no limitations)
Australian Ethical Specific Material Topics			
Credibility of Investment Team			
	Management Approach (103-1; 103-2; 103-3)	<p>The key output of Australian Ethical are managed funds, superannuation and pension investments that are aligned to our ethical charter and then selected by the investment team for their investment potential. Australian Ethical flagship Australian Shares fund and Emerging Companies fund (\$416 m) focus on micro and small caps stock and are actively managed by the investment team. The investment team works closely with the ethics team to manage the ethical investment process. The remuneration of the investment team is linked to the performance of the portfolio and is governed by the Remuneration Policy (refer to the Remuneration Report within the Annual Report).</p>	I (no limitations)
Values and Culture			
	Management Approach (103-1; 103-2; 103-3)	Pages 34, 35	I (no limitations)

Topic Specific GRI Standard and Disclosure	Description	Page/Reference or further information	Internal/External Boundary
Customer Service			
Management Approach (103-1; 103-2; 103-3)		Page 36 Customer service performance is evaluated through daily monitoring of call volumes and categories of calls; monthly monitoring of customer service data trends, customer complaints and retention rates of customers. An annual Net Promoter Score (NPS) survey is conducted. Data from all these sources is used to evaluate, and, if necessary, re-evaluate team priorities, and to develop the product and service enhancement roadmap.	I (no limitations)

How we engage with our key stakeholders

Our key stakeholder groups are identified as those on whom our activities directly impact, and who in turn, can have a significant impact on the way we do business. We constantly engage with our key stakeholders as set out in the table below. These interactions help support our belief that the topics addressed in this report, correctly reflect the sustainability context of our business activities and our impacts on clients, shareholders, employees, and the world around us.

Stakeholders	Touchpoints
Customers	Members Annual brand research online survey, Net Promoter Score (NPS) survey, digital onboarding process, significant event notices, biannual Good Money magazine, half-yearly and annual statements, online member portal, responding to email, social media and phone enquiries, invitation to vote for Community Grants recipients
	Investors Biannual Good Money magazine, annual brand research telephone survey, Net Promoter Score (NPS) survey, half-yearly, annual statements and distribution statements, online portal, responding to email, social media and phone enquiries, significant event notices, invitation to vote for Community Grants recipients
	Advisers Adviser updates via email, face-to-face engagement at professional development days, site visits, invitation to vote for Community Grants recipients
	Employers Emailed notices, employer portal, one on one site visits, tailored induction kit for new employees
	Shareholders Annual and Sustainability Report, dividend notices, Annual General Meeting, ASX notices, shareholder self-serve online portal, invitation to vote for Community Grants recipients
	Investee companies Proxy voting, meetings with management teams, advocacy engagements
	Community Engaged multiple times a day with a very active social media community of more than 119,000 followers, also invited social community to vote for Community Grants recipients. Met with community at events such as IQ2, Moral Fairground, the Purpose Conference, B Corps events, RIAA and ASX speaking spots, we also enjoyed an active media presence in FY18 including mainstream including broadcast coverage on ABC TV and SkyBusiness News.

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