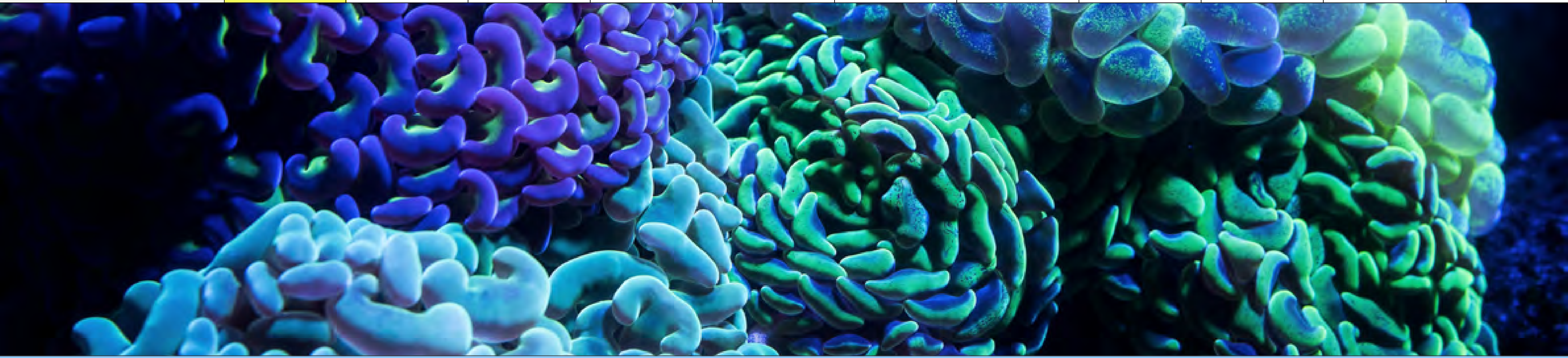
Australian Ethical

Sustainability Report 2022

Investing with heart



Welcome to the Australian Ethical Sustainability Report for 2022

Our purpose is investing for a better world. This means that as well as striving to deliver great financial outcomes for our stakeholders, we must also understand and mitigate our impacts on people, on animals and on the world around us.

In this report we seek to show how our advocacy, investments, climate action, community support and people and culture initiatives are critical for both our future business success and our future more broadly.

We continue to evolve our sustainability reporting to reflect developing global standards and the concerns of our stakeholders. Since 2002 we have used the Global Reporting Initiative (GRI) reporting framework to help us track and report our impacts. In 2017 we began mapping the alignment of our share investments to the UN's Sustainability Goals. In 2018 we released our first annual TCFD Report and in 2020 we added a statement encompassing our Modern Slavery concerns. In 2021 we set an ambitious 2040 net zero target for our company and other private sector investments, bringing forward the 2050 target we set in 2015.

You'll notice that our sustainability report aligns with the pillars our business strategy; that's because we believe sustainability is not an optional extra, but instead should be at the fundamental heart of every business.

As in previous years, we have asked KPMG to assure some key sustainability disclosures in our reporting. Data points that are covered by the limited assurance are identified in the document. KPMG's assurance opinion is available on page 57.

About us

We're Australia's largest and original 100% ethical investment manager. Since 1986 we've been helping people make money and a difference. At the same time.

FY22 highlights

Financial

$6.2 billion
in funds under management

$0.9 billion
in positive net flows

$10.3 million
underlying profit[1]

$0.4 million
performance fee on Emerging Companies Fund (ECF)[2]

Growth

46% growth
in adviser channel net flows

17% increase
in funded customer[3] numbers

Still the fastest-growing
super fund over 5 years by members[4]

Innovation

2 new products
launched including our first ETF

Our first mobile app
for managed funds launched

Investment portfolio

77% lower
CO_2 intensity for listed companies in our portfolio compared to benchmark[5*]

5.6x more
investment in renewables and energy solutions than benchmark[6]

1.8x more
revenue from sustainable impact solutions[7*]

3.7x more
more revenue from sustainable water and agriculture & pollution prevention[7]

An ethical business

Nil investment
in fossil fuel companies, nuclear, tobacco, gambling companies[8,9]

450+ companies
engaged with for people, planet & animals[10]

Best for the World
for Customer & Governance by BCorp[11]

Our Foundation

$1.6 million
allocated for impact initiatives via the Foundation

>$8 million
allocated to not-for-profits since inception

Excellence

Best Australian Shares ESG Fund
for Diversified Shares – Money Magazine Best of the Best 2022

Best sustainable super fund
Winner SuperRatings Infinity Award (3rd time awarded)

#1 NPS
for super[12]
for customer advocacy for super[12]
for HNW managed fund investors[13]

Top quartile
employee engagement of 79%[14]

1. Attributable to shareholders.
2. Australian Ethical's Emerging Companies fund (wholesale) outperformed its benchmark, the S&P/ASX Small Industrials for the 12 months to 30 June 2022.
3. Includes both funded super fund members and managed fund investors.
4. KPMG 2022 Super Insights Report, published May 2022, using statistics from APRA and ATO as at 30 June 2021.
5. Carbon intensity (measured as tonnes CO2e per $ revenue) of Australia Ethical share investments compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.
6. Proportion of our share investments in renewables and energy solutions compared to the blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.
7. Revenue from impact solutions compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.
8. We don't invest in companies whose main business is fossil fuels or gambling. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).
9. We have never invested in tobacco and support Tobacco Free Portfolios. For more information on our Ethical Criteria, visit australianethical.com.au/why-ae/ethics/ethical-criteria
10. Total includes lending our voice to support others' initiatives, engaging with companies, the investment community or government directly (on our own or with others), and filing and voting on shareholder resolutions. Represents FY22 activity.
11. BCorp 'Best for the World Honouree' Customer 2022 and BCorp 'Best for the World Honouree' Governance 2022. The Best for the World Honourees' are BCorps whose score in the top 5% of all 3,500+ BCorps worldwide. This relates to the Australian Ethical entity, not the investment portfolio.
12. Investment Trends Super Member Engagement Report May 2022 – Independent research with 23 major super funds surveying over 7,500 Australians.
13. Investment Trends High Net Worth Investor Report – November 2021.
14. Top quartile Australian Financial Services Benchmark (Culture Amp, June 2022).

* Data included in KPMG limited assurance scope. KPMG's assurance opinion is available on page 57.

Our purpose

At Australian Ethical we know it's possible to pursue both business objectives and sustainability objectives together. Profit with purpose is not only possible, it's essential.

We believe by investing in assets that have a positive impact on the world around us, and restricting investments with negative impacts, we can have a positive influence on the planet and all its inhabitants. We believe that the power of money can be harnessed to deliver both competitive returns and positive change for people, planet and animals. These beliefs have been driving our investment philosophy and business practices since 1986.

Why ethical?

Our more holistic approach uses all the principles set out in our Ethical Charter in 1986 to seek out companies making a positive impact and to avoid those that don't. More than 30 years later and we have not steered far from these original beliefs. We are still committed to investing for a better world at a time when it has never seemed so urgent.

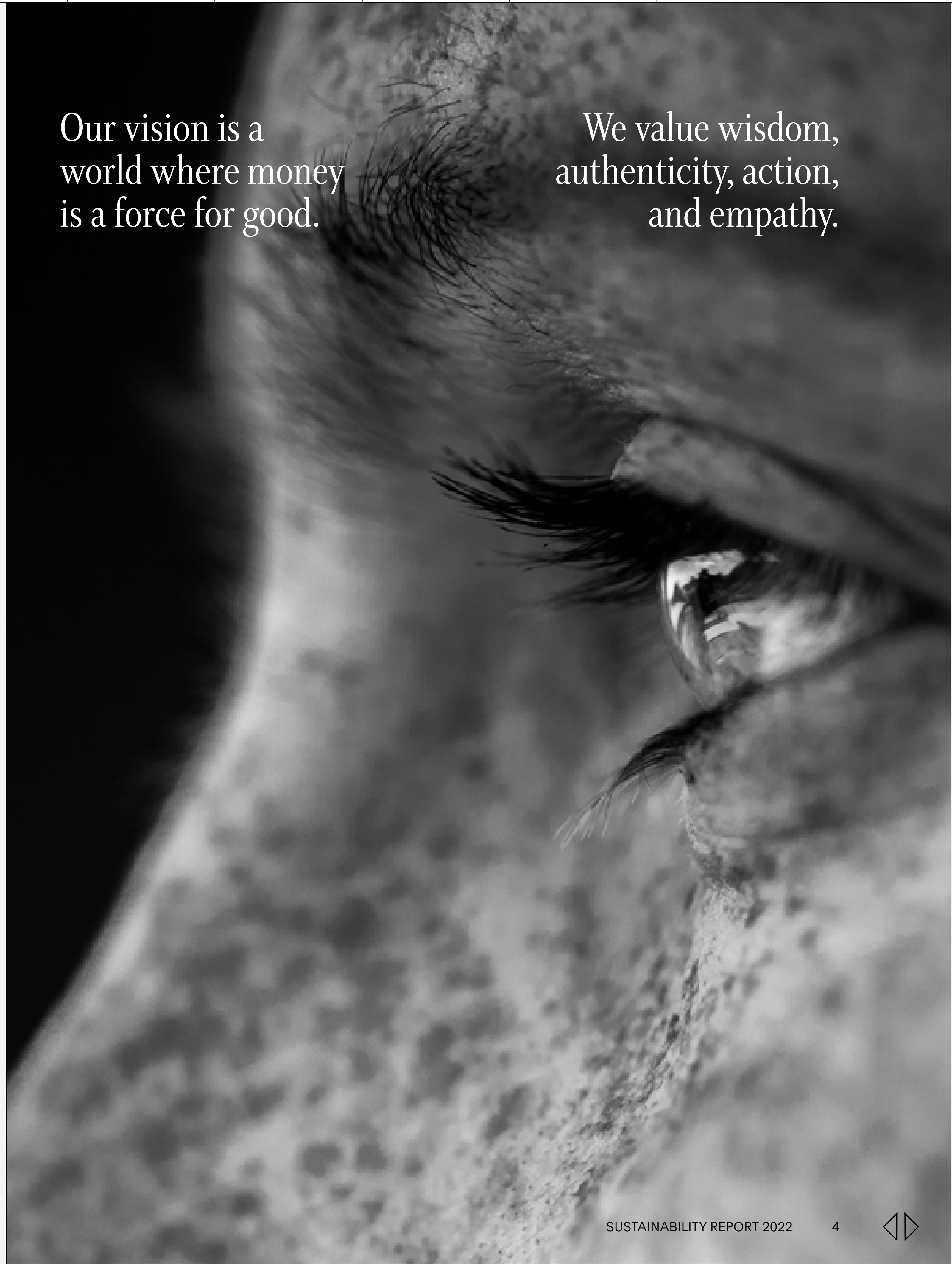
This sole purpose is embedded across our organisation and drives our everyday activities as a business, investor, brand, employer and corporate citizen. Being able to clearly articulate our company's purpose, motivates us to do our best not just for our immediate stakeholders, but for the broader good of people, planet and animals.

Our purpose ensures that we always look beyond the short-term and keep the future in mind when we make our day-to-day decisions in pursuit of more sustainable solutions. We bring this to life by:

- Embedding ethics into our investment process
- Putting ethics at the heart of how we do business
- Acting as responsible long-term stewards of capital
- Using our influence to advocate for meaningful change
- Donating 10% of our profits[15] to effective solutions addressing the climate emergency
- Exercising transparency and disclosing our activities

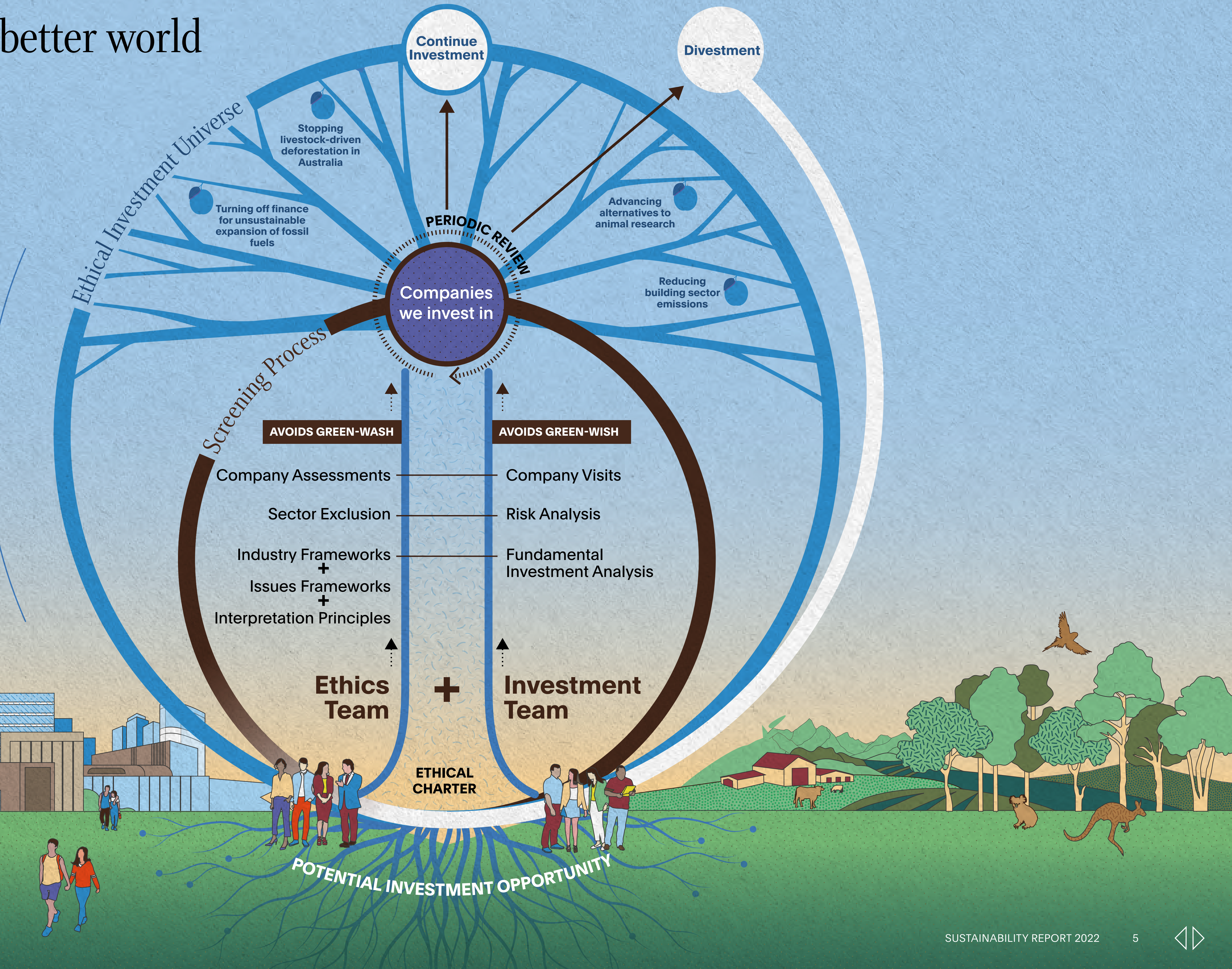
Our success as a purpose-driven company proves that a more inclusive and sustainable model is possible. It shows that companies and investors don't have to stop pursuing profits for shareholders. But until purpose and sustainability are authentically embedded in every business strategy, our collective efforts will always fall short of challenging business-as-usual.

15. After tax and before bonuses



Investing for a better world

BETTER FUTURE FOR PEOPLE, PLANET AND ANIMALS



Our theory of change

The screening of our ethical investment universe:

- affects cost of capital
- with publicity, has a signalling effect
- increases effectiveness of engagement (by providing consequences for non-productive dialogue)

Through our ethical stewardship and advocacy, we also pursue positive change in the behaviour of peers, companies, governments, consumers and citizens.

We make a difference by directing investment towards better businesses and by encouraging those businesses to do better again in the areas that matter most.

How we do it

1. Ethical assessment

Our inhouse Ethical Research team applies a holistic assessment of possible investee companies using all 23 principles of our Ethical Charter. This process identifies companies making a positive impact on the planet, people and animals, and avoids those that don't. This determines the universe of potential investments.

2. Investment Analysis

Once a company passes our ethical assessment, for our active strategies, our Investment team uses fundamental analysis to evaluate each company's financial value drivers and determine whether it qualifies as a portfolio candidate.

This approach allows us to construct resilient portfolios of companies that are managing the environmental and social footprints of their operations.

3. Active engagement

We don't just set and forget, monitoring and active engagement is an important part of our process to influence corporate behaviour and create positive impact.

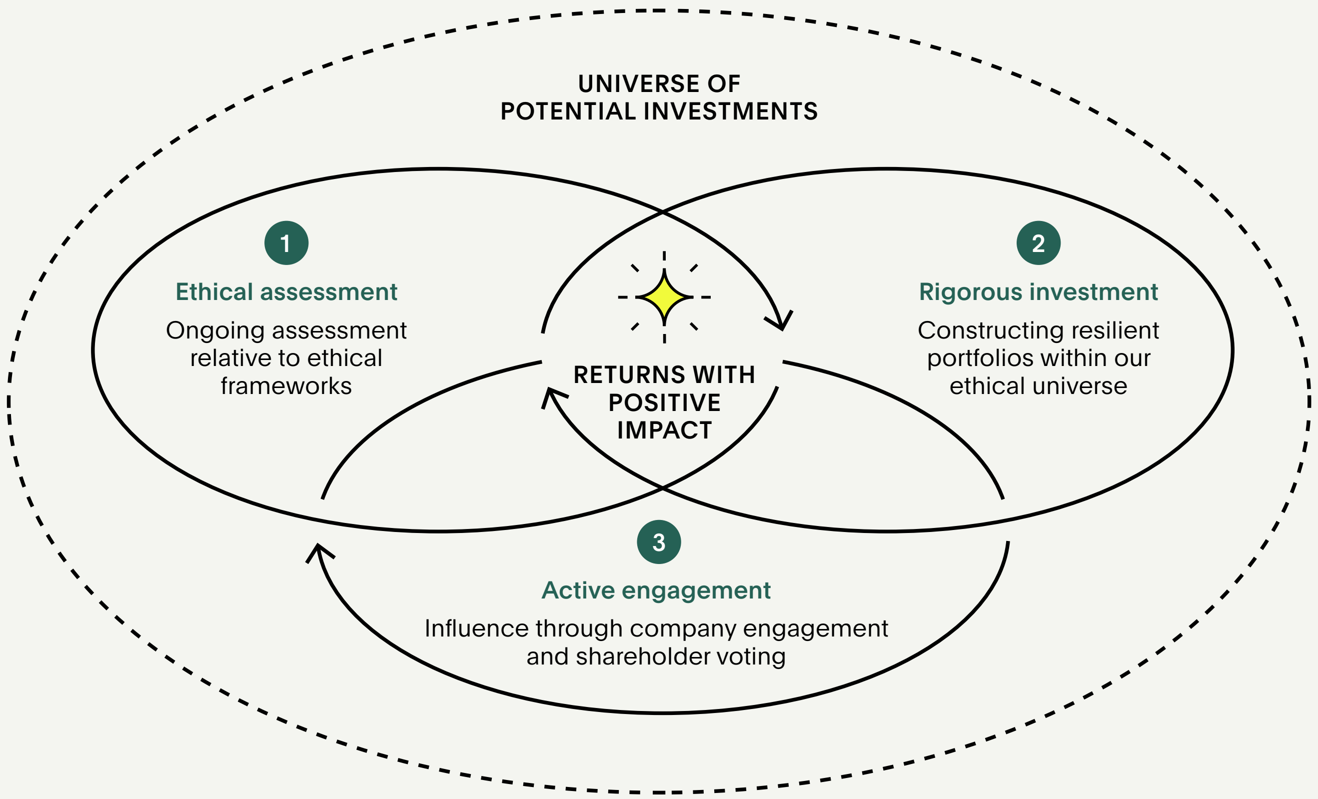
Two distinct pillars

Our separate ethics and investment teams share information and perspectives, but have independent accountability for impact analysis and risk/return analysis.

This structure and approach promotes investment capacity and portfolios aligned with positive structural trends and reduced social-licence and operating risks.

It protects against underweighting disruption risk (due to status quo or anchoring bias) or succumbing to greenwash when short-term financial prospects appear attractive.

It protects against green-wish when strong ethical credentials can lead to under-weighting of financial risks.



Investors are part of the solution

In August 2021 the IPCC sounded a 'code red for humanity' while in October COP26 reminded capital markets and investors of the critical role they must play in the road to net zero. We believe that if the huge power of financial organisations is to be properly harnessed to drive a different future, we must all stop addressing social and environmental issues as externalities.

This means all investors must:

- Intentionally pursue positive impact by assessing the environmental and social value delivered by companies and assets
- Evaluate a 'good investment' not just on whether it is better than before, but on how it can help keep the economy within necessary planetary thresholds
- Influence the rules of the game by actively calling for better sustainability-driven regulation and corporate behaviour

Finance has power and responsibility in a market economy, especially when politics is increasingly captured by lobbying and short-term thinking. How it responds is paramount. It is not just about the impact on investment returns, but the materiality to society. We see this as both an imperative and an opportunity to grow ethical investing and make it the most natural choice for all investors.

It's now or never:

- We know consumers want their money to do good, research from RIAA shows that 4 out of 5 Australians (83%) expect their bank account and their super to be invested responsibly and ethically.[16]
- There's $3.3 trillion in superannuation in Australia alone[17], so our industry can help shift capital away from companies that harm to companies with a positive impact
- We need to provide funding for the green transition, a segment which we believe provides great opportunity for investors
- We need to educate investors about the risks of being left with carbon-intensive stranded assets lurking in their super funds and investment portfolios.
- As a first step, have a look at the portfolio holdings of your super or managed fund – you may be surprised!

16. From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, 2022, Responsible Investment Association Australasia
17. superannuation.asn.au/resources/superannuation-statistics

The truth about ESG

Indeed many investors would be shocked at the companies that still pass the Environmental, Social and Governance (ESG integration) screens of their super or managed fund.

Despite having 'environmental' in its name, applying ESG integration in your investment approach does not automatically screen out investments in environmentally damaging companies. Rather, an ESG approach assesses a company or investment for the possible risks posed by environmental, social or governance issues and weighs up any potential financial implications for the investor to ensure they are correctly priced in.

That is, an ESG approach doesn't necessarily stop the fund investing in a fossil fuel company, but rather ensures that the fund is not paying too much if it does invest given the known ESG risks

Financial concerns still paramount

That financial concerns remain paramount with an ESG integration approach, became abundantly clear in early 2022 when Russia's invasion of Ukraine led to a surge in fossil fuel prices and consequently an increase in valuations in this sector. Many investors who had been touting the environmentally friendly aspects of their ESG process, were quick to jump back into traditional energy companies when they calculated the financial outcomes made these risks worth their while.

Though these decisions may seem financially beneficial in the short-term, they are indeed missing a raft of much bigger, indeed existential risks:

- Climate change represents a fundamental and systemic risk to the finance industry itself. For example, the costs of floods, fires and coastal erosion are already hitting insurers hard and consequently making insurance too expensive for many of its traditional customers; are citizens going to continue to buy and will banks continue to lend on homes that are uninsurable and at increased risk from flood or fire?
- The more investors continue to enable the big polluters to continue expanding – regardless of the money they're making from it now – only helps to compound the risks to financial system;
- We are at the start of a transition that only needs to accelerate to avoid the worst effects of climate change. Carbon intensive assets, indeed traditional energy and mining stocks that have represented 'blue chip' investments for decades, will carry the risk of rapid devaluation, leaving investors with significant losses and even stranded assets.

How we fared in a year of change and volatility

Like others we have been impacted by the widespread uncertainty in global markets, without the short-term 'benefit' of the spike in energy and fossil fuel companies where we do not and will not invest. Through this all we have retained our focus on investing for a better world, while delivering our high growth strategy.

Despite many obstacles and challenges, we have seen continued momentum in all aspects of our business, demonstrated by continued strength in our key growth metrics and amplified by the ongoing diversification of our products and channels.

Our key growth metrics

- We saw $940 million of positive net flows in the year. This was down 8% year-on-year after the loss of an institutional client (a superannuation provider that is merging with another).
- Flows from super customers were up 22% in the period.
- Flows from our core retail and wholesale customers were up 20% - to a record $1.14 billion in the financial year.
- Despite the market volatility and unlike many of our competitors, we still recorded absolute funds under management growth of 2% for the financial year.

Performance

We remain pleased with the long-term performance of our investment strategies, however our short-term performance in FY22 was not immune to the broader market pressure. Indeed, many of the better performing ASX companies over the financial year were in the carbon-intensive resource sector in which we are heavily underweight. The current dynamics in global energy markets is delivering windfall profits for fossil fuel companies in the short-term, where we don't invest. Meanwhile our long-term overweight allocation to smaller innovative ASX companies detracted from recent returns. These earlier stage, small, growth-orientated industrial companies have underperformed in the rising interest rate environment, although we remain confident in their long-term growth prospects.

When markets are falling, it's easy to become reactive and drift from established principles and processes in response to short-term market conditions. But having a singular focus on ethical investing, guided by our Ethical Charter, provides a stable lens through which to view the world.

Long-term focus

We believe the outlook for the long-term performance of our funds remains strong. Current geopolitical events and natural disasters only serve to underscore the importance of energy security and tackling climate change.

Our ethical investment philosophy has a long-term and strategic focus on future-building companies that will thrive in a low-carbon economy. We also take comfort in our years of experience, long-term performance figures and an investment approach that has been tested and proven over multiple cycles.

"When markets are falling, it's easy to become reactive and drift from established principles and processes in response to short-term market conditions. But having a singular focus on ethical investing, guided by our Ethical Charter, provides a stable lens through which to view the world."

Delivering our high growth strategy

Australian Ethical is one year into our high growth strategy and we remain committed to capturing the seismic shift towards ethical investing. With better outcomes for people, planet and animals baked into every investment decision, our growth benefits a wide range of stakeholders.

This report is structured according to the four pillars of our high growth strategy. Pillars which are underpinned by our diverse, innovative high-performance culture and designed to deliver our purpose of 'Investing for a better world.' Over the coming pages we report on the impact of this growth strategy and demonstrate that at Australian Ethical sustainability is not an optional extra, but lives at the very heart of everything we do.

Our strategic pillars

Our purpose is to invest for a better world

1. Principled investment leadership

Deliver leading products with long term competitive returns & portfolio resilience for investors.

Be a powerful proof-point for ethical investing.

2. Advocates for a better world

Fostering a coalition of co-investors in the cause for a better world.

A bold voice harnessing people power and strength of community through purpose resonance and action.

3. Compelling client experience

Deliver a seamless, modern, engaging and competitive client experience to support the creation of a better financial future for investors.

4. Impactful business

Build scale and scalability through brand preference, channel and product breadth and efficient infrastructure.

Delivering attractive shareholder returns and significant positive outcomes.

Leadership & innovation

Drive a diverse high-performance environment and culture of innovation

Three-year scorecard

In FY22 we focused on the delivery of our strategy and remained true to our ethical investment philosophy, despite challenging market conditions. We saw strong growth in retail and wholesale net flows, revenue and customer numbers. The carbon intensity of our portfolio continued to compare favourably with the market, as did our proportional investment in renewables. Due to ongoing Covid-related public health orders and personal preferences, many of our employees continued to work remotely with the support of upgraded technology. Despite this remote model, our employee engagement remains in the top quartile for our industry.

Our three-year progress is summarised in this scorecard, the detail is set out in the body of this report.

How we measure our progress:

- Growth in good money measured by funds under management and growth in funded customers*
- Good governance of our business measured by sustainable profit and total shareholder return
- Progress towards a net zero emissions investment portfolio measured by CO_2 emissions of the listed companies we invest in versus Benchmark[1^] and investment in renewables and energy solutions. This metric has been updated for FY22 and is therefore not directly comparable with the previous renewable power generation metric. Please see page 24 for further details
- The proportion of revenue from sustainable impact solutions aligned to the global Sustainable Development Goals versus Benchmark[2]
- Tracking of companies engaged
- Growth in funding provided for community impact
- Stakeholder satisfaction measured by the annual employee engagement survey and annual Net Promoter Surveys (customer engagement) conducted for investors and members

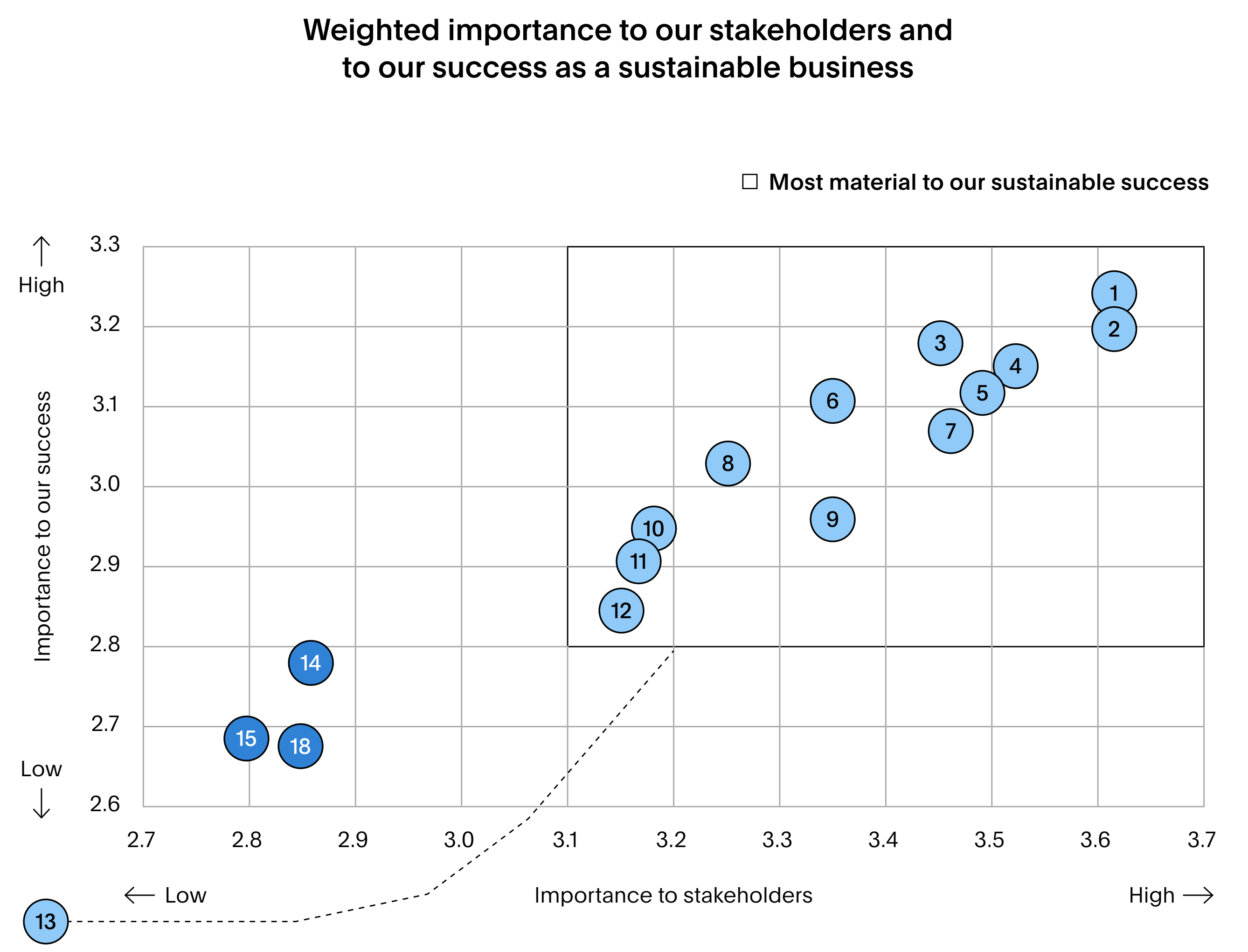
Metric	FY20	FY21	FY22
Growth in good money			
Total FUM	$4.05bn (+19%)	$6.07bn (+50%)	$6.2bn (+2%)
Funded customer numbers*	57,814 (+20%)	71,273 (+23%)	83,066 (+17%)
Good governance			
Profit after tax (NPAT)[3]	$9.5m	$11.3m	$9.6m
Share price as at 30 June	$6.66	$8.44	$4.66
B Corp Best for the World Governance	Achieved	Achieved	Achieved
Net zero emissions by 2050			
Scope 1, 2 and 3 operational emissions per full time equivalent employee[4]	6.9[5]	4.4	5.5
Scope 1, 2 and 3 operational emissions[4,5]	449.5	349.8	569.6
Offsetting of reported operational Scope 1, 2 & 3 emissions	100%	100%	100%
Carbon intensity of share investments compared to Benchmark[6^]	75% less	77% less	77% less
Proportion of our share investments in renewables and energy solutions comparison[1]	5x	13x	5.6x
Sustainability impact			
Proportion of revenue from sustainable impact solutions aligned to the SDGs v Benchmark[2^]	3.5x Benchmark	2.5x Benchmark	1.8x Benchmark
Engaging for good			
Companies engaged with on ethical issues[7]	More than 400	More than 500	More than 450
$ allocated for impact through the Australian Ethical Foundation	$1.3 million	$1.8 million	$1.6 million
Social media community	134,000+	138,000+	143,000+
Stakeholder engagement			
Managed fund NPS[8]	+58	+32% (No.1)	+51% (No.1)
Super NPS[8]	+63	+49% (No.2)	+52% (No.1)
Employee Engagement[9]	86%	82%	79%

1. Metric calculation methodology and data source has changed over the three-year period, so figures are not directly comparable. FY20 comparison was to the global share market. FY21 and FY22 comparison is to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). For FY22 investment in large scale hydro has been excluded, and we include investment in other energy solutions like batteries and other energy storage supporting renewable energy. More information here.
2. Based on the 'sustainable impact' revenue earned by companies whose shares we invest in, compared to Benchmark^. Shareholdings as at 30 June 2022. More information on page 90.
3. NPAT attributable to shareholders, which excludes the results for the Australian Ethical Foundation Limited ('The Foundation')
4. Units are tonnes of CO2 emissions per annum (tCO2-e p.a.).
5. Each year we have expanded the scope of our operational emissions foot printing, increasing the emissions we report. For more information see page 25 and our Climate Report.
6. Carbon intensity (tonnes CO2e per $ revenue) of Australia Ethical share investments compared to Benchmark.^ Shareholdings as at 30 June 2022. More information on page 24.
7. Total includes lending our voice to support others' initiatives, engaging with companies directly (on our own or with others) and filing and voting on shareholder resolutions. Represents FY22 activity. More information on page 60 and in our Stewardship Report.
8. From FY21 we use the Investment Trends High Net Worth Investor Report to measure the satisfaction of our Managed Funds Investors and Investment Trends Superfund Member Engagement Report for super member satisfaction. In FY22 we were No. 1 for NPS, Investment Trends Super Member Engagement Report May 2022 – Independent research with 23 major super funds surveying over 7,500 Australians; and No.1 NPS for High Net Worth (HNW) managed fund investors, Investment Trends High Net Worth Investor Report – November 2021
9. Culture Amp Survey, June 2022 (Top quartile Australian Financial Services Benchmark)

^ Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings).

* Each platform is regarded as one investor (in managed fund investor numbers) as platforms don't disclose investor numbers. As at end FY22, we had 23 platform accounts. Note: Super members may also be Managed Fund investors.

Our 2022 reporting suite



2020 topics

1. Screening of investments
2. Ethics and integrity
3. Compliance
4. Values and culture
5. Processes to prevent corruption
6. Climate change risk and opportunities
7. Assessment of ESG of operations
8. Credibility of investment team
9. Transparency of our investment portfolio
10. Auditing of investments
11. Economic performance
12. Engagement with companies
13. COVID-19 (outlier)
14. Product knowledge of our staff
15. Customer experience
16. Engagement with stakeholders

GRI Standards

We have been reporting to the GRI Standards since 2002 and again cover these in our reporting. We have chosen these criteria as they help us to be transparent about how we conduct our business. They also allow us to identify current, emerging and future sustainability issues so we can build them into our business strategy moving forward.

In this report, in response to our stakeholders' priorities, we address all the material topics identified below but pay particular attention to the screening of our investments, ethics and integrity, values and culture, climate change risk and opportunities, credibility of our investment team and transparency of our investment portfolio.

We understand that our business and financial decisions can have an impact on one or all of our stakeholder groups and are committed to actively maintaining a strong connection with the world around us. We, like every human and every business on this planet, were still adjusting to the impacts of the pandemic in FY22. Despite the volatility of investment markets, the war in Ukraine and unprecedented global climate impacts, the fundamentals of business remain the same. As such, we have reported against the materiality outcomes that applied to our business in FY20 and FY21. In FY23 we will conduct a new stakeholder assessment and adopt the updated GRI Universal Standards.

Covid-19 still relevant

In our FY20 materiality assessment, Covid-19 appeared as an outlier topic. Our management team thought differently and wanted this important topic included in our matrix. Our top 13 material topics therefore include the 12 identified on the matrix below plus Covid-19. These topics have been mapped to the GRI Standards to provide the framework for this, and our previous two reports.

Principled investment leadership

Investment performance

Our short-term performance was not immune to the very challenging market conditions in FY22. Rising interest rates, the war in Ukraine and increasing bond yields presented a difficult environment for investors and were a reminder of the inherent volatility of share markets.

The first half of FY22 saw many of our funds tracking on or above benchmark for the six-month period. However, in the second half of FY22, many of the better performing ASX companies were in the carbon intensive resources sector, in which we are underweight, so our relative performance was impacted. Meanwhile, our allocation to smaller growth-oriented companies also affected our investment performance in the period.

For the year to 30 June 2022, our Australian Shares Fund (ASF) underperformed its benchmark[18] over one-year but remained above benchmark for all periods of three years or greater. Our ASF (wholesale) achieved top quartile returns for three-, five- and ten-year time periods.[19] Our Emerging Companies Fund outperformed its benchmark[20] for all periods including one-year, resulting in a performance fee of $0.4 million for FY22. The fund also achieved top quartile returns across three and five-year periods.[21]

For our super members, our Balanced option underperformed over one- and two-year periods but remained above benchmark[22] for all periods of three years or greater. Finally, our Australian Shares option underperformed its benchmark[23] over one year but outperformed for periods of two-years and above.

Looking forward, we believe the outlook for the long-term performance of our funds remains strong. Indeed, current geopolitical events and natural disasters only serve to underscore the importance of energy security and tackling climate change. Our ethical investment philosophy has a long-term and strategic vision, focusing on future-building companies that will thrive in a low-carbon future. This is what our customers expect, and we remain committed to this approach.

Our performance and returns are set out on our website.

18. Benchmark is composite S&P/ASX Small Industrials Accumulations Index till 12 August 2019 & S&P/ASX 300 Accumulation Index thereafter.
19. For the wholesale funds in their respective Mercer surveys as at 30 June 2022.
20. Benchmark is S&P/ASX Small Industrials Accum Index.
21. For the wholesale funds in their respective Mercer surveys as at 30 June 2022.
22. Benchmark changed from Morningstar Multisector Growth - Superannuation to SuperRatings SR50 Balanced (60-76) Index from 1 Dec 2019.
23. Benchmark changed from S&P/ASX Small Industrials (Net of tax and admin fees) to ASX 300 Monthly Index (Accum.) (Net of tax and admin fees) on 1 Dec 2019.

Delivering long-term, risk-adjusted returns

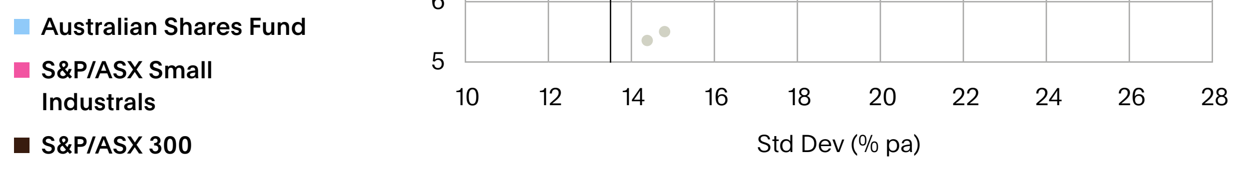
We assess every potential investee company to determine whether it is part of the path to a better future for people, animals and the environment. Every one of our products is underpinned by the same deep ethical approach. This means we go beyond single-issue screening and beyond ESG risk analysis. Of course there are companies and sectors that we would always rule out - such as tobacco and coal companies for example - but for every potential investment we consider, we first make a comprehensive and forward-looking ethics assessment. This considers a range of positive and negative impacts, and we only invest if we think it aligns with the principles of our Ethical Charter.

While our Charter remains unchanged since 1986, the ethical frameworks we use to interpret it are continually updated as the world and our understanding of it changes. We believe that incorporating ethics screening into the investment process does not detract from long term performance, but in fact assists us to identify investment risks and opportunities earlier than many other investors.

The process enables us to build a more complete understanding of the prospects of the companies in our ethical investment. And when this is coupled with the formidable know how of our award-winning investment team, the outcome is well-diversified portfolios of forward-looking investments that can help build a sustainable economy while delivering, long-term, risk-adjusted returns for our customers.

Risk/return over ten years to 22 June 2022

Our flagship Australian Shares Fund demonstrates higher returns and lower risk than Benchmark and higher returns and a similar risk profile to the S&P/ASX 300 over the 10 years to 30 June 2022.



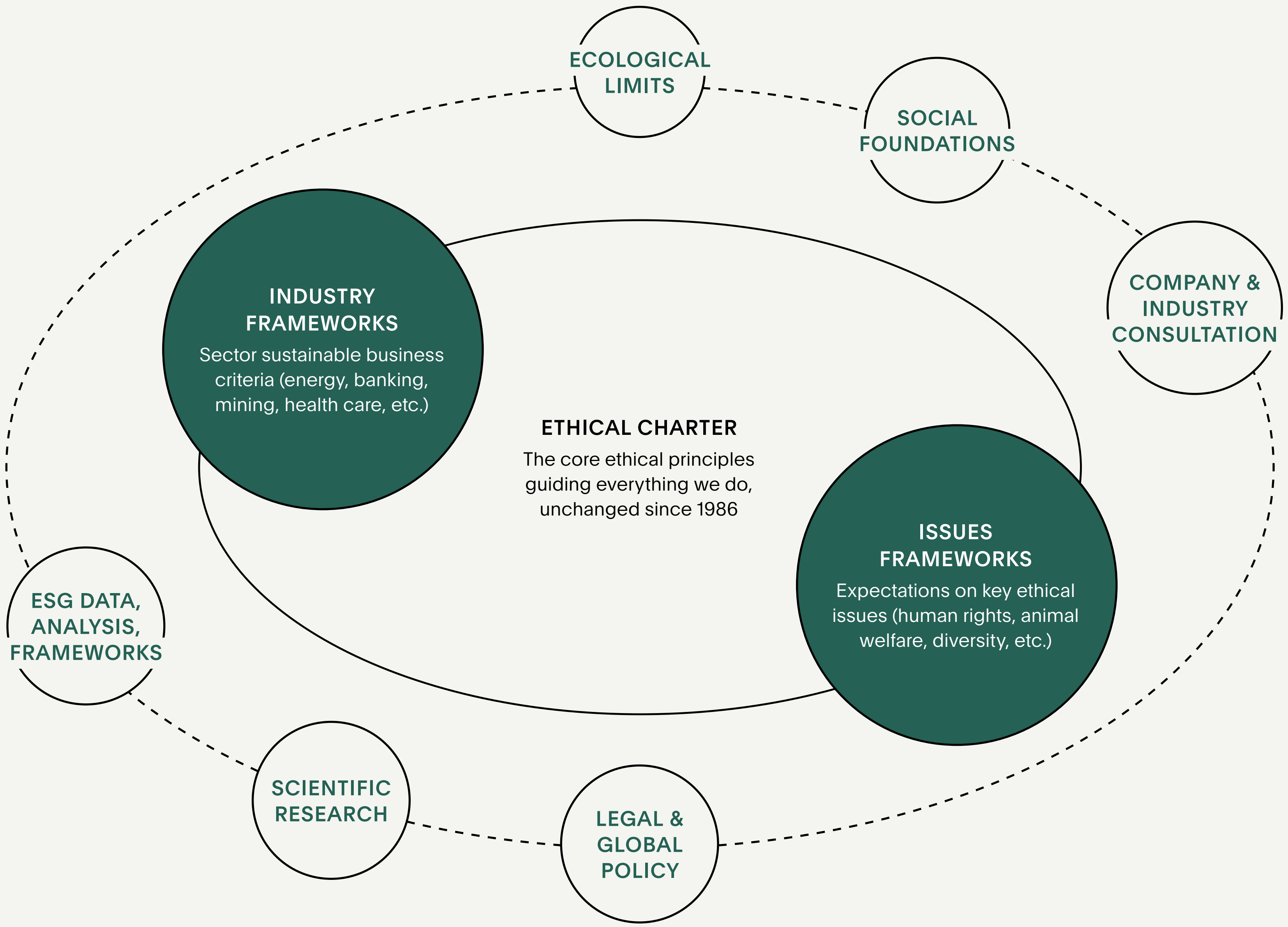
Source: Mercer. Comparison with the Retail-Equity - Australia - All Cap universe (monthly calculations) Return and Std Deviation in $A (after fees) over 10 years ending June 22

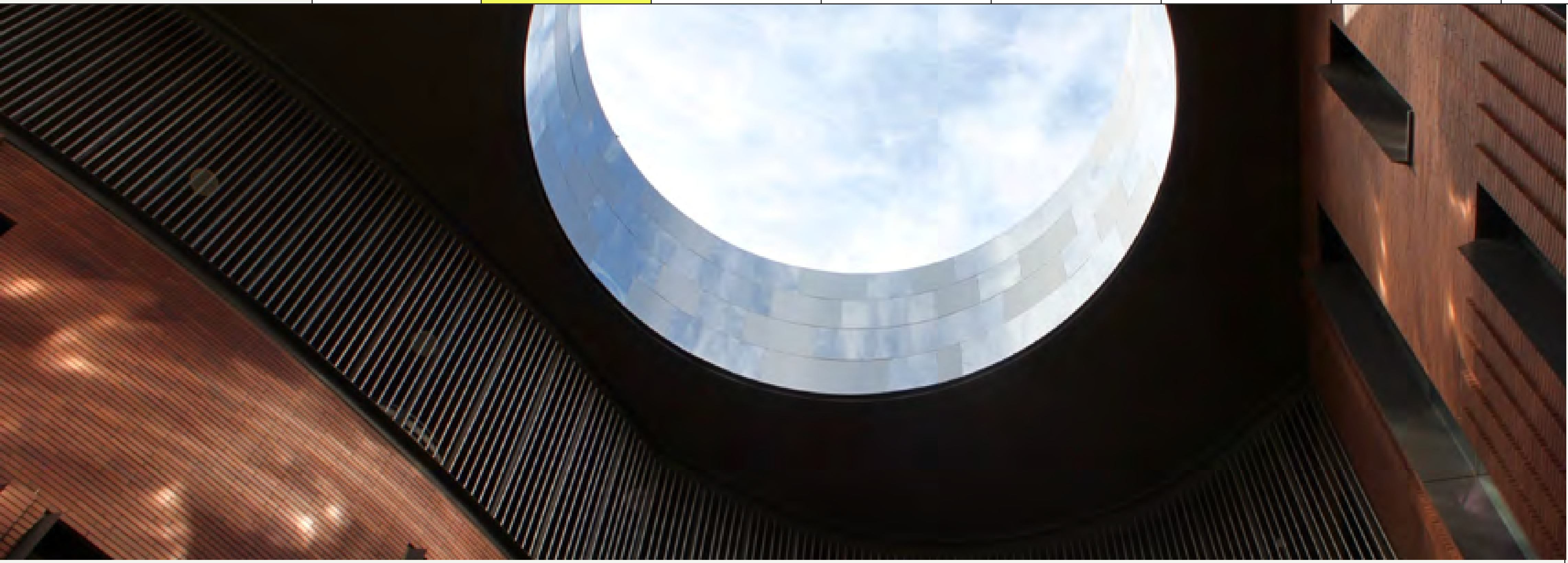
Our Ethical Charter at the heart of what we do

The Ethical Charter sets out 23 high level principles. Our in-house Ethics Research team develop frameworks comprising a mix of quantitative and qualitative criteria that set out how the Charter principles will apply to different industries and issues.

In developing these bespoke frameworks, the team conducts deep research and analysis. They interrogate data from multiple providers: civil society, industry association reports, NGOs, CSIRO and science journals. They conduct consultations and look at international standards. The team considers issues from different angles and grapples with any contentious issues. For example, how should we respond to the excessive consumerism that is harming the planet without being prescriptive about how people should use their discretionary income? With respect to social media, how should we think about free speech, misinformation and content which harms and marginalises people? The output of this thinking might be that we rule out investment in a sector altogether, or that we invest very selectively in a sector.

Importantly, our assessment of a possible investment against the Charter can change over time. 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 seek to apply influence to the business to 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 it out of alignment, we will attempt to influence it back to the right path or divest.





The beneficial balance: applying tolerances

Revenue tolerances

As an ethical investor, our customers have particular interest in how we select and scrutinize the companies we invest in. Many of the companies in the ASX 300 and S&P 500 which form the heart of many of our competitors' portfolios are large conglomerates, often multinationals with complex business structures and diverse interests. There is plenty of potential for these larger companies to conflict with our Charter in some aspect of their business operations, products, services or supply chains. Many of these companies are swiftly screened out by the initial application of our Charter. Indeed a large proportion of our investments tend to be in the medium-sized or small caps arena.

Despite this tendency, we do consider companies of all sizes for inclusion in our investable universe. To help us make this judgement consistently and transparently, we use a range of revenue tolerances.

First there must be positive impact

To pass our ethical screen a company must first be assessed as having a positive impact measured against the principles of our Ethical Charter. The company must meet our sustainability standards for what it does and how it does it. If they meet our positive impact requirements after this assessment, but have other negative impacts from their products or operations, we assess them against our revenue tolerances and other ethical criteria.

We won't invest if a company's business includes making weapons or tobacco products (zero revenue threshold), but if a large, diverse company is positive in other parts of its business, our tolerances allow some limited revenue from some negative products such as alcohol or fossil fuels.

The beneficial balance

For example, a company that earns revenue from alcohol and otherwise has no positive impact will be excluded. While a company that earns some revenue from the production of alcohol may be considered investable in the following cases:

1. If they earn less than 5% of their revenue from alcohol and otherwise have some positive impacts, or
2. If they earn less than 10% of their revenue from alcohol and otherwise have strong positive impacts

We may therefore invest in a manufacturer which earns less than 10% of revenue from alcohol, if it also has strong positive impacts through its production of sustainable plant-based food.

We also consider how closely a company is involved in a harmful activity. For example we treat a producer of harmful products differently to a company which sells or transports harmful products along with other products.

This allows us to invest for example, in the supermarket who on balance provide a positive social impact even though they derive a small amount of their revenue from retailing cigarettes and alcohol. Or an agricultural company which grows wheat for food, but which sells up to 10% of its grain to alcohol producers.

Or as in the example on the following page, a company like Contact Energy which generates 80% of its electricity from renewables but falls back on gas when low rainfall reduces its hydropower.

Continual monitoring

Once invested, we continue to monitor companies' practices and behaviour. If they fall out of alignment, we will engage with them to influence change or divest. If excluded for involvement in negative products or services, we can invest once that involvement ceases. But where a company is excluded for systemic misconduct, a delay of one to three years applies before we would reconsider them.

Transparency

Australian Ethical has been investing and advocating for the good of the planet, people and animals since 1986. We continue to grow the pool of good, sustainable investments for our customers, while expanding the depth and transparency of our investment and impact reporting.

Portfolio holdings disclosure

For many years our customers have been able to see the companies we invest in on our website, while the top 10 holdings, sector and asset allocation for each managed fund have been featured in our monthly fund reports since 2018. In line with new regulations released in 2022, our super customers can see further into their investments with the percentage weighting and dollar value of each company held in their investment option now published on our website.

How we apply our fossil fuel tolerance

Case study

We do not invest

We do not invest in a company which principally derives its revenue from fossil fuels (any combination).

We may invest

Companies can comprise of a diverse range of products, services and supply chains. Before investment a company must first be assessed as having a positive impact measured against the principles of our Ethical Charter. The company must meet our sustainability standards for what it does and how it does it. If they meet our positive impact requirements after this assessment, but have other negative impacts from their products or operations, we assess them against our revenue tolerances and other ethical criteria.

For example, we won't invest if a company's business includes making weapons or tobacco products (zero revenue threshold), but if a large, diverse company is positive in other parts of its business, our tolerances allow some limited revenue from some negative products such as alcohol or fossil fuels. As in this example, we do not invest in fossil fuel companies, but a company that has some exposure to fossil fuels may be considered investable if this exposure is below our tolerances and the company is otherwise positive against our Charter.

Renewable energy company

A renewable energy company whose use of fossil fuels is under our revenue tolerances, for example when renewable generation is unavailable.

Example from portfolio:
Contact Energy

- Up to **33%** for oil & gas
- Up to **10%** for coal

Diversified industrial company

A diversified company which is positive against the Charter for activities such as supermarkets and other retailing but which has some involvement in gas processing and distribution below our tolerances.

Example from portfolio:
Wesfarmers

- Up to **10% or 33%** for oil & gas
- Up to **5%** for coal

Banks

A bank which is aligning its institutional lending with the objectives of the Paris Climate Agreement, but which may have a small exposure via lending to fossil fuel companies.

Example from portfolio:
NAB

- Typically less than **1%** of lending to fossil fuel companies

Some of our ethical exclusions and inclusions this year:

Out (company and concern)

- **Arthur J. Gallagher & Co; The Travelers Companies, Inc**
  Not aligning their insurance services with a transition to net zero in accordance with the Paris Climate Agreement. Insurers and insurance brokers have an important role to help direct new underwriting and capital towards activities which support rather than obstruct a transition to a net zero economy
- **Axel Springer**
  Concerns about handling of sexual harassment claims, and about bias and breaches of journalistic standards in news reporting, including frequent privacy breaches.
- **James Hardie Industries; Wagners; Brickworks**
  Insufficient strategies and targets to lower emissions intensity of key building products.
- **Transurban Group**
  Inadequate governance to safeguard the development of high impact infrastructure in the public interest.
- **Harvey Norman**
  Did not meet our criteria for management of human rights and environmental impacts in supply chain.
- **Scentre Group**
  Insufficient evidence of circular economy or other biodiversity protection initiatives at the company's shopping centres.
- **Pacific National Holdings; Ventia**
  Services to the fossil fuel sector.
- **ACOM Co**
  Gender diversity concerns highlighted by the company's all-male board.

In (company and contribution)

- **Apple**
  Enabling technologies. Human rights impacts to be monitored.
- **Coles; Woolworths; Wesfarmers**
  Supermarkets and retailing of other essentials, meeting our criteria for sustainable product options and supply chain management.
- **CSR**
  Building materials including insulation, with meaningful emissions reduction targets.
- **Downer EDI**
  Rail and road infrastructure.
- **Rubicon Water**
  Irrigation automation equipment and technology for increased water use efficiency.
- **MedAdvisor**
  Software for management of patient medication.
- **Macquarie Group**
  Responsible financial services with growing green lending and investment. While Macquarie is a leader in green lending, we continue to scrutinise their lending and investment in fossil fuels including shale gas projects in the Northern Territory.
- **Pexa**
  Electronic real estate settlement platform.
- **HT&E**
  Local radio news and entertainment.

Our in-house Ethics Research team

Team member	Tenure / Experience
Stuart Palmer Head of Ethics Research	• 8 years at AEI • 30+ years experience in the financial, investment and legal sectors • Previously Head of Ethics Services at St James Ethics Centre, helping develop strong organisational leadership and culture to guide good decision making in the corporate, government and not for profit sectors • Former law firm partner (practicing in finance and investment) and banker (Head of Asset Securitisation at ABN AMRO Australia). Stuart's doctorate is in philosophy of mind
Amanda Richman Ethical Stewardship Lead	• 4 years at AEI • Previously Senior Associate at law firm Allens specialising in competition law • Experienced animal law advocate, Director of Animal Law Institute, former Chair of NSW Young Lawyers Animal Law Committee • First class honours in law; Dean's awards for outstanding contributions to Macquarie Law Community and for outstanding academic achievement in law
Olivia Webster Senior Impact Analyst	• 2 years at AEI • Previously Sustainability Analyst at Westpac Group, developing best practice approaches to Sustainability Governance • University medallist for Information Technology degree
Persephone Fraser Ethics Analyst	• 1.5 years at AEI • Previously research analyst for Common Capital and research assistant at UNSW's Climate Justice Initiative, developing reports on environmental and ethical impacts and policy. • Worked in policy and research at Reconciliation Australia and in the office of Senator Mehreen Faruqi. • MA in Political Economy, BA in Political Science & Philosophy. She received the Leon Fink Institute Grant for study in Jerusalem, the Dame Eadith Campbell Walker Bursary and the Harry Senior Bequest from The University of Sydney.

Investment team update

If an investor's primary job is to contemplate the future and how their investments will perform over time, then a year of floods, fires, war and dealing with the consequences of a global pandemic has reminded us of what a complex task this is. We may all be familiar with the adage of having eggs in different baskets, but rarely do we recognise the possibility that even eggs in different baskets can still all break at once! And yet in today's world, thinking about multiple scenarios is vital for considering the different ways the future can play out. In today's world, portfolio resilience must be more than a defensive reaction to market volatility.

During the past financial year, we have been taking further steps in our journey to bolster the resilience of our investment portfolios. We believe truly resilient portfolios are those that can stand the test of time, managing short-term shocks while navigating long-term trends to maximise returns across market cycles.

But for a business as unique as Australian Ethical, portfolio resilience must be tailored to suit our specific requirements. It is not as simple as outsourcing our asset allocation framework to a peer-group benchmark or third-party provider. Instead, it's a layered, multi-pronged approach that will help us leverage our existing strengths as a global leader in responsible investing so we can realise our purpose of investing for a better world.

As such, in addition to improving our investment strategies and processes to make them more robust and repeatable, we have also focused on enhancing our asset allocation and governance frameworks.

Asset allocation

Last financial year we hired a new head of asset allocation, John Woods, CFA. This financial year he has been responsible for reaching some key milestones in our asset allocation strategy, strengthening the resilience of existing portfolios and preparing them for growth.

As a multi-asset fund manager our asset allocation follows a systemised and evidence-led approach to understand the opportunities and risks across different asset classes. It is a complex offering which requires a tailored understanding of the distributions of returns relevant to achieving the goals of our ethical portfolios.

By identifying diversifying exposures and managing meaningful risks, we have already improved portfolio risk and our ability to take better advantage of our long-term investment horizon and liquidity.

Milestones reached during the period include:

- Investments in two new alternatives managers (Generation and Main Sequence)
- New domestic equities product launched (High Conviction Fund)
- Advocacy Fund relaunched as a multi-asset High Growth Fund
- Paved the way for an exposure to a new asset class for Australian Ethical via a mandate for global credit
- Securities
- Improved risk management
- Introduction and deployment of asset allocation model for scenario analysis
- Acquired new data, risk tools and research resources

Our investment team

Team member	Tenure / Experience
David Macri, CFA* Chief Investment Officer	• 13 years at AEI, CIO since 2012 • 20+ years of investment experience • Previously at Macquarie Securities, Credit Suisse, Mellon, Mercer
Angus Dennis Investment Director	• Commenced at AEI February 2022 • 20+ years of investment experience • Previously at Vanguard, CoreData and AMP Capital
Michael Murray, CFA Head of Domestic Equities	• 6 years at AEI • 20+ years of investment experience • Previously at Integrity, AMP Capital • Analyst Coverage – Healthcare, Biotechnology
John Woods, CFA Head of Asset Allocation	• 1.5 years at AEI • 15+ years of investment experience • Previously at MLC, CLSA, Macquarie
Clinton Leong Head of Investment Business Management	• Commenced at AEI June 2022 • 25 + years in Asset Management and Financial Services • Previously at IAG, Manulife and Credit Suisse
Andy Gracey Portfolio Manager	• 17 years at AEI, PM since 2007 (Australian Shares/Emerging Companies) • 20+ years of investment experience • Previously worked at ANZFM, Friends Provident
Ray Gin Portfolio Manager/ Analyst	• 9 years at AEI, PM since 2017 (Diversified Shares/International Shares) • 30+ years of investment experience • Previously at ING, Deutsche • Analyst Coverage – Financials, REITs, Misc Industrials

Team member	Tenure / Experience
Tim Kelly Portfolio Manager	• 20 years at AEI, PM since 2011 (Fixed Interest/Income) • 15+ years of investment experience
Mark Williams, MBA Equities Analyst	• 6 years at AEI, managing the SMA portfolio since March 2020 • 15+ years of investment experience • Previously at Morgans, ABN AMRO • Analyst Coverage – Infra/Utilities, Media, Telco, Misc Industrials
Deana Mitchell, CFA Equities Analyst	• 4 years at AEI • 15+ years of investment experience • Previously at Macquarie Securities • Analyst Coverage – Diversified Financials, Technology, Education
Jason Korchinski Equities Analyst	• Commenced at AEI September 2021 • 8+ years of financial services experience • Previously at KPMG, SuperChoice Services & Ord Minnett • Analyst coverage – Small cap healthcare, agriculture & travel & leisure.
Jason Huang Quantitative Analyst	• 6 years at AEI • 10+ years of investment experience • Previously at BBY Ltd
Julian Richman, CFA Investment Analyst	• 5 years at AEI • 4 years of investment experience • Assisting Balanced Fund and REITs coverage

* At time of writing David has announced his departure in December 2022, we wish him well.

Investment governance

Good governance lives at the heart of what we do. We have further strengthened policies and procedures this year to ensure any possible conflicts of interest and risks are monitored and managed accordingly.

We also added three independent members to our Investment Committee: Sean Henaghan, Sandra McCullagh and Steve Rankine.

- **Sean Henaghan** is the current CIO of Aurora Capital and former CIO of AMP Capital Multi-Asset Group and has proven leadership of a substantial investment business with over $100 billion of assets across a range of multi-asset investments.
- **Sandra McCullagh** is a current non-executive director (NED) of the Investor Group on Climate Change (IGCC), a former NED of QSuper, and established the ESG equities research capability at Credit Suisse Australia.
- **Steve Rankine** is the former Head of Asset Management at Hastings Funds Management and, prior to that, MD of Debt Capital Markets at Westpac Institutional Bank. He now sits on several investment committees and boards across funds management, infrastructure, and insurance.

These appointments complement the skillsets of our existing committee members, bringing the total of the committee to seven.

Investment products for the conscious consumer

Our customers can choose from a suite of nine managed funds (including our new ETF) or from the range of 13 super and pension 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.

In FY22 we expanded our product offering with a new domestic equities product, the High Conviction Fund (also available as an ETF) and relaunched the Advocacy Fund as a multi-asset High Growth Fund. All our products are created from the investable universe of companies that have been screened for their alignment to the 23 principles of our Ethical Charter.

Product packaging

Super and Pension
13 investment options

Managed funds
9 managed funds – wholesale and retail offerings, including an ETF

SMA
Australian Equities SMA

Manufacturing

Investment management
We manage domestic equities, international equities, income & fixed interest, and multi-asset funds

Where we invest

We direct capital away from harmful sectors and towards smart businesses doing good for the planet, people and animals. We believe this helps create the equitable, sustainable world we all want to live in. We invest this way because the fundamental sustainability of a company, how it cares for all its stakeholders and the world around it, determines how well it will cope with the challenging decades ahead. This is the essence of responsible investing.

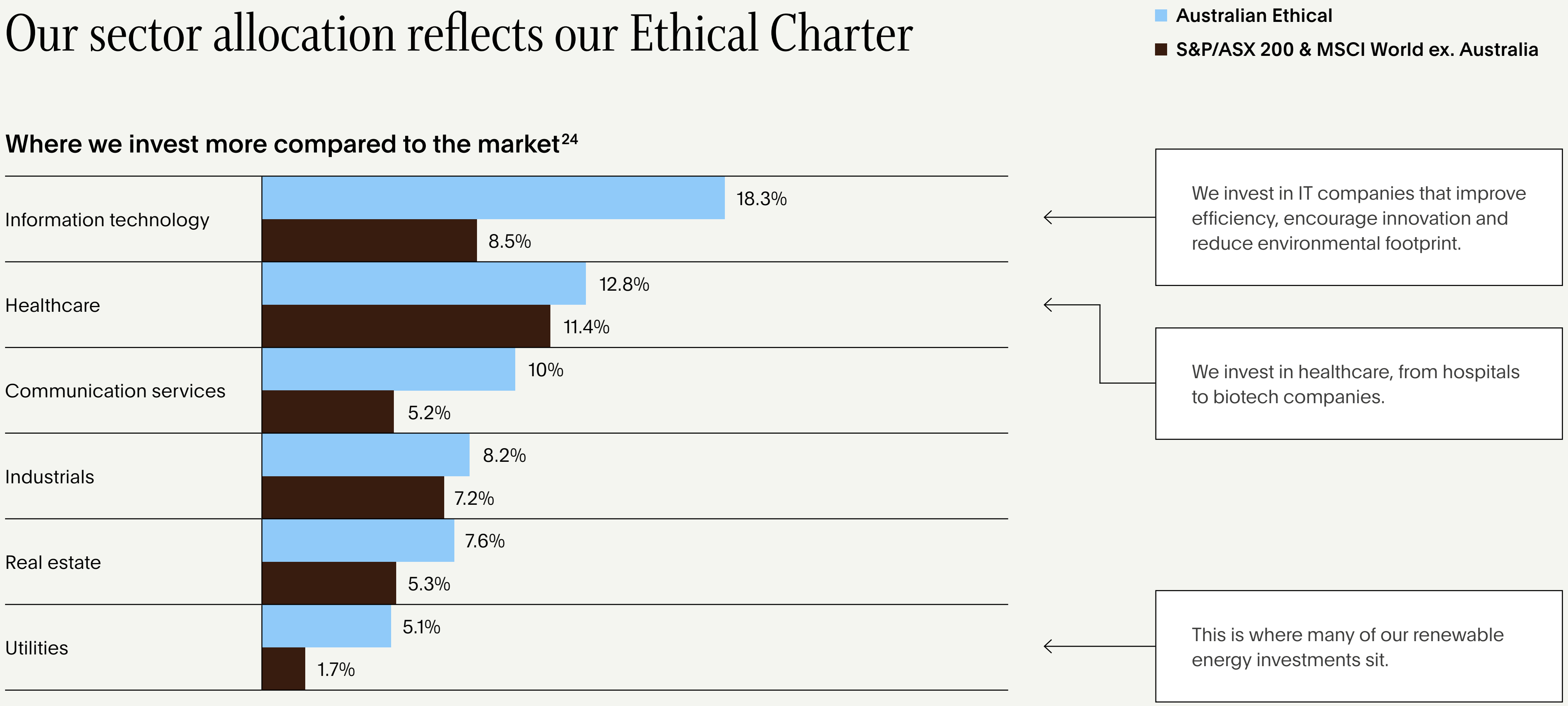
We are, and always will be, significantly underweight in the energy and materials sectors. 2022 has certainly tested the mettle of responsible investors, as fossil fuel and materials stocks soared as a result of the Russian invasion of Ukraine. We have of course stayed true to our ethical beliefs and long-term vision, despite these testing times.

While we are more likely to invest in renewables and energy solutions generation than conventional funds (5.6 times more likely in fact[24]), we find opportunities to invest in ethical companies across most sectors. Even so, our portfolio is overweight in Charter-positive sectors such as education, health care and technology, making it look quite different to the mainstream, as set out in the chart below.

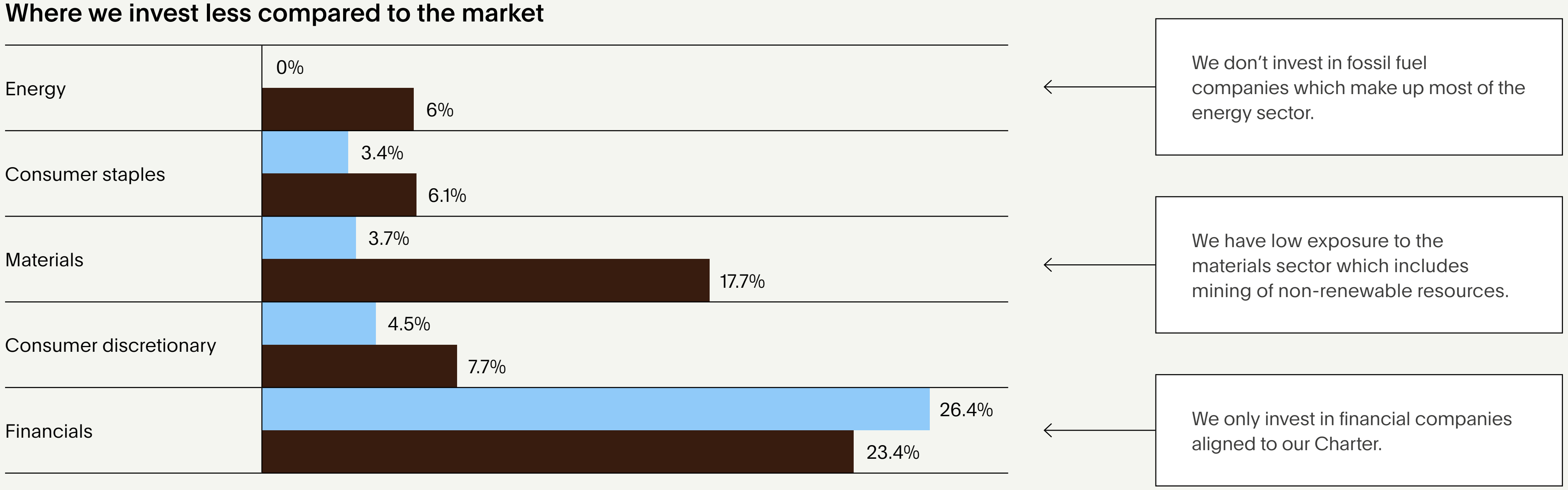
Though underweight in the materials sector, we will consider companies mining lithium, rare earths and other materials critical to the electrification and decarbonisation of the economy. Lithium in particular has an important role in the transition to renewables. We hold lithium miners Pilbara Minerals (also a tantalum producer) and Allkem.

Our sector allocation reflects our Ethical Charter

Where we invest more compared to the market[24]



Where we invest less compared to the market



24. Based on our listed share investments at 30 June 2022 compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). More information on page 104.

We invest in future-building companies

We believe companies with a social and environmental purpose as part of their competitive strategy, will both thrive in and help create a low carbon and equitable future.

Some examples from our portfolio and the impact they are having, including their alignment to the UN's Sustainable Development Goals (SDGs).

Xylem Inc

Link to SDGs

- 6 Clean water and sanitation
- 13 Climate action

Xylem Inc is a leading water technology company aiming to solve global water challenges such as waste, scarcity, use efficiency and affordability.

Water is becoming increasingly scarce, and this scarcity of supply is being exacerbated by climate change, especially in developing economies. Morgan Stanley Sustainability Research estimates that the divide between global supply and demand of fresh water is expected to reach 40 per cent by 2030.[25]

Significant financial investment is needed to develop the technology and infrastructure required to meet this gap. That's where Xylem comes in. Bucking the trend of underinvestment, it offers a suite of products designed to make water more accessible and affordable, while also ensuring communities are more resilient.

Investment in Xylem helps them to continue developing industrial, household and commercial technologies and equipment designed to prevent water wastage, pollution and improve use efficiency.

25. morganstanley.com. 2022. A Deep Dive On the Water Crisis. [online] Available at: morganstanley.com/ideas/water-scarcity-causes-and-solutions [Accessed 21 July 2022].

Brookfield Renewable Partners

Brookfield Renewable Partners is one of the world's largest investors and operators of renewable power assets. The International Energy Agency (IEA) claims the world is experiencing its first truly global energy crisis in history, with many countries being dependent on Russian gas to generate power[26]. It also estimates that global clean energy investment will rise from $1 trillion to $4 trillion over the next decade. The energy crisis that the world is experiencing only enhances the importance of accelerating the deployment of renewable energy sources. There isn't much time left to avert the climate crisis, and as demand for electricity from renewable sources ramps up, so will renewable sources of energy. This is why the work of Brookfield is so important. Its portfolio consists of hydroelectric, wind, solar and storage facilities in North America, South America, Europe and Asia. Put simply, it is at the forefront of the decarbonisation trend, that will shape the global economy for decades to come.

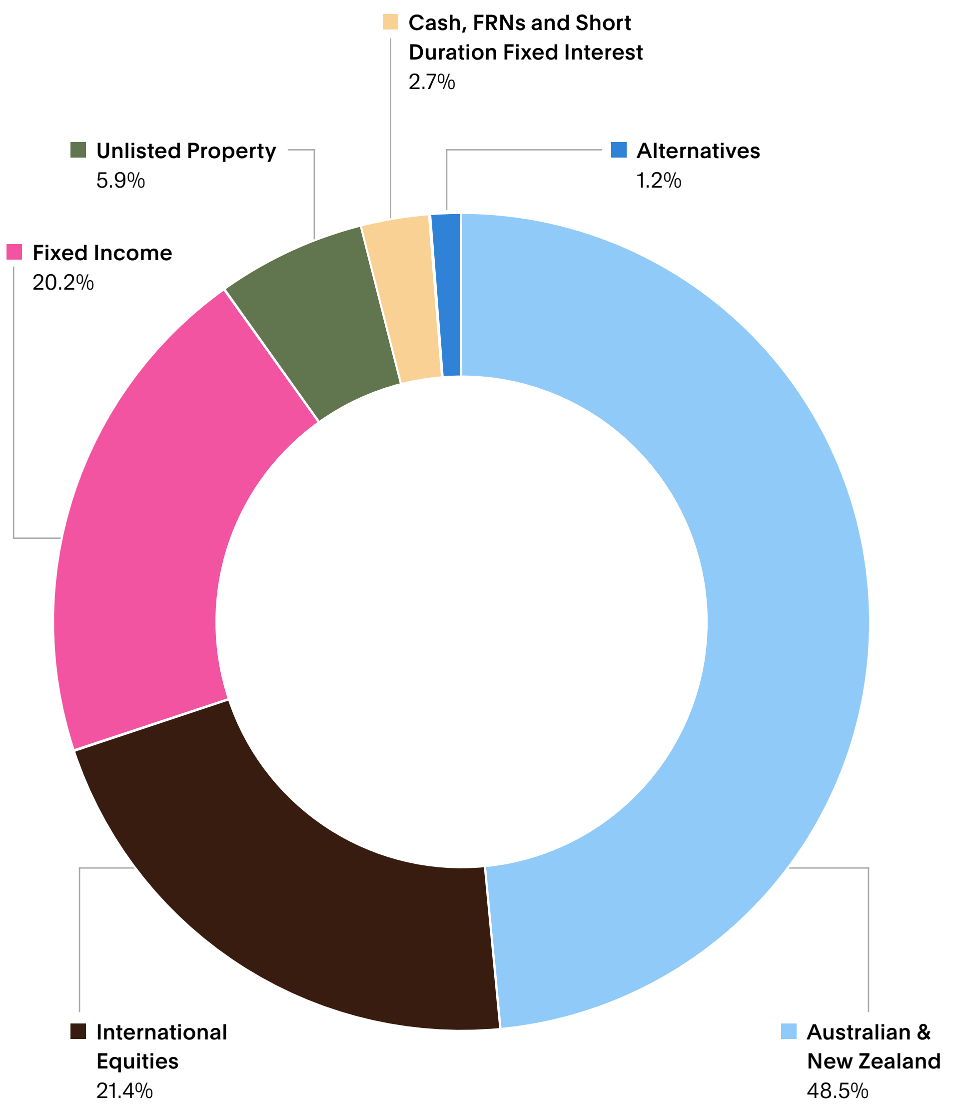
Link to SDGs

- 7 Affordable clean energy
- 8 Decent work and economic growth

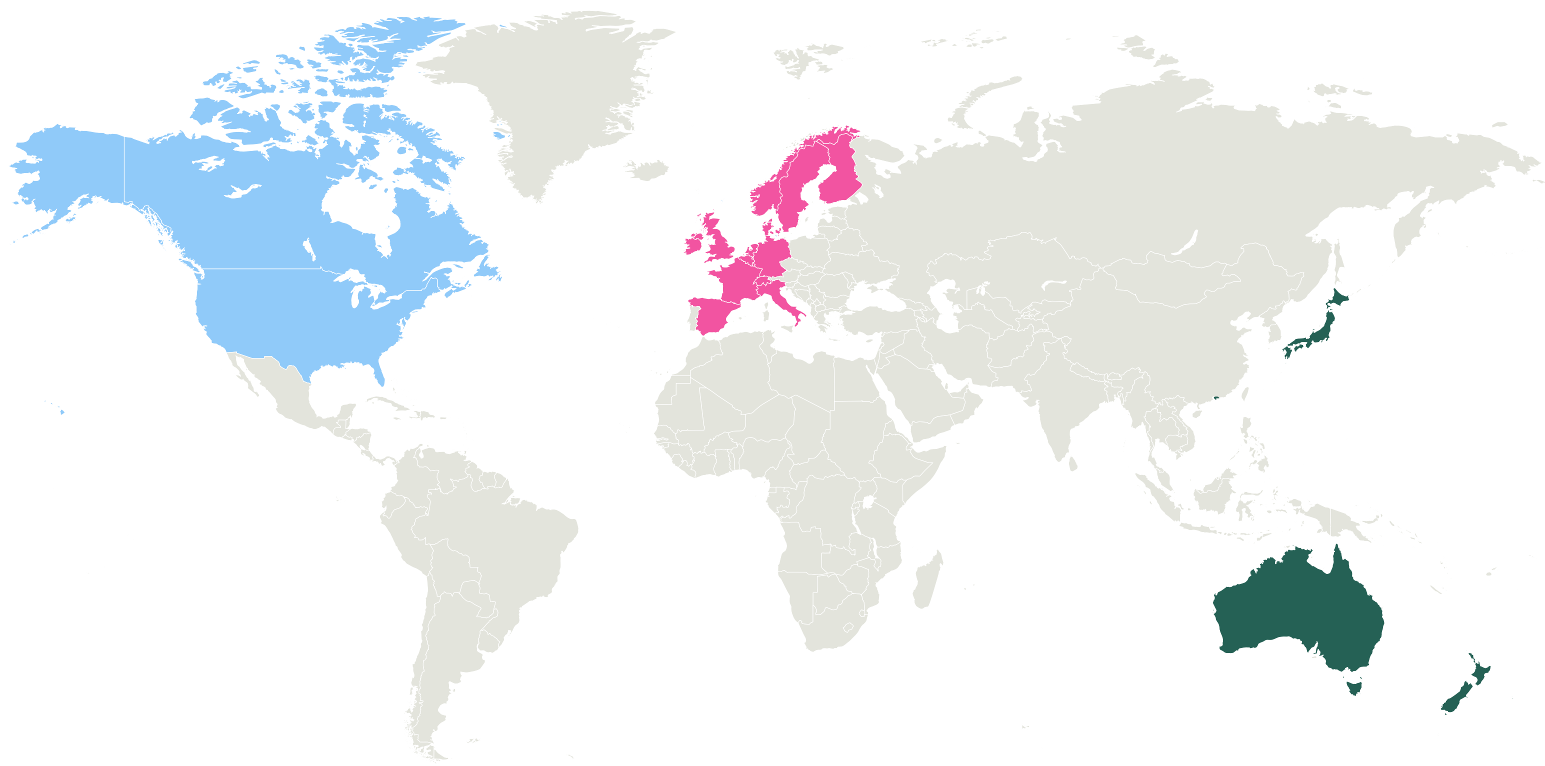
26. iea.org/reports/net-zero-by-2050

Snapshot of the equities in our portfolio

Our investments by asset type



Our investments by country



North America	14.9%
Canada	1.4%
United States	13.5%

Pacific Rim	81.1%
Australia	73.2%
Hong Kong	0.6%
Japan	1.9%
New Zealand	5.4%

Western Europe	4.1%
Austria	0.03%
Belgium	0.08%
Denmark	0.1%
Finland	0.2%
France	0.8%
Germany	0.5%
Italy	0.2%
Netherlands	0.3%
Norway	0.1%
Spain	0.2%
Sweden	0.2%
Switzerland	0.5%
United Kingdom	0.8%

Nil

investment in fossil fuel companies[27]

77% less

CO_2 produced by the companies we invest in, compared to Benchmark[28]

5.6x more

investment in renewables and energy solutions than benchmark[29]

27. We don't invest in companies whose main business is fossil fuels, or in 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, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).
28. Carbon intensity (tonnes CO_2e per $ revenue) of Australia Ethical share investments compared to Benchmark.^ Shareholdings as at 30 June 2022. More information on page 78.
29. Proportion of our share investments in renewables and energy solutions compared to the blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.

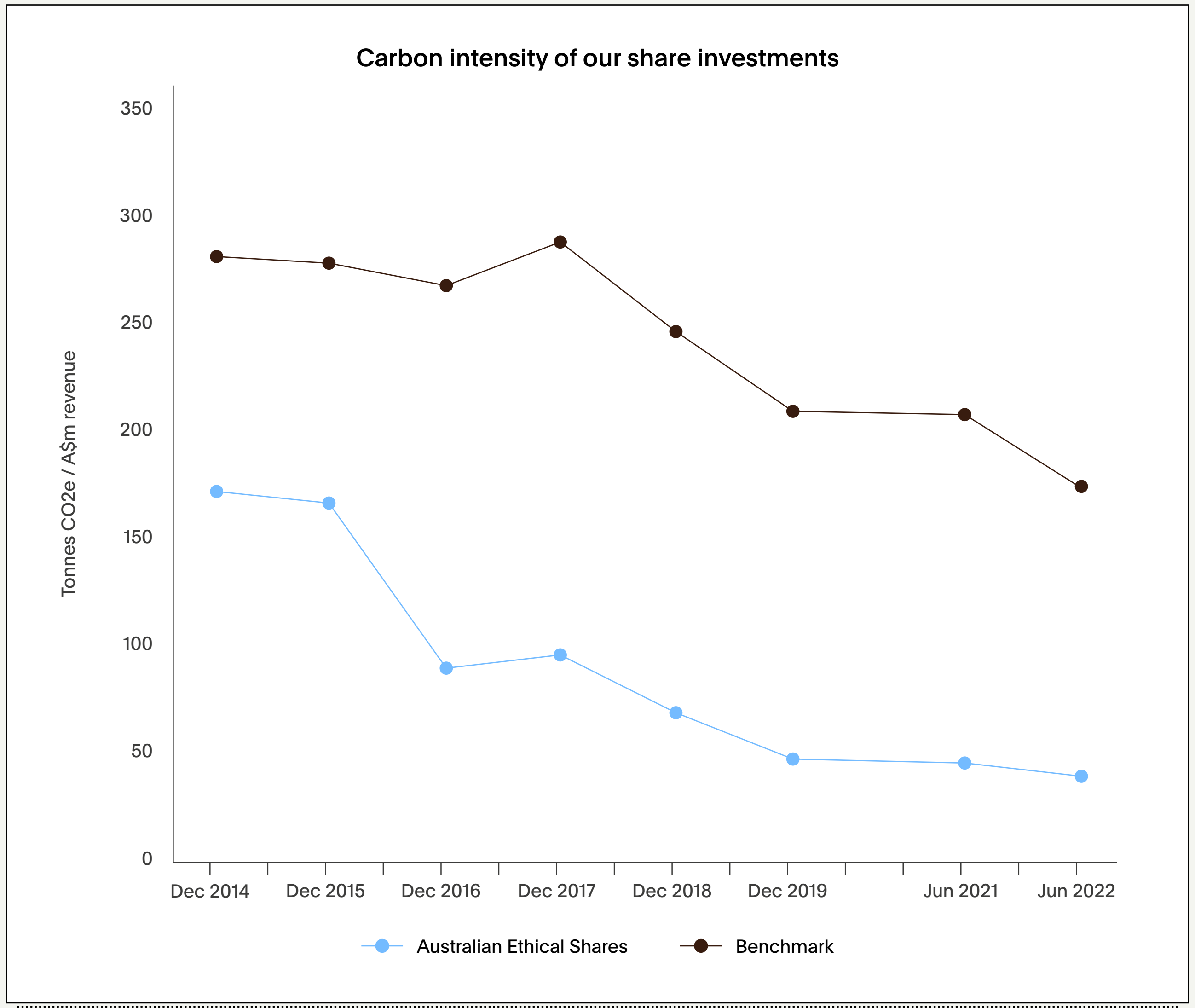
FY22 carbon footprint of our share investments

The carbon footprint of our investments is one way to check the effectiveness of our ethical investment approach to manage climate risk and to support the transition to a net zero-emissions economy and society. We report three carbon footprint measures for our share investments.

For the last seven years we have tracked and reported our share investment footprint using the "carbon intensity" measure, which measures our share of companies' carbon emissions relative to the value of the products and services they produce. The carbon intensity measure is a guide to the carbon efficiency of the positive products and services which we invest in.

In FY22, the carbon intensity of our share investments remained at about one quarter of the share market benchmark, or about 77% lower than the market. Since last financial year the carbon intensity of our share investments and the Benchmark have reduced by about 16%, with the historical trends shown in the following graph.

For more information on our other carbon footprint measures, please see our Climate Report on page 78.



Our investments in renewable power and clean energy

Investment in renewable power generation and other clean energy solutions is critical to support the massive global shift to renewables required to limit warming to 1.5°C. Our analysis this year showed that our share investment in renewables and energy solutions is proportionately 5.6 times that of the share market Benchmark[28].

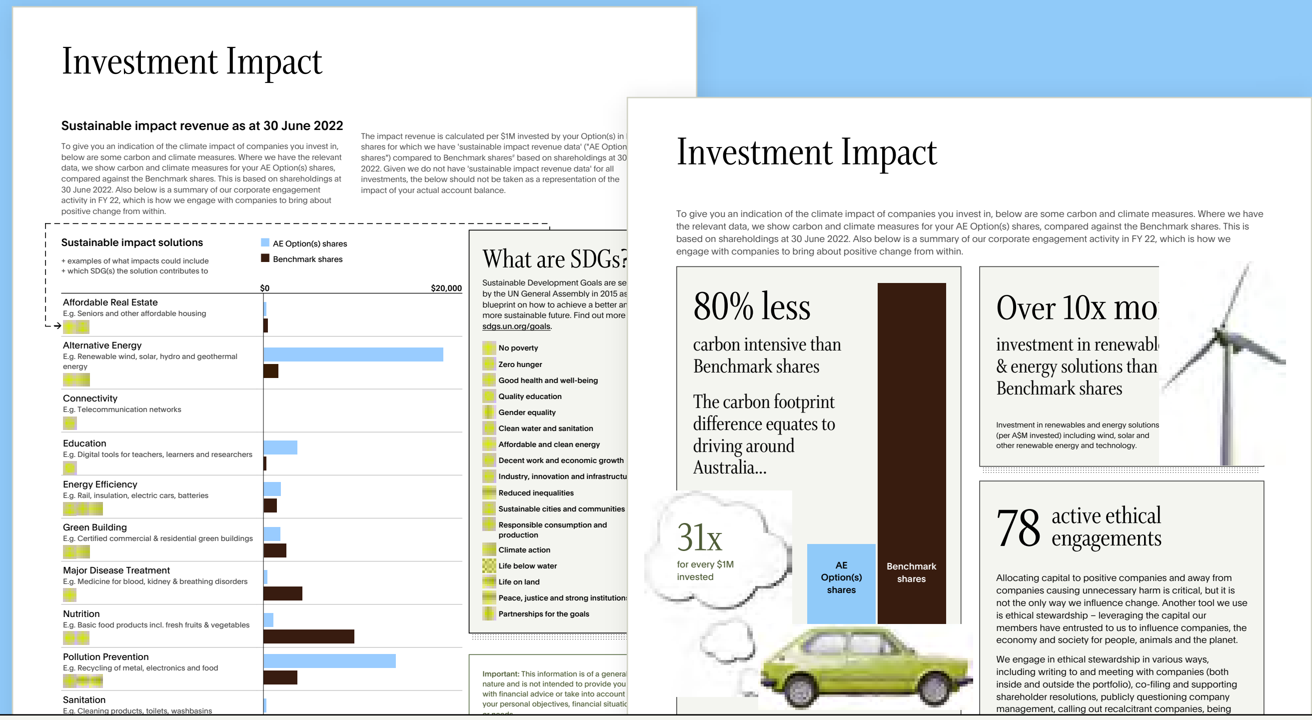
This includes investment in renewable energy generation from wind, solar, geothermal, biomass, small scale hydro (25 MW or less) and wave tidal energy. Also included are biofuels, waste-to-energy, renewables equipment (e.g. solar inverters and wind turbines), transmission of renewable energy, and batteries and other energy storage supporting renewable energy.

This year we changed the method for calculation of our renewables investment as well as the source of data. As a result, the level of our investment this year is not directly comparable with previous years. There is more information about the change in the Climate Report 2022 on page 80.

Climate reporting for customers

We continue to develop and enhance our reporting, and this year, we are calculating and reporting the climate and other impact-related metrics for individual Australian Ethical managed funds, as well as for our superannuation investment options. These measures include the carbon intensity and renewables and energy solutions investment for listed company investments in our funds and options, as well as revenue earned by those companies from products and services contributing towards achievement of the Sustainable Development Goals (SDGs). See page 90 of our SDG Report for more.

Some examples from our super fund member statements are on the right. As these samples demonstrate, the impacts of individual super investment options or managed funds can differ from those of our portfolio as a whole.



Operational footprint

This year we worked again with Pangolin Associates to calculate our operational footprint. Net Zero Media contributed again their assessment of our marketing emissions. Although many companies do not include advertising in their operational footprint, we consider advertising an integral part of growing our business for the benefit of all stakeholders, and it continues to be a significant component of our operational emissions.

The following table shows our operational emissions for FY22 as well as historical emissions. The last three years' emissions are significantly higher than the preceding years as we significantly expanded the scope of our measurement from FY20. Big contributors to our footprint include significant emissions from our advertising and external IT assistance (who support the work of our internal IT staff).

Category	FY18	FY19	FY20	FY21	FY22
Operational Scope 1, 2 and 3 emissions (tonnes of CO_2 pa)*	86.6	104.9	449.5	349.8	569.6
Full scope emissions per full time equivalent employee*	0.86	0.77	6.9	4.4	5.5
Offsetting of reported operational emissions	100%	100%	100%	100%	100%

* Figures are not directly comparable. Emissions measured and reported for FY18 and FY19 were limited to directly metered electricity and business travel. In each subsequent year we have expanded the scope of our operational emissions foot printing, increasing the emissions we report. For more information see page 86 in our Climate Report.

Reducing and offsetting emissions

We limit our operational emissions by choosing renewable electricity for our directly metered office power. We consider climate performance in our selection of significant suppliers of products and services. We continue to explore further action we can be taking, and the expansion of our emissions measurement will contribute to our understanding of where we can have the greatest impact. The disruption caused by the pandemic in recent years has also highlighted opportunities to limit business and commuting travel emissions through increased use of online meeting technologies and more flexible work practices.

We continue to offset our reported operational emissions. Carbon offsetting plays an important role for companies on the journey to net zero by 2050, provided they recognise the imperative to minimise emissions as much as possible before offsetting what remains. When offsetting our operational emissions, we look for opportunities for carbon abatement which also deliver additional benefits to people, planet and animals. For more information see our Climate Report on page 86.

Advocates for a better world

Advocates for a better world

We believe that as well as having impact by virtue of what they do and don't invest in, deep green responsible investors should also use their position as large and long-term shareholders for good. They have a unique opportunity to exercise ongoing influence over boards and management, advocating for better social, environmental and ethical behaviour and outcomes.

We have always seen this as our role. Over the years, Australian Ethical has succeeded in securing commitments from companies to improve labour rights, animal welfare and environmental practices, as well as engaging with government on issues that concern our customers.

As a long-term investor we have a unique and critical role. Our proper consideration of relevant ethical, environmental, social and governance issues can influence the long-term sustainable performance of the companies we invest in and the world we live in.

We engage where we see the most need for change and the most opportunity for us to make a difference. We do this either with the company itself or with those facilitating or enabling the company, for example governments and regulators.

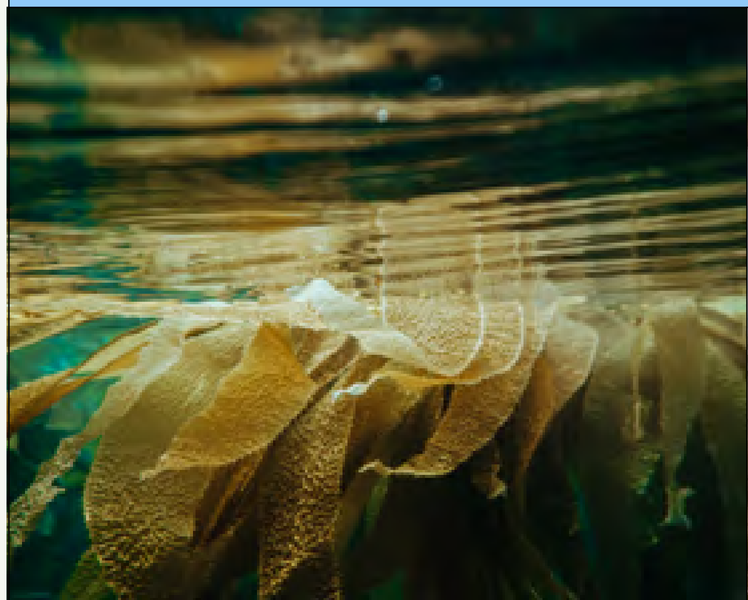
Our approach is guided by the credibility and influence of our voice on the issue, how important the issue is to our customers and other stakeholders and how crowded the topic is already. For example, we may not engage on an issue that is already subject to a lot of attention and where we don't have something new to add.

We prioritise climate change because of the urgent action to limit its deep and widespread impacts.

We focus on animal welfare issues where we see great harm calling out for greater attention from investors. We draw attention to important but under-attended issues where we can help reduce suffering and protect the voiceless, vulnerable and irreplaceable.

Our voice was loud and strong in FY22

We announced a more ambitious target of net zero by 2040 for our private sector investments (previously 2050).



Along with its continuing Strategic Grants program, our Foundation launched its new Visionary Grants program and a 'Giving Green' climate action giving guide.

Our Ethics Research team engaged with over 450 companies, with the investment community and government (on their own or with others) for the good of the planet, people and animals.

We gave more than 7,000 of our customers a direct voice at COP26 in November 2021, by featuring their names on the front page of the UK Financial Times during the climate conference in Glasgow.

Net zero by 2040

We have set a 2040 net zero target for our company and other private sector investments: and 2050 for all our investments including government bonds and other public sector investments.

Why 2040?

The world is not currently on track for the critical global goal of net zero by 2050 – not because it cannot, but because key actors lack ambition. At the same time, the damaging impacts of climate change are arriving sooner than predicted by many climate models. There are already transformational decarbonisation pathways with the ability to repower energy with renewables and batteries, to restore land in a manner that draws down carbon and boosts sustainable agriculture, to decarbonise the built environment with reduced embedded energy in materials, and to directly capture carbon to abate sectors that are harder to transform. These pathways become more commercially viable as bold investors demonstrate leadership, driving these technologies down the cost curve. Australian Ethical has set its own ambitious target of net zero by 2040 for the private sector investments in its portfolio to demonstrate what is possible and commit to what is necessary.

Our 2040 target is both ambitious and achievable. For global emissions to reach net zero by 2050, the world will need diverse successful zero-emissions businesses operating across the economy by 2040. Those zero-emissions businesses which are leading in the management of climate risk and opportunity are the businesses we want to invest in, so that by 2040 we can offer our clients high-performing, zero-emissions portfolios. Setting a net zero 2040 target helps drive increased Australian Ethical capacity and innovation to make this a reality.

While IPCC and IEA analysis makes clear the scale of action needed for global net zero by 2050, current transition paths can still be accelerated through a range of factors including stronger climate policy, more rapid scaling and improvement of clean technologies, and increased corporate ambition and green consumer demand.

What about the public sector?

Our 2040 net zero target is for our investment in the private sector. We have a 2050 net zero target for our investment in government bonds and other public sector investments. Governments have a huge role to play in setting policies and allocating capital to drive the transition to net zero. However, we recognise that whereas a company can take action to decarbonise ahead of others, individual countries may have less flexibility to do this when they have responsibilities and activities across the entire economy and society. Some developing economies may be slower to transition, and responsible investors have a role to continue to contribute capital to support this transition.

There will also be countries which irresponsibly delay climate action, even though they have the capacity to act. We will continue to advocate for stronger climate policy from those climate laggards.

Other targets

Our net zero targets are aligned with the emissions reduction needed to achieve a 1.5°C warming limit. We keep our climate objectives and actions updated against the growing impacts of climate change as well as growing opportunities to limit that change. This includes work setting interim emissions reduction targets aligned with the objectives of the Paris Climate Agreement and linked to specific and ambitious concrete action to drive a faster net zero transition.

Climate opportunity

The climate threat is also bringing climate investment opportunity. The latest IPCC report on climate change mitigation, released in April 2022, identified over 40 categories of decarbonisation opportunity across energy supply, agriculture, forestry, buildings, transport and efficiency technologies. These include ammonia and hydrogen powered ships, zero emissions steel produced using hydrogen, concrete which absorbs carbon, and direct capture of CO_2 from the air.

Investors as ethical stewards

If we are to address the great social and environmental challenges of our time, companies need to change what they are doing.[30] They need to reduce and wherever possible, completely avoid, negative impacts; pivot their businesses to products and services that are sustainable; help consumers make changes to their lifestyles; and support (or at least not obstruct) fair and sustainable government policy.

Investors can encourage this through various mechanisms. Sometimes simple dialogue between investors and management works. Long term investors can challenge short-term and narrow thinking and provide a more objective perspective. And company management can share their deeper knowledge and understanding of the collective challenges we face. Of course, these conversations carry more weight if there are credible consequences for company recalcitrance.

Investors are also shareholders and can deliver consequences by:

- voting to remove directors and nominating directors with more progressive views and strategies on ethical issues,
- voting against executive remuneration,
- voting against a merger or (as in the case of AGL) a de-merger proposal
- publicly questioning company decisions at AGMs and through the media.

Divestment, and the threat of divestment, is another tool. If done at scale it can affect a company's cost of capital, making it less competitive than its more sustainable competitors. If done publicly, it can impact a company's reputation. It can also create market signals that help influence broader change.

We pursued four strategic ethical stewardship initiatives:

These are detailed in our FY22 Stewardship Report on pages 59 to 75, but in summary:

The Ethics Research team engaged[31] over 450 companies for people, animals and the planet.

- 78 of these were 'proactive' engagements[32]
- Companies committed to change following >25% of our proactive engagements
- Our proactive engagements covered 24 sectors and 20 issues
- 2 company engagements ended with divestment
- Overall during the year there were 4 divestments[33]

30. Government policy and regulations need to change too. We certainly contribute to policy discussions. However in FY22 our focus has been on influencing corporate behaviour.
31. We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with QBE is counted as one engagement which included a meeting, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with NAB in relation to its fossil fuel exposure (which included a meeting and supporting a shareholder resolution) and a separate meeting with NAB to discuss its exposure to deforestation in Australia.
32. We distinguish proactive engagements from passive engagements. Our 'proactive' engagement count includes where we engaged directly with a company, actively contributed to collective engagements (as distinct from simply 'signing on'), used a nominal advocacy holding to support shareholder resolutions, or co-filed a resolution.
33. Not including companies excluded from initial investment or companies not held due to financial investment considerations.

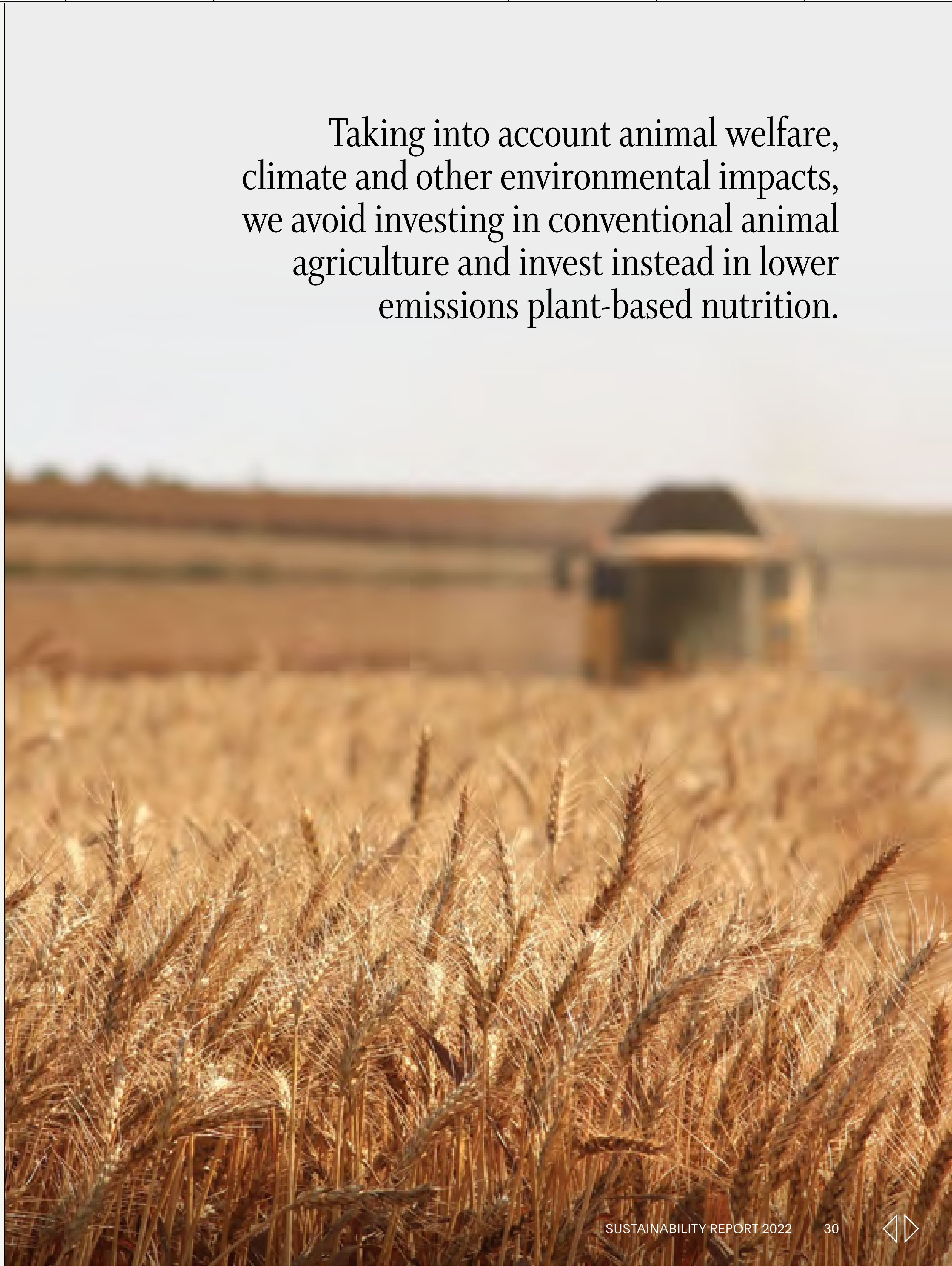
Carbon sequestration, food emissions and protection of wildlife

Case study

In FY22 we were invited by an external fund to invest in carbon sequestration projects through acquisition of underutilised Australian pastoral land and establishing carbon farming projects to generate carbon offsets through human-induced regeneration. We had some initial concerns. Taking into account animal welfare, climate and other environmental impacts, we avoid investing in conventional animal agriculture and invest instead in lower emissions plant based nutrition. While carbon sequestration projects have clear potential for positive climate and biodiversity outcomes, there is a risk that those positive impacts will not be delivered as well as the risk of negative side-effects. For example, total beef sector emissions might increase if sequestration projects of this type bolster the economics of the sector; or biodiversity may be harmed, particularly when wildlife are excluded from revegetated areas by exclusion fencing.

We engaged with the manager about our concerns. The fund agreed to appoint independent biodiversity and animal welfare experts (approved by us) to set biodiversity targets and parameters, and to review land lease terms to require farmers to adopt higher than industry standards of animal welfare. We confirmed that the company would not own livestock; that the pastoral land leases would be for existing cattle grazing land; and that lease revenue – relative to expected revenue from carbon offsets – would be below our tolerance thresholds. We concluded that rather than increasing the negative impacts of the livestock sector, this project has the potential to reduce some of those impacts. We agreed to invest and will monitor whether the projects meet their climate and biodiversity objectives.

Taking into account animal welfare, climate and other environmental impacts, we avoid investing in conventional animal agriculture and invest instead in lower emissions plant-based nutrition.



A strong voice for climate action

In the lead up to the COP26 climate Conference in Glasgow (November 2021), there was great deal of frustration about the Australian federal government's lack of leadership when it came to climate change. We decided to use people-powered advocacy to represent the 75% of Australians who are concerned about climate change.[34] We asked our customers, social media community and other stakeholders, if they wanted to join with us and make their voices heard in Glasgow.

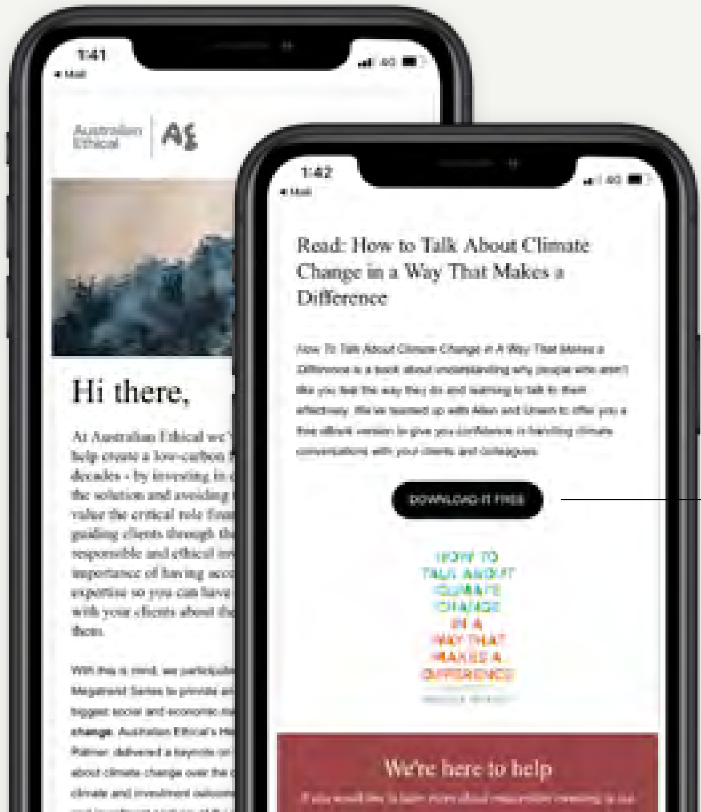
Over 7,000 Australians said yes! and we published their names on the front page of the UK Financial Times on 6 November.

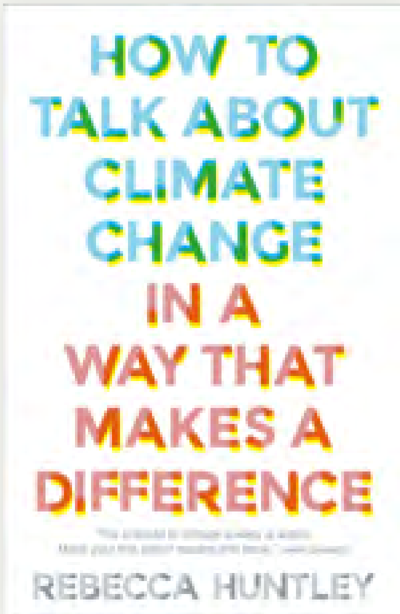
34. Climate of the Nation 2021: Tracking Australia's attitudes towards climate change and energy, Audrey Quicke, The Australia Institute, published 13 October 2021. The sample data comprises 2,626 Australians aged 18 years and older.

Climate kit for advisers

We believe financial advisers are in a unique position to help their clients understand the implications – both risks and opportunities - of a heating world on investment portfolios. By providing leadership through conversations with clients on these topics, we believe advisers can not only help clients to achieve financial goals but also contribute to a better future for the planet.

To assist advisers navigate these tricky conversations we provided insights from Dr Rebecca Huntley's book *How to Talk About Climate Change in a Way that Makes a Difference.*





How we voted*

Voting is an important lever for shareholders to influence company boards and management. This can be voting on shareholder resolutions, commonly resolutions initiated by shareholders about climate; transparency; diversity of directors or other matters of concern. Shareholders also vote on resolutions to elect and re-elect directors and whether to approve the company's remuneration report.

The number of resolutions over the period totalled **4,824**. Of these, we voted on **4,755** items, representing **98.6%** of all resolutions. On 803 occasions we voted against management recommendations, representing 16.9% of total votes. Of these:

459 related to diversity and inclusion concerns, primarily a lack of diversity on the board

109 related to management, executive or board compensation and incentives

98 were concerned with the independence of board members, committee members, or auditors

51 related to ESG concerns, including human rights, climate, employee welfare, and governance

35 were in the interest of protecting shareholder rights

9 were where we supported further disclosure around political contributions and lobbying activities

We used nominal advocacy holdings to support shareholder resolutions against Santos and Origin.

* This breakdown provides the number of instances where a vote was cast due to the reasons mentioned. However, a decision to vote against management recommendations may be attributed to multiple reasons and therefore this breakdown does not reflect numbers of individual votes.

An ethical supply chain

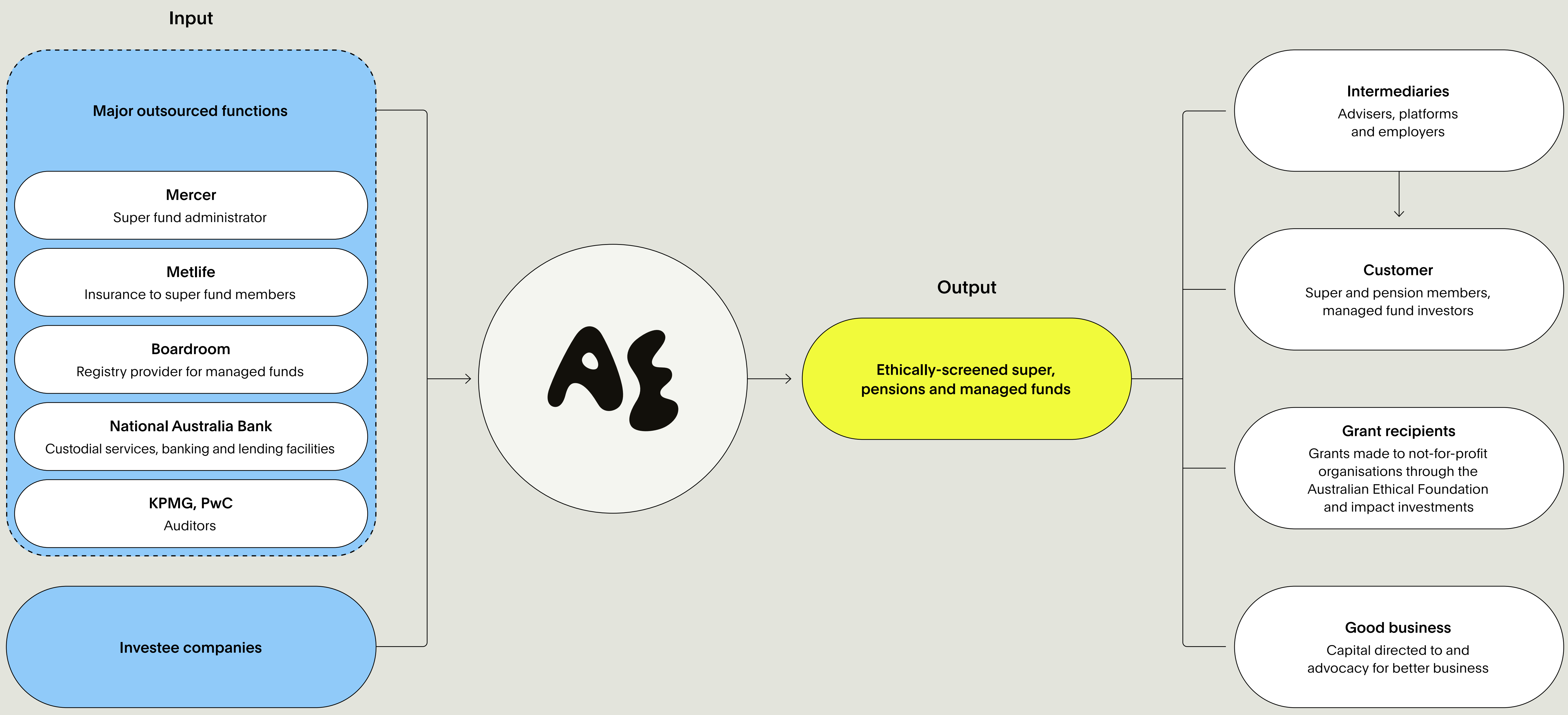
We invest and manage our business, conscious of our impact on the world around us. The key inputs to our supply chain are:

- major outsourced operational functions, and
- the companies that we invest in.

As part of our tendering process, material service providers to Australian Ethical are reviewed to determine their alignment with the environmental and social principles of the Australian Ethical Charter. For example, we expect companies with high human rights risk to be taking action to avoid contributing to breaches of human rights. This includes many companies with large supply chains in countries with a poor record on human rights or worker protection. We consider the way influential companies monitor overseas workplaces, including for potential use of child labour.

We consider the companies we invest in to be part of our supply chain and therefore have chosen not to invest in some clothing and electronics companies because of human rights concerns. There is more information on our human rights assessment of potential investments on the following pages.

We continue to use our Ethical Procurement Guidelines which encourage consideration of environmental and social impacts for all procurement decisions, not just material service providers.



Our approach to human rights and modern slavery

Evolving our human rights framework alongside recent events

We pay particular attention to the risks and impacts posed to investee companies and supply chains through exposure to modern slavery or links to authoritarian regimes. In FY22 we completed the updates to our human rights framework to evolve our analysis of these risks and impacts. While these are not new issues, they have come to the fore for companies in recent years due to legislation globally and locally, as well as international events.

We assess companies in line with our Ethical Charter element xi (to avoid investments that contribute to the inhibition of human rights) by using our human rights framework, outlined below.

How we assess human rights

In line with the UN Guiding Principles on Business and Human Rights, the responsibility to respect human rights is expected conduct for all businesses. While details of this responsibility can differ from company to company, at a high level it requires businesses to:

1. Avoid causing or contributing to adverse human rights impacts, and
2. Seek to prevent or mitigate adverse human rights impacts to which they are directly linked (via products and services, operations, value chain or business relationships).

To assess whether prospective investments appropriately discharge their business responsibility for human rights, our framework considers the size, sector, geographic region, and value chain of companies to determine human rights risk. Investments must clear different hurdles depending on the level of human rights risk involved.

At a high level, we may exclude companies if we assess that:

1. The risk management efforts of high-risk companies fall below our policy and due diligence expectations
2. Company action indicates the company is not making genuine efforts to fulfil its human rights responsibility, or
3. The company fails to respond to an identified human rights breach.

Companies with links to authoritarian regimes

A number of recent events have highlighted both new and long-running human rights violations occurring under authoritarian or militaristic regimes. This includes the invasion of Ukraine in early 2022, the 2021 military coup in Myanmar, and as the Chinese government's ongoing internment of the Uyghur people and other ethnic minorities in the Xinjiang region.

We avoid investment in authoritarian regimes as outlined in our Governments Framework (see right). This means we do not invest in government bonds issued by the Russian, Belarussian, Myanmar or Chinese governments.

We also avoid investment in companies that have connections with authoritarian regimes that prevent them from fulfilling their human rights responsibilities described above. Assessing a company's connection with an authoritarian country and regime can be complex. At a high level, the increased risk means we are looking for clear evidence that human rights impacts are being appropriately managed. This is because authoritarian regimes often have close, opaque and at times controlling relationships with companies they fully or partly own, companies operating in the country, or even companies with a significant customer base or supply chain there. This means companies can be under increased pressure to disregard human rights and have less freedom to be transparent about human rights in their disclosures.

How we approach investment in Governments

No investment in bonds issued by undemocratic states.

Democratic governments can also be excluded for militarism.

Indicators of good government include:

- political rights
- civil liberties
- rule of law
- quality of public institutions
- levels of corruption

Democracies still have policies we disagree with. We advocate for more sustainable public policy through:

- government consultations and submissions
- our public voice to influence both governments and voters

Recognising the complexity

Sometimes it's not clear what is the best thing to do to protect human rights. Sometimes human rights advocates actually don't want big companies to cut problematic suppliers off, rather they want them to maintain the relationship and influence improvement.

There are complexities for companies operating in authoritarian regimes. Decisions to exit can benefit the authoritarian regime by allowing them to take control of the assets left behind. Also, companies who stay, may be better positioned to help protect their local employees from retaliatory action if they choose to join demonstrations or otherwise exercise their freedom of expression. The best course of action will be affected by a company's products, customers and employees. There's no one size fits all, and it may take time for a company to determine the best steps to take.

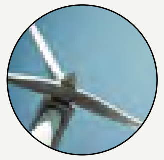
Our ethical criteria and expectations recognise the complexity companies often face dealing with some social issues. For example, following the Russian invasion of Ukraine we saw some companies exiting, some suspending operations and some continuing to operate. These responses need to be judged in the context of the specific business activity and environment.

Telecommunications company Telenor exited Myanmar after the military took back power, but the company has been criticised by human rights advocates for the way they exited, because the military acquired additional influence over the telecommunications assets Telenor left behind. In Russia, global plumbing company Geberit suspended its operations, whereas building materials company Rockwool continued operating. Rockwool said if they stopped operating their business would likely be nationalised, for the benefit of the Russian government. Across these varied responses, it's important that companies build both their understanding of their human rights impacts, and their capacity to make expert judgements to best manage those impacts.

We excluded:

Renesas Electronics Corporation (semiconductors)

High risk company with limited human rights policy and requirements in supplier code of conduct.



Xinjiang Goldwind Science & Technology Co. (renewable energy)

Concerns of connections between the company and Uyghur forced labour programs, heightened the risk profile of the company. Excluded after insufficient detail in the company's reporting about its management of human rights impact and no evidence of independent third-party assurance or due diligence.

We remained invested in the following companies navigating responsible divestment / disengagement:

Telenor ASA (telecommunications)

Accused of contributing to human rights breaches through exit from its business in Myanmar, resulting in military influence over telco assets. This did not trigger exclusion because of the complex and challenging situation faced by the company.

Geberit AG (plumbing supplies)

A Swiss multinational group with 12,500 employees specialising in the manufacture and supply of plumbing and sanitation systems. It suspended its small Russian operations after the invasion of Ukraine but continued to pay its 70 employees.

Rockwool (insulation)

A Danish multinational manufacturer of mineral wool products with 11,600 employees. It continued its operations in Russia. The company view was that ceasing operations would lead to nationalisation of business, technology, and other assets, and that this would benefit the Russian government. Cancelled expansion of Russian factory.

Modern Slavery Reporting Update

As well as fulfilling the requirements of our Ethical Charter, we acknowledge our responsibilities under the UN Guiding Principles on Business and Human Rights. In FY20 we voluntarily reported under the Australian Modern Slavery Act (2018). Our inaugural Modern Slavery Statement reports the work we undertook assessing and mitigating modern slavery and broader human rights impacts and risks across our value chain, including identifying areas of high risk, actions taken in our procurement, investments and The Foundation, and aspirations going forward. Below is our FY22 update of our ongoing action to fulfil our responsibility to respect human rights.

To learn more about our approach to managing modern slavery risk, read our 2020 Modern Slavery Statement.

AE's areas of influence, and actions taken in FY22 relating to human rights and modern slavery	Going forward	Indicators used in FY22
Investments		
Completed updates to our human rights framework to evolve our analysis of risks and impacts of modern slavery and links to authoritarian regimes. Continued to improve tracking of assessments and engagements related to human rights.	Continue to screen all companies against our human rights criteria	FY22 company assessments and reviews were assessed under updated human rights screen. See Advocacy below for engagement statistics.
Procurement		
Continued implementation of our internal Ethical Procurement guidelines across the business and improved internal processes to monitor the application of the guidelines.	Assess opportunities to improve the ethical procurement process	58 suppliers were assessed against the guidelines since their launch, equating to about 84% of new suppliers.
Our Foundation		
Focused on supporting women and girls (who account for 71% of modern slavery victims[35]) across healthcare, employment, education and access to services. Improvements in these areas can help at-risk women and girls avoid falling into modern slavery.[36] As part of this focus, continued funding for Human Rights Watch, supporting their efforts to defend and advance the rights of women and girls around the world to fulfil the lives they desire. For more on the Foundation's work, see the next page and read the Foundation Report.	Continue funding leading charities addressing human rights and advancing the rights of women and girls around the world.	100% of funded charities committed to ensuring no modern slavery occurs in their supply chains. $330,000 donated to initiatives supporting women and girls as an advancement of human rights relevant to modern slavery[37].
Our Advocacy		
Supported shareholder resolutions for additional human rights reporting and independent director nominees with human or civil rights experience. Supported investor engagements on poor labour practices in global meat supply chains and in sectors exposed to modern slavery risks in the Asia Pacific region.	Continue to leverage our influence as investors to advocate for people, animals and the planet	100% of identified shareholder resolutions relating to human rights were supported (8 relevant proposals identified). Proactively engaged with 14 companies on human rights, including modern slavery and labour rights. In addition, we lent our voice to support others' initiatives.

35. ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf (Accessed 8 Sep 2021)
36. See pages 50 and 51 of the 2017 ILO report
37. Breakdown: **$150,000** to health (Living Goods, Fistula Foundation, Population Services International), **$110,000** to employment (Pollinate Group, Karrkad Kanjdji Trust (KKT), Love Mercy Foundation, YGAP (YHER)), **$70,000** to education and access (Human Rights Watch, One Girl)

Since the year 2000, Australian Ethical has donated over $8 million, driving positive outcomes for the planet, people and animals.

Impact through the Australian Ethical Foundation

Every year, Australian Ethical donates 10% of profits[38] to the Australian Ethical Foundation Limited (The Foundation) to create environmental and social impact in Australia and overseas. Since the year 2000, Australian Ethical has donated over $8 million, driving positive outcomes for the planet, people and animals.

The Foundation's vision is to direct as much philanthropy to effective solutions addressing the climate emergency. This is because we believe a sustainable planet - free from climate disaster – underpins all of Earth's systems (from biodiverse ecosystems to capital markets) and allows for people and animals to thrive.

The Foundation does this by utilising and funding leading research, reporting and analysis to unearth and support highly effective charities addressing climate change. It aims to be a pioneer in effective climate philanthropy in Australia, leading the way for other funders to follow.

The Foundation had another high impact year in FY22, allocating $1.6 million in funding support to over 25 charities fighting climate change across its strategic priority areas:

- **Stopping sources of carbon pollution**
- **Supporting carbon sinks**
- **Empowering women & girls**

38. After tax and before bonuses

Highlights

The Foundation's first ever Visionary Grants annual public grant round awarded funding support to eight organisations working on a variety of innovative projects to combat the climate crisis. Projects ranged from using drones to replant seagrass meadows to designing energy security initiatives for First Nations communities. The funding will help progress these new ideas to their next stage of development. The Visionary Grants program is being run again in 2022, with another set of winners to be announced in early December.

FY22 also marked The Foundation's launch of Giving Green in Australia, a website and resource to recommend Australia's most effective climate change charities. The recommendations were based on a 12-month research process applying effective altruism principles, fully funded by The Foundation. The Foundation will continue to fund the work of Giving Green, to update and research further charities for inclusion into the recommendations, as it endeavours to expand out this offering for all Australian donors.

For more information on the great work done by our Foundation in FY22, see our Foundation Impact Report.

Compelling client experience

Client expectations

We know our more than three decades' experience as an ethical investor is not enough to guarantee our ongoing success. To achieve this, we must not only be true to our ethos and purpose, but we must ensure that our customer experience is one that will support and drive our substantial, ongoing growth. Indeed, the third pillar of our strategy aims to deliver a seamless, modern, engaging and competitive client experience to support the creation of a better financial future for our customers.

To that end we have continued to build out our purpose-led customer experience. In FY22 we enhanced our contact centre capability and infrastructure, launched new digital interfaces for customers, continued to pass on fee reductions to customers and introduced new channels to make it easier for customers to connect with us.

Purpose-led customer experience[39]

Engaged and purpose-aligned team
100% of employees say the work that we do at Australian Ethical is important[40]

1. Experience
Purpose-led customer experience as a key brand differentiator.[41,42]

→

2. Brand advocates
Customers tell a good experience to 9 people and a bad one to 16.[43]

→

3. Spend
Customers who have the best past experiences spend 140% more than those who have had poor ones and are 4.5 times more likely to pay a price premium.[43]

→

4. Loyalty
One of the highest retention rates for super funds.[44] Customers who have a high-quality experience are 2.7 times more likely to keep doing business with a brand than those with a poor experience.[45]

→

5. Cost to serve
Delivering great experiences reduces the cost to serve. Recommendations bring in new customers with no acquisition costs.[46]

39. Customer experience model based on model in "How the right CX operating model can pave the way to future success, Deloitte Digital
40. Culture Amp Employee Survey, June 2022
41. "62% of customers want companies to take a stand on …sustainability, transparency or fair employment practices. The closer a company's purpose aligns to their own beliefs, the better", 14th annual Global Consumer Pulse Research, Accenture Strategy 2018.
42. Number 1 for NPS, Investment Trends Super Member Engagement Report 2022 – Independent research with 23 major super funds surveying over 7,500 Australians. Number 1 NPS for High Net Worth (HNW) managed fund investors, Investment Trends High Net Worth Investor Report – November 2021.
43. "The Value of Customer Experience, Quantified," Harvard Business Review, 2014
44. Fourth lowest net outflow of 75 funds, KPMG Super Insights Report 2022, published May 2022 using statistics from APRA and ATO as at 30 June 2021.
45. "Customer Experience is the Future of Marketing," Forbes, 2015
46. Deloitte Project Experience

Our already industry leading customer experience scores[47,48] improved even further during the period:

Our abandonment rate, a key concern, is now better than the industry standard[49]

#1

NPS (+52) for Super[47]

#1

NPS for Managed fund investors (High Net Worth)[48]

Central to our efforts has been identifying and understanding the customer journey from their perspective. We have invested in research to understand the different touchpoints and individual interactions through which customers engage with us.

As reported last year, we've continued to build the capability of our inhouse contact centre team. In FY22 we introduced a new telephony system and automated a number of key customer interactions. We have been delighted with the uptick in customer satisfaction metrics delivered by this motivated team who seek to embody our brand promise in their daily interactions.

We've also prioritised the ongoing digitisation of the customer journey. After the lockdowns and isolation of the pandemic, today's customers have become accustomed to the immediacy, personalisation and convenience delivered by digital tools and now expect a more streamlined service from us. In FY22 we launched our first app for managed fund investors and redesigned multiple online forms to streamline processes and make them more user-friendly.

47. Investment Trends Super Member Engagement Report May 2022 – Independent research with 23 major super funds surveying over 7,500 Australians.

48. Investment Trends High Net Worth Investor Report – November 2021.

49. Internal customer surveys.

What our customers say

"Aligns with our values and provides a great service, feels like we're working together for a better world."

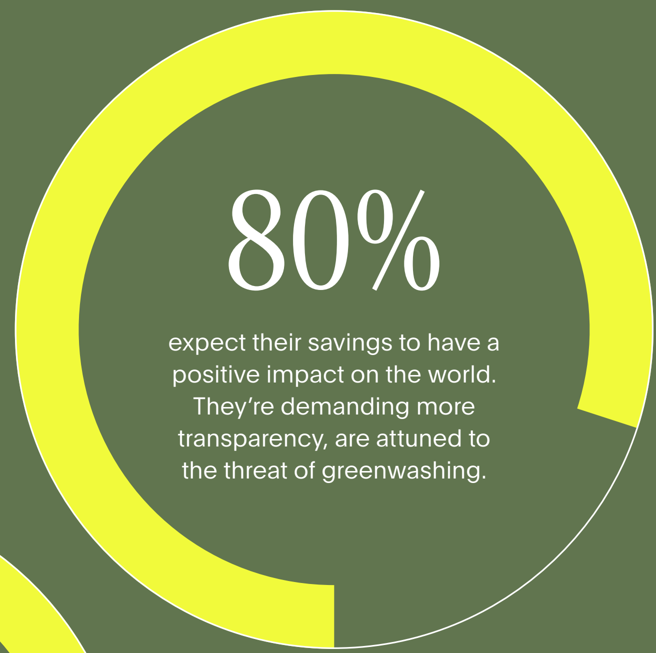
"Great service with good returns, as well as aligning with my ethical views."

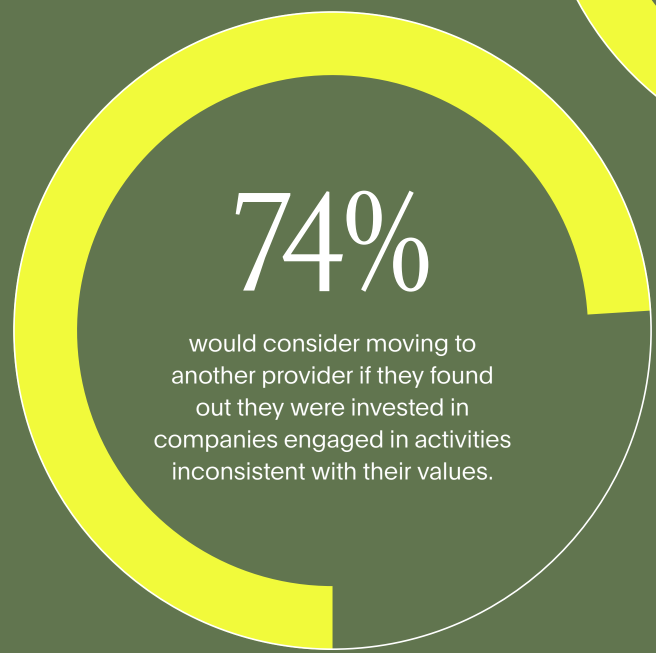
"Great customer service. Good tech. Transparency. For first time investor I am very happy with my decision so far."

Customers expect their money to be invested responsibly

Earlier in 2022, Australian Ethical and the Responsible Investment Association Australasia (RIAA) sponsored research to gauge consumer awareness, practices, and attitudes towards ethical and responsible investments in Australia.

The report, From Values to Riches 2022[50], was unequivocal in its findings: expectations of financial providers are high, and Australians are overwhelmingly concerned about where their money goes.





50. From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, 2022, Responsible Investment Association Australasia.

Awards and accolades

From Values to Riches 2022[51] identified how consumers seek independent certification or labelling from their financial providers partly in response to greenwashing. The research found that three-quarters of Australians would be more likely to invest in responsible investment products that have been independently certified or labelled.

Independent responsible investment labels or certification could convince 88% of Australians that already invest responsibly or plan to do so in the next 12 months, and 77% of those who are considering it within the next one to five years, to invest more in responsible investments.

51. From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, 2022, Responsible Investment Association Australasia.
52. bcorporation.net/en-us/find-a-b-corp/company/australian-ethical-investment
53. Investment Trends Super Member Engagement Report May 2022

Australian Ethical continues to be recognised as a leader in responsible investment

Leadership

Responsible Investment Association Australasia
Responsible Investment Leader 2021

Top 5 for Financial Services
AFR Sustainability Leaders 2022

ESG Leader Superfunds for 2022
Rainmaker Information

Managed funds

Best Australian Shares ESG Fund – Diversified Shares Fund
Money Magazine Best of the Best 2022

Super

Green Superannuation Fund of the Year 2020-2022
Finder Awards

Winner Infinity Awards 2020-2022
SuperRatings

GOLD for MySuper, MyChoice & Pension
SuperRatings

Accolades

Best for the World for Customer Service
B Corp since 2014[52]

Best for the World for Governance
B Corp since 2014[52]

Most Recommended Super Fund
Investment Trends Super Member Engagement Report 2022[53]

Best Social Media Campaign of the Year
MAX Awards

Distribution Executive of the Year
MAX Awards

B Corp certification was created by B Lab, a global non-profit that aims to make it easier for mission-driven companies to have a more positive impact on the planet and its people.

What's a B Corp?

Case study

For people looking to make their lifestyles more ethical, there can be a huge amount to consider. The range of certifications can be confusing and while many of them offer positive steps, none of them fully encompass what it means for a business to be both ethical and sustainable in all its varieties.

This is where our B Corp certification comes in – arguably the king of ethical and eco credentials.

B Corp certification was created by B Lab, a global non-profit that aims to make it easier for mission-driven companies to have a more positive impact on the planet and its people.

Since its launch in 2006, more than 100,000 businesses have signed up for the B Corp Impact Assessment, yet only 3,500 have been certified: a testament to its extremely high standards. Certified B Corps are held legally accountable to consider the impact their decisions have on their workers, customers, suppliers, community, and the environment.

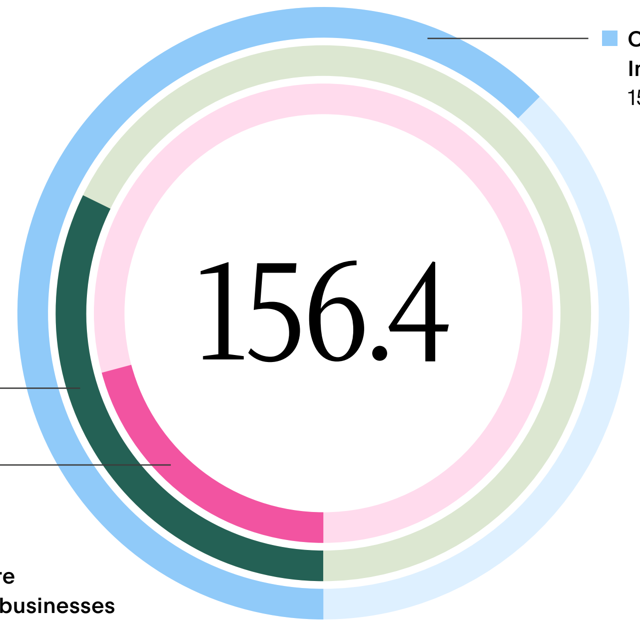
In 2014, we became the first publicly listed Australian company to become certified as a B Corp and we have maintained this certification ever since.

This year we were thrilled to be named as Best for the World for both Governance and Customers. Our overall B Impact Score was 156.4 (a score of 80 is required for B Corp certification). This result is testament to our incredible ethos and commitment to doing things better – for our team, our customers and our planet.

Overall B Impact Score

Based on the B impact assessment, Australian Ethical investment earned an overall score of **156.4**.

The median score for ordinary businesses who complete the assessment is currently **50.9**.



Memberships and certifications

Our wide-ranging memberships and certifications are testament to our leading approach to ethical investing and an important part of our authenticity.

Certifications

CERTIFIED BY RIAA

Certified Responsible Investment by Responsible Investment Association Australasia (RIAA)

Certified B Corporation

Certified B Corp since 2014. The first company on the ASX to achieve this.

PRI Principles for Responsible Investment

United Nations Principles of Responsible Investment (PRI)

- Investment & Stewardship Policy: ★★★★☆
- Direct – Listed equity – Active fundamental – incorporation: ★★★★☆
- Direct – Listed equity – Active fundamental – voting: ★★★★☆
- Direct – Fixed income – SSA: ★★★☆☆
- Direct – Fixed income – Corporate: ★★★★☆

Signatory to:

- UN Principles of Responsible Investment
- CFA Institute Asset Manager Code
- FSC Women in Investment Management Charter
- Investor 30% Club Statement of Intent (for 30% women directors of ASX300).
- Science Based Targets Initiative
- Business Ambition for 1.5°C Pledge
- Global Investor Statement to Governments on Climate Change
- Business Benchmark on Farm Animal Welfare's (BBFAW)
- RIAA Investor Statement on Human Rights
- Finance for Biodiversity Pledge
- Race to Zero's Financial sector commitment letter on eliminating commodity-driven deforestation
- Investors Against Slavery and Trafficking APAC

Memberships, engagement and organisations we support

Founding member of the Responsible Investment Association Australasia (RIAA)

On the Nature Working Group, Human Rights Working Group and First Nation's Peoples sub-working group

Climate Action 100+

- Support and co-lead investor

Member of the Investor Group on Climate Change

- IGCC Transparency & Thought Leadership Working Group
- IGCC Policy & Advocacy Working Group

We have excluded tobacco investment since we were established in 1986 and have been a Supporter of Tobacco Free Portfolios since they started in 2018

United Nations Principles for Responsible Investment

- Member Sustainable Commodities Practitioners' Group

Association of Superannuation Funds of Australia Limited (ASFA)

The Financial Services Council, Fund Management Board and Superannuation Board Committee

Global Reporting Initiative (GRI)

Australian Chapter of the 30% Club Investor Group

Climate League 2030

Farm Animal Investment Risk and Return (FAIRR): Investor network member

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.

Impactful business

Growing our impact

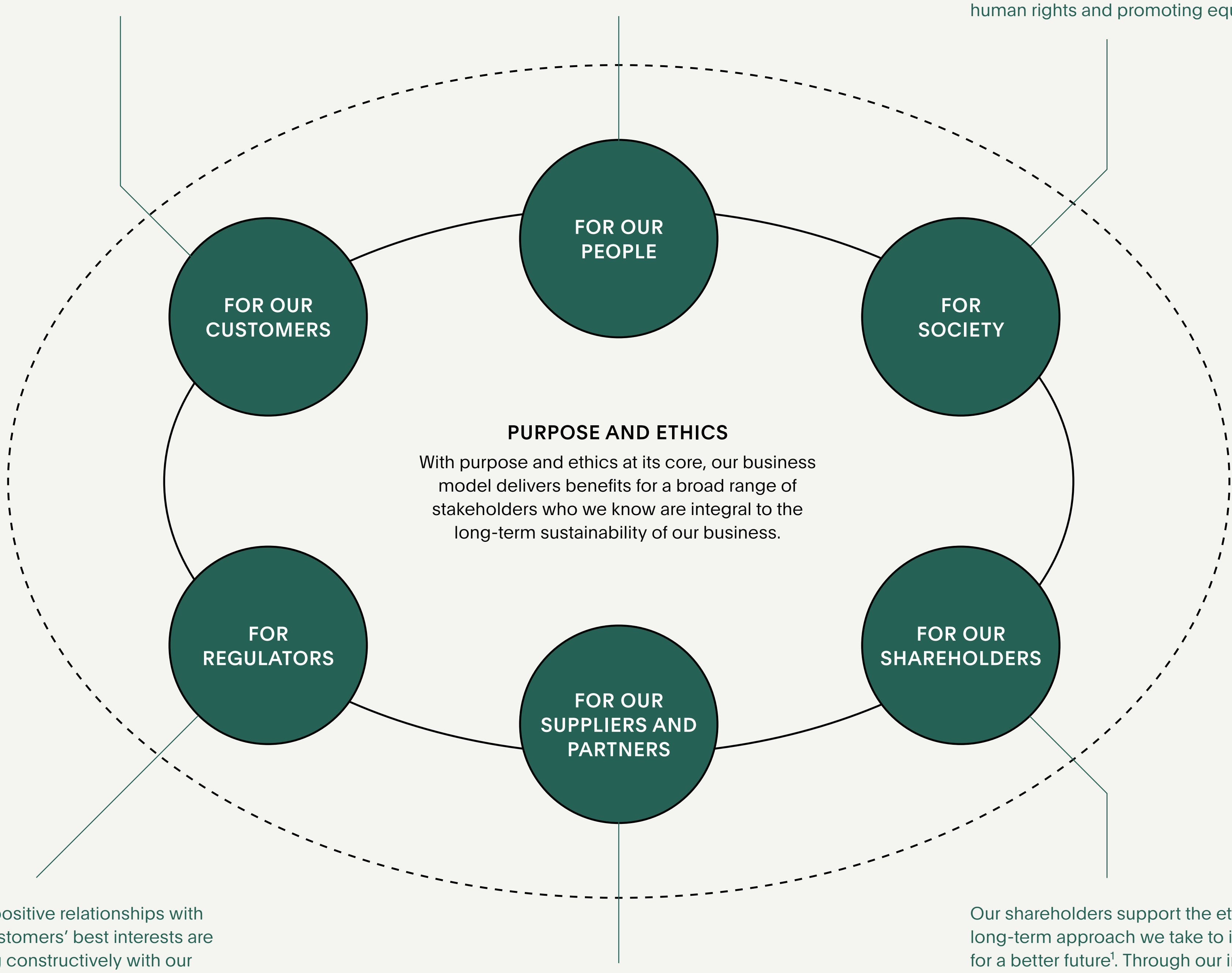
The growth of our business enables us to maximise the impact of our purpose. It enables us to grow our portfolio of good money, to raise our voice as an active shareholder and contribute to the world we operate in through the activities of the Australian Ethical Foundation.

We believe all businesses have an obligation to engage on the urgent needs of our planet in addition to their business-as-usual activities. Our success proves that it's possible through our purpose-driven business model which allows us to address the interests of employees, communities, suppliers, the environment, customers, and shareholders simultaneously.

Our customers are the central focus of our business. Through ethical investing we deliver long-term sustainable value for our customers with a positive impact on society and the planet. Put simply, we help them meet their financial goals and make a difference at the same time.

Our people and our culture as a purpose-driven organisation are crucial to the ongoing success of our business. By fostering an agile workplace where diversity and inclusion thrive, we attract, retain and motivate the right people for our current and future business needs.

We believe we have a responsibility to the society in which we operate. Through ethical investing, active corporate engagement, and social impact through The Australian Ethical Foundation, we are driving the transition to a low-carbon economy, limiting environmental damage, protecting human rights and promoting equality.



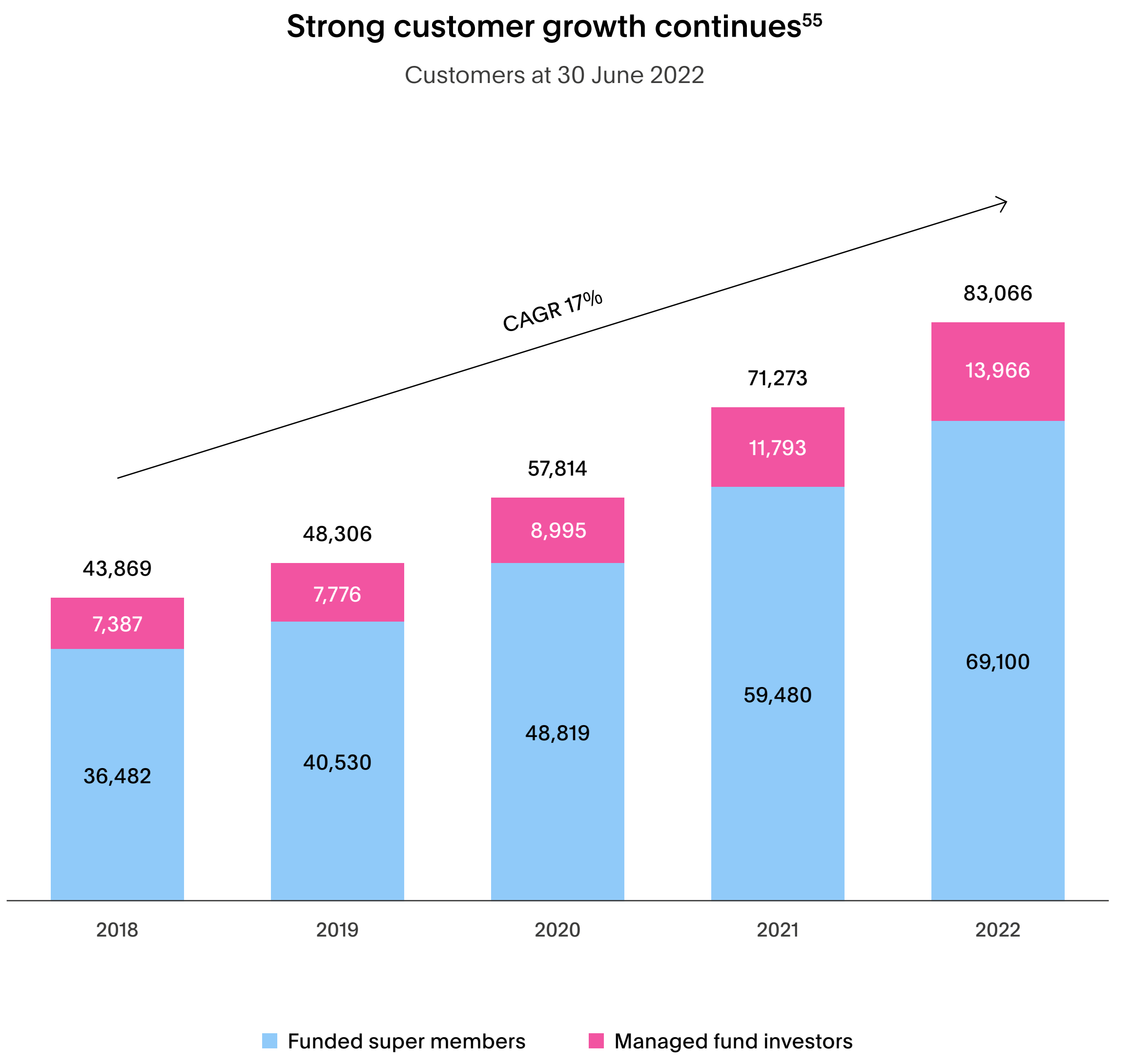
We seek to build positive relationships with regulators. Our customers' best interests are served by working constructively with our regulators. We maintain open and collaborative relationships with all our regulators through our commitment to transparency and robust corporate governance.

We recognise that our success depends on managing a complex ecosystem of suppliers and partners who we work with on a regular basis. Through our ethical business practices and supply chain assessment, we foster excellent long-term working relationships with our suppliers for our shared success.

Our shareholders support the ethical, long-term approach we take to investing for a better future[1]. Through our investment excellence and continuing growth, we generate shareholder returns underpinned by clear and transparent information about the health of our company.

Customer growth

Our success is shown through our continued growth in customers. To date, our acquisition of customers has been organic and mostly through our direct channels. In FY22 our funded super member numbers were up 16%, enabling us to retain our position as the fastest growing super fund in Australia over five years.[54] Our managed fund customer numbers were up 18%, a positive result in a market where many investors were redeeming their funds or holding onto cash.



Customers by state[55]

State not known
2,007 | 183

54. Fastest growing super fund over 5 years by member numbers, KPMG Super Insights Report 2022, published May 2022 using statistics from APRA and ATO as at 30 June 2021.
55. Each platform is regarded as one investor (in managed fund investor numbers) as platforms don't disclose investor numbers. We have 23 platform accounts. Note: Super members may also be Managed Fund investors.

Up to 30,000 new members expected through SFT

Case study

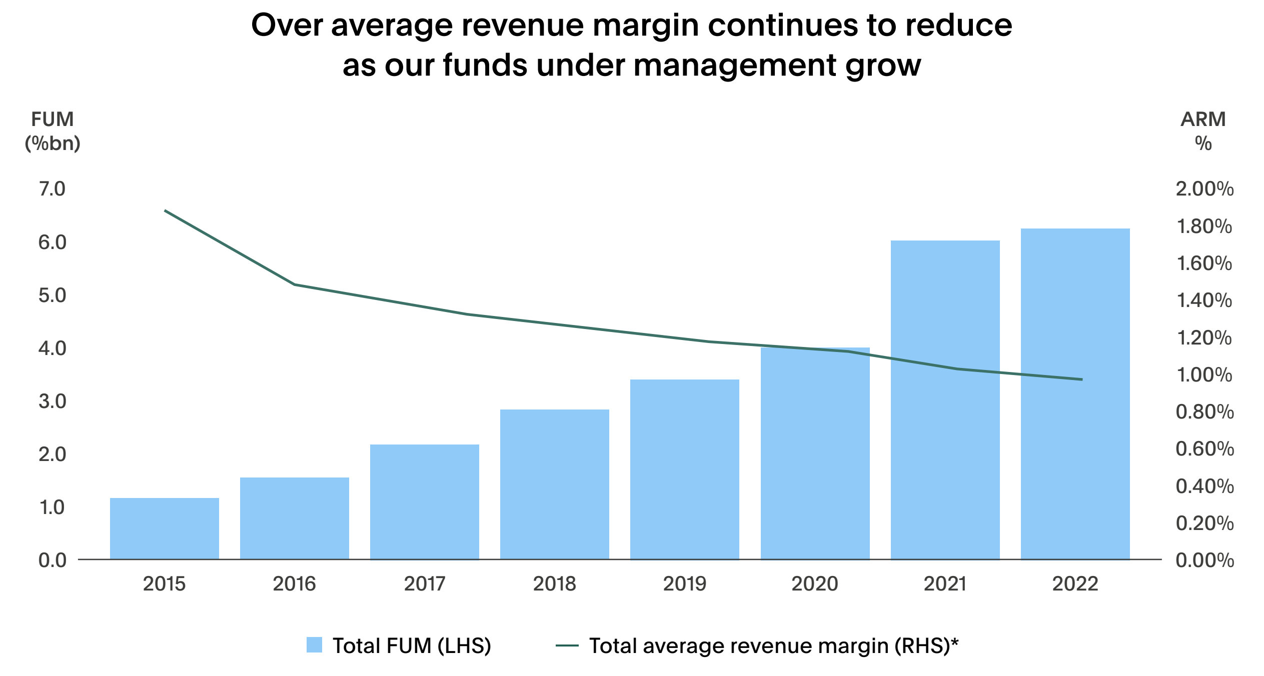
On 6 April 2022, we announced a memorandum of understanding with Christian Super to explore a Successor Fund Transfer (SFT) that would see the fund's members transfer into Australian Ethical Super. Christian Super chose Australian Ethical through an extremely thorough RFI process over a period of many months.

The two funds share a common motivation for stewardship of people and planet through our investments. Like Australian Ethical, members of the Christian Super fund are substantially direct joins or via various employer channels.

The SFT, expected to complete in late November 2022, will see up to 30,000 members representing around $1.96 billion in FUM transferring to Australian Ethical, adding further scale, capability and portfolio diversification to our business.

Passing on the benefits of scale

Our ambition is to make ethical investing as accessible and competitive as possible. To that end, we continue to pass on the benefits of our growing scale to our customers. In June 2021, we reduced the fees on the Australian Shares and International Shares options for our super members. For our managed fund investors, fees were reduced on the Balanced, International, Diversified, Advocacy, Australian Shares and Emerging Companies retail funds, and the Balanced and International wholesale funds. In October 2021, we repositioned our Advocacy Fund as the High Growth Fund with a reduction in fees for our super and wholesale managed fund customers. Further fee reductions were implemented on 1 September 2022 with the fixed super administration fee reducing from $97 to $74 per annum. Further, on completion of the Christian Super SFT (see left), a further reduction in fees is anticipated.



* Average revenue margin calculated on FUM based revenue (excluding member based fees & excluding performance fee) as a percentage of average annual FUM.

The chart below shows the steady reduction of our revenue margin since 2015, aligned to the growth in funds under management. Over the last financial year our revenue margin reduced from 1.0% at 30 June 2021 to 0.97% at 30 June 2022. The average revenue margin for FY22 was 0.99%.

Employees

To support our ambitious growth strategy our employee base expanded 28% from 80 to 102 employees in the financial year. Employees share in the success of our business as it grows as each is a shareholder. All permanent employees are eligible for a Short-Term Incentive (STI) payment based on their individual performance. In addition, permanent employees participate in an Employee Share Plan whereby company shares will vest in the eligible employee's name after three years, providing they are still employed, and the company has achieved certain performance hurdles. The hurdles are based on three-year compound annual growth in diluted earnings per share (EPS) as follows: 0-5% – nil shares vest; 5-10% – pro rata up to 100% shares vest; more than 10% – shares fully vest. During the three-year period the shares are held in an Employee Share Trust, employees receive dividends and are entitled to vote on eligible company resolutions.

During the year, a new Executive Long-term Incentive (ELTI) program was introduced. It is designed to retain key senior talent and provide reward for achieving aspirational targets by the period ending 30 June 2025. The ELTI is issued in the form of hurdled performance rights to qualifying executives and has a 4-year vesting timeframe. Vesting criteria includes the achievement of stretch FUM and Cost to Income ratio targets, non-financial measures including customer satisfaction, employee engagement and risk management, and an ongoing commitment to our ethical expression, ESG leadership and excellence. The FUM target includes a multiplier mechanism that provides a range of stretch targets for the leadership team.

Benefits of our growing scale for people, the planet and animals

One of the most direct benefit of our increasing scale is the contribution we are able to make to the Australian Ethical Foundation. Through The Foundation, the more we grow the more we're able to donate to organisations that are as passionate about making the world a better place as we are. In FY22 the Foundation donated more than $1.6 million to charities fighting climate change. For more information see our Foundation Impact Report.

Other growth highlights

Our continued investment in our brand is also paying off. Familiarity with our brand has increased over the past year as we are reaching more Australians. We're now the most recognised responsible investment brand amongst current ESG investors.[56]

Meanwhile in the background, but very much critical to our future success, we have invested in upgrading our back-office systems. A new cloud-based general ledger system together with a new payroll and HR system have created scalable back-office infrastructure to support our ambitious growth aspirations.

56. Investment Trends High Net Worth Investor Report – November 2021.

New channels

We continue to build a business that is diversified by product, channel and asset class. Our direct super and managed fund business remains our predominant channel contributing 77% of FUM and providing strong, ongoing growth.

Another key channel for us is advised customers. Indeed more and more advisers are recognising that ethical investing is an opportunity to enhance their value proposition and build better rapport with clients. According to recent research by Investment Trends, advisers providing advice on ESG investments has increased to one in two advisers, up from one in five in 2016.[56]

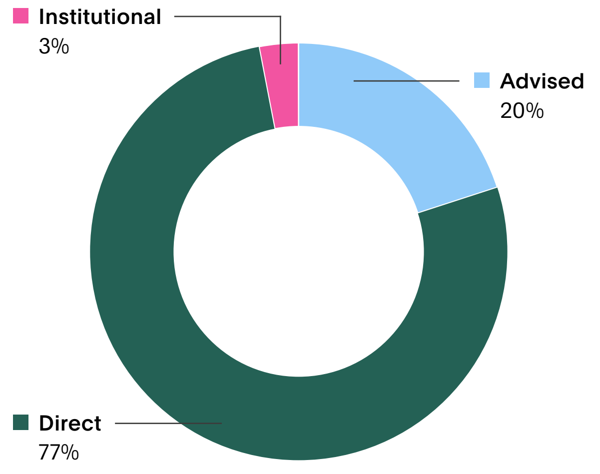
In FY22 we focused much effort on our adviser channel and we're seeing some encouraging results. During the period we added capability in our sales team and broadened our brand reach through online content and fact sheets, education and events targeted at advisers. We saw good growth in adviser flows, which were up 46% year on year. Our Adviser NPS rank also improved, moving from 16th to 13th position.[57]

In late FY22 we launched a new channel partnering with employer platforms to acquire new superannuation customers. Many employers are now using 'employee onboarding platforms' such as Employment Hero, that assist with the selection of a Super Fund. By engaging with people as they onboard into new roles, we have a new opportunity to present our unique ethical offering in a competitive market.

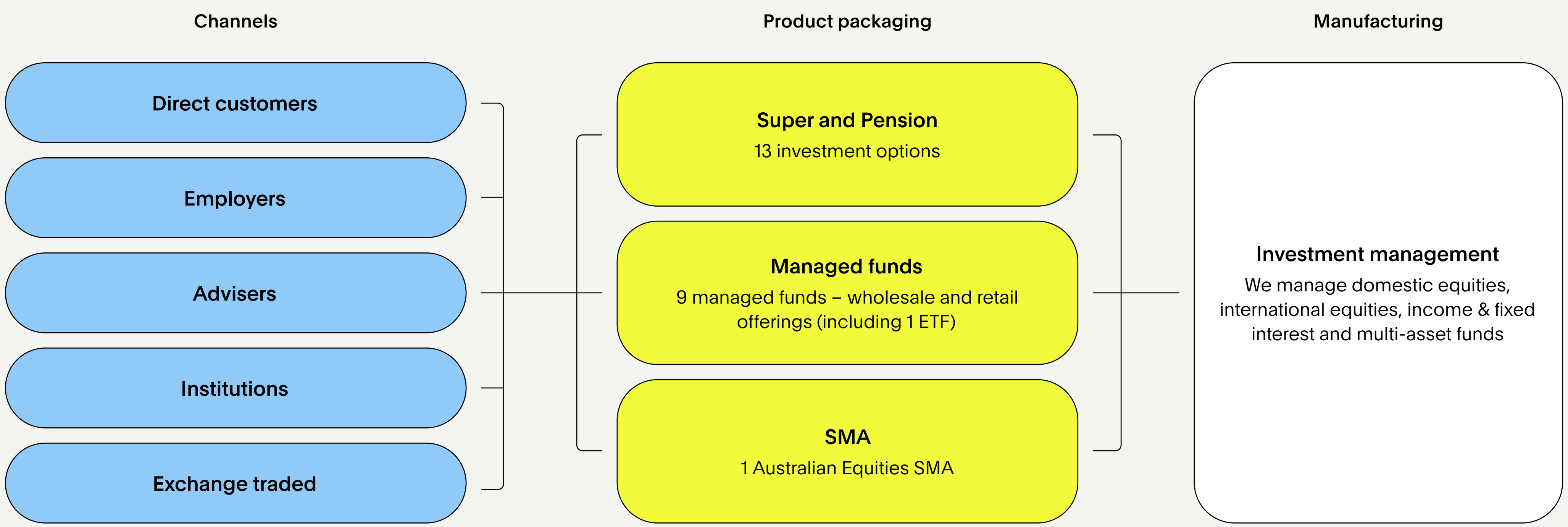
Finally, with the launch of our High Conviction ETF, we expanded into the listed channel, further increasing the accessibility of our ethical product set.

FUM by channel

Direct remains predominant channel, with strong focus on growing advised off a lower base.



Our manufacturing and distribution model



56. Investment Trends High Net Worth Investor Report – November 2021.
57. australianethical.com.au/adviser/investment-trends-2022-esg-report/

Leadership & innovation

Leadership and innovation

Our commitment to our purpose of 'Investing for a better world' remains strong and resonates powerfully with our existing talent and potential future talent. From our experience, when employees can gain greater meaning and purpose from their work, they're more engaged, motivated, and connected. The mantra that people are a company's greatest asset has never been truer than it is today, and we're committed to protecting and nurturing our asset.

Much of what we hear on the topic of responsible investing focuses on environmental issues, but these are not the only considerations. How companies operate and manage the social side of their business should matter to long term investors. It matters to us. In fact, a company's culture can sometimes be more telling than reading any mission statement or balance sheet. It gives a clear indication of a company's authenticity and how it manages its most important resource – its people.

One year into our high growth strategy, we're continuing to invest in our people and progressing towards our desired diverse, high-performance environment and culture of innovation which underpins our strategic pillars.

Resilience through uncertainty

The Covid-19 pandemic brought with it many challenges and uncertainty, for businesses and individually. We're applying what we've learned from the experience and have been investing in our people, our processes and technology to strengthen our readiness and resilience now and for the future.

Employee engagement

Our annual engagement survey continues to reflect the strength of our culture. In a year where the impacts of Covid-19 continued to disrupt, we were particularly pleased by our continuing top quartile employee engagement score of 79%[58] and the quality of the talent we are attracting to our business. This year we have added capability to our Investment Committee as well as our Investment, Distribution, Business Intelligence & Technology, People & Culture and Customer teams, increasing our headcount from 80 to 102.

Hybrid working

We have demonstrated we can continue to deliver results for customers and shareholders in a hybrid working environment. Employee preferences have evolved and in order to continue to retain and attract the best talent we have embraced a combination of in-office and from-home working (hybrid working). We want our people to work where work is best completed by them, provided this works for our customers, the business and is within our organisational context. In this way of working, we also recognise our offices have a purpose to improve collaboration, simplify project work and provide regular opportunities for on-the-job learning. Opportunities to strengthen our culture, build connection to our purpose, and develop meaningful work relationships are often more productive in-person. So we have designated Thursdays as a 'company anchor day' to make sure we come together at least once a week to connect in-person with other team members across the organisation.

Business continuity

Australian Ethical has not only been able to adapt to the challenges of Covid disruptions but has continued to deliver results. This is thanks to our business continuity and crisis planning, enabling technology, an agile workplace and of course strong leadership. Having faced disruption on that scale in real time has only strengthened our readiness and resilience for the future.

We're now at a turning point in the pandemic recovery process and we're applying what we've learned from the experience by embedding these attributes into our culture and operating model.

A fundamental lesson from the pandemic is that resilience is as much about thinking ahead as it is about doing what it takes to respond and recover from a crisis. As such, we are continuing with the strategic and technology investments that enhance our resilience. This includes enabling 100% of our employees to perform their roles regardless of location by reviewing and uplifting our security capabilities in line with industry best practice. Meanwhile, our ongoing adoption of cloud services ensures the business can adapt quickly to a changing landscape as we grow.

Notwithstanding the continued lockdowns during 2021 and into 2022, our business operations have remained efficient and effective. We have made significant progress on our strategic milestones and other business-as- usual deliverables, including growing customer numbers, retail and wholesale net flows and our positive impact for people, planet and animals.

58. Top quartile Australian Financial Services Benchmark (Culture Amp, June 2022).

Connecting work and purpose

After a sustained period of remote working, we facilitated opportunities for our people to reconnect to our purpose through all-staff events and development opportunities. These initiatives have helped to bond people across different parts of the organisation, stimulate innovation, contribute to strategy, celebrate our diverse culture and enhance what Australian Ethical is all about.

Company Day & EOFY celebrations

In early September 2022 the company came together for its inaugural Company Day. This was an opportunity to recognise the achievements and deliverables of the previous year, energise our people for FY23 by sharing the strategic priorities for the year ahead. It also allowed our team to connect with each other through our purpose and values. The day consisted of highly engaging, interactive and impactful workshops covering our strategic priorities ('big rocks'), AE values and learning to personally thrive in uncertain times.

AEx Week

In May 2022 we also hosted the inaugural 'AEx Week' to provide a catalyst for all employees to connect in the Sydney office and return to a hybrid way of working, listen to external speakers and enjoy a wellbeing day. Our team heard from keynote speakers such as Kamal Sarma, an expert on mental resilience and Damon Gameau as he screened his newly-released film 'Regenerating Australia'. We also heard about the incredible work being carried out by our visionary grant recipient Seabin.

Embracing diversity

In FY22 we embraced diversity and inclusion through a number of awareness campaigns and celebrations. 'Wear It Purple Day'; we were fortunate to be joined by Glen Hare, a director from the organisation. For International Women's Day we gained insight from past Foundation grant recipients 'One Girl'. We also hosted our own 'Feast for Freedom' lunch to support refugees and raised funds by sharing in a home-cooked feast provided by employees, reflecting our many cultural backgrounds.

Meanwhile, we continue to be a leader in gender diversity with 50% female representation on our Board, 44% on our Senior Leadership Team ('SLT') and 48% across all employees.

Volunteering

Covid-19 restrictions meant we were unable to hold company-wide volunteering days in FY22, but we had one employee head out to plant trees for Green Fleet on our behalf. We are still dedicated to extending our positive impact through volunteering and provide all employees with access to volunteering leave as a way to encourage employees pursue their personal volunteering initiatives.

Our people

79%

said they could voice a contrary opinion without fear of negative consequences

88%

would recommend Australian Ethical as a great place to work

82%

are motivated to go above and beyond

Looking after our employees

EAP done differently

In December 2021, AE moved away from a traditional employee assistance program (EAP) design and instead partnered with Allos Australia to take a more holistic approach to employee wellbeing. Allos have a passion for assisting people during a crisis, and uniquely also offer counsellors experienced in professional and personal development.

The Allos team share similar values to AE, with the purpose of helping people find their feet and thrive at the forefront of their thinking. They share a creative, genuine and socially sustainable partnership with AE.

Allos provide our team members and their immediate family with free confidential counselling. On top of this, Allos have assisted in some areas of personal Learning & Development in the workplace and provide engaging keynote sessions and workshops that helps our employees to continuously thrive in a world of uncertainty, the workplace and their daily lives.

Remote wellbeing initiatives

AE continued to provide remote options for wellbeing initiatives including PT provided exercises and Flu Vaccinations, as well as promoting our relationship with Allos and encouraging ongoing flexibility/wellbeing.

Engagement score card

2018	78%
2019	71%
2020	86%
2021	82%
2022	79%

Culture Amp, Employee Engagement Survey June 2022

Good governance

All our decisions are underpinned by our robust and award-winning[59] governance. Our strong risk culture enhances our decision making and upholds our commitment to ethical investing. Risk management is closely aligned with our ethical approach to business, which requires us to consider the far-reaching consequences of our investment decisions and examine issues on their merits from many angles.

Our risk culture ensures we do the right thing for all our stakeholders and always keep the future in mind when we make our day-to-day decisions and pursue the most sustainable outcomes for everyone. Through our risk management framework, we consider both existing and emerging challenges and opportunities to our purpose, values and our strategic priorities.

While our Board is responsible for encouraging appropriate behaviours and collaboration on managing risk across the business via our senior leadership team, risk management is accepted as being part of everyone's day-to-day responsibilities and is linked to performance, development and ultimately remuneration. This is how we build long-term value for our customers, for society and for the planet.

We have always believed that high standards of corporate governance benefit all our stakeholders including our customers, employees, suppliers, regulators, shareholders, and the communities in which we operate. We expect our directors and employees to always act ethically and responsibly because this, combined with our policies and practices in governance, will result in the best outcomes for all our stakeholders. The key principles of our approach to Corporate Governance are set out in our Corporate Governance Statement.

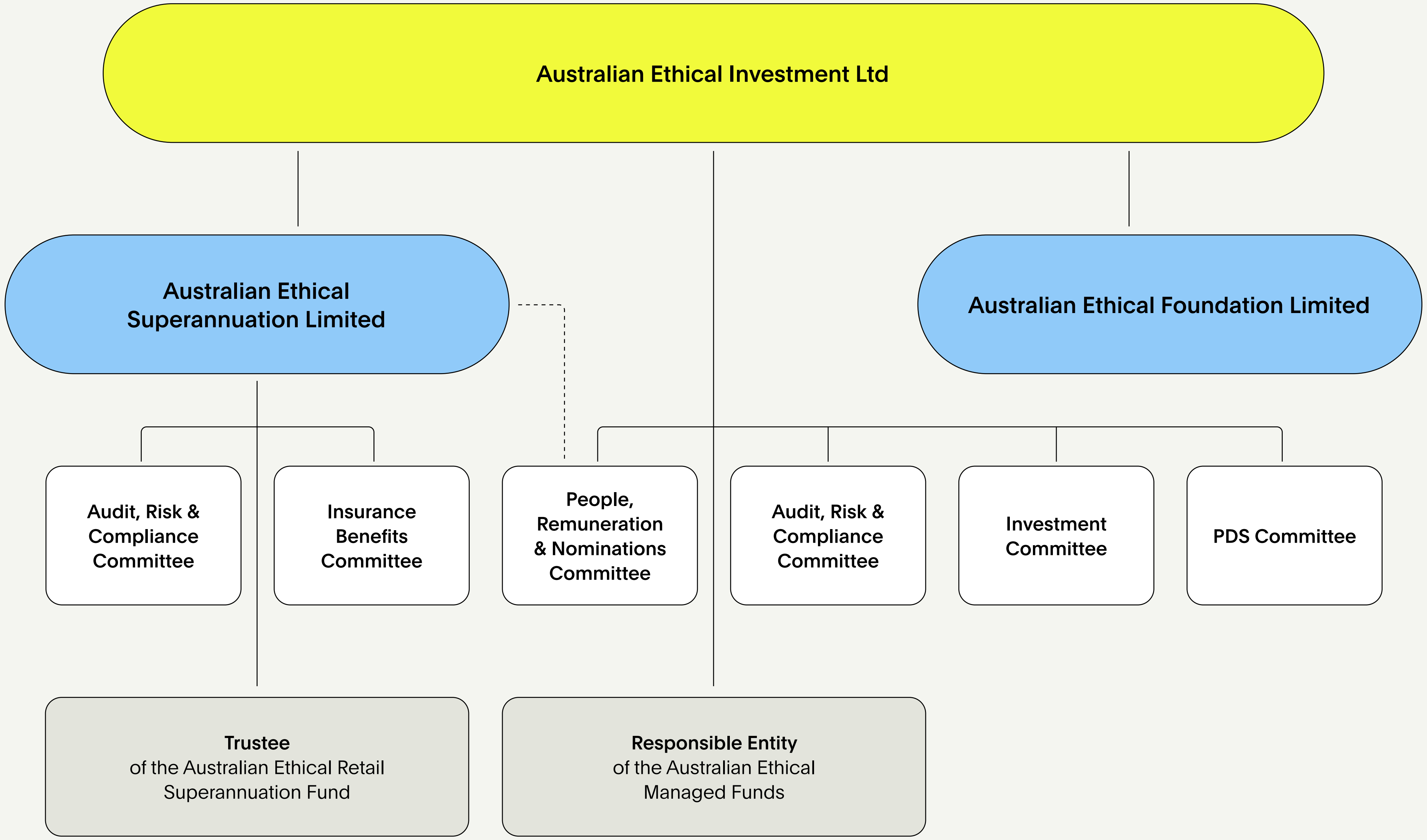
59. BCorp 'Best for the World Honouree' Governance 2022.

Governance structure

Australian Ethical Limited is governed by a Board of Directors appointed by shareholders. The Board has four committees:

- The Audit, Risk & Compliance Committee;
- The People, Remuneration & Nominations Committee;
- The Investment Committee; and
- The Product Disclosure Statement Committee.

These committees are delegated with the necessary authority to carry out their functions. The Board Committee Charters for the Audit, Risk & Compliance Committee and the People, Remuneration & Nominations Committee are available on our website. Our Constitution requires us to operate in a way that promotes the Australian Ethical Charter. The Charter requires consideration of economic, environmental and social impacts when making investments and managing the Company.



GRI Index

Disclosure	Description	Reference
Organisational profile		
102-1	Name of the organisation	Front cover
102-2	Activities, brands, products and services	Pages 17, 32, 46 **Annual Report** pages 21-25 Additional information is available at **australianethical.com.au**
102-3	Location of headquarters	Sydney, Australia
102-4	Location of operations	Our offices are located in Sydney and Melbourne, Australia
102-5	Ownership and legal form	**Annual Report** Inside front cover Page 50
102-6	Markets served	Page 44
102-7	Scale of the organisation	Pages 3, 10, 17, 23, 32, 44-46 **Annual Report** pages 6,7, 21-23,30 Total Employees = 102 (including contractors) F 48 (47.0%) : O 1 (1%) : M 53 (52.0%)
102-8	Information on employees and other workers	Pages 10,48-49 **Annual Report** pages 36-57
102-9	Supply Chain	Page 32-34 **Modern Slavery Statement 2020**
102-10	Significant changes to the organisation and its supply chain	Pages 19, 34
102-11	Precautionary Principle or approach	The **Australian Ethical Charter** is aligned with the Precautionary Principle.
102-12	External initiatives	Pages 10, 39-41 **Annual Report** pages 2,4, 19, 22, 27-29 **Climate Report 2022** **Modern Slavery Statement 2020** **The Foundation Impact Report 2022**
102-13	Memberships of associations	Page 41

Disclosure	Description	Reference
Strategy		
102-14	Statement from senior decision-maker	**Annual Report** pages 2, 19-31
102-15	Key impacts, risks and opportunities	Pages 6, 7, 13, 16, 33, 34, 77, 79, 81, 83, 84 **Annual Report** pages 4, 5, 6, 8 9 , 19, 20, 23, 24, 27-2t
Ethics & integrity		
102-16	Values, principles, standards and norms of behaviour	Pages 2-4,6-9, 14, 18, 19-21, 27-35, 43 **Annual Report** pages 4, 5, 8, 20, 27, 28, 39, 41 **Ethical Charter** **Code of Conduct** **Corporate Governance Statement, Principle 3**
102-17	Mechanisms for advice and concerns about ethics	Employees are consulted on changes that may impact their work and/or the business. Every two years, an employee representative is elected by employees; employees can discuss any concerns, issues or complaints around their employment, regardless of their nature or severity with them. 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. During FY22, the external grievance mechanism available for all complaints was the Australian Financial Complaints Authority (AFCA). The internal risk and compliance reporting tool "Tickit" is used to track, monitor and document incidents. Mechanisms for managing grievances of external parties are available through The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC).
102-18	Governance structure	Page 50 **Annual Report** Pages 17-19, 56
102-19	Delegating authority	**Corporate Governance Statement, Principle 7**
102-20	Executive level responsibility for economic, environmental and social topics	Page 2, 4, 6, 13, 17, 50 **Annual Report** pages 4, 6, 25, 41 **Ethical Investment Policy**
102-21	Consulting stakeholders on economic, environmental, and social topics	Pages 31, 32, 38, 43, 56, Appendix 1
102-22	Composition of the highest governance body and its committees	Page 50 **Annual Report** 17, 18 **Corporate Governance Statement Principle 2 (Recommendations 2.1 and 2.3)**
102-23	Chair of the highest governance body	**Annual Report** pages 4, 17 **Corporate Governance Statement Principle 2 (Recommendation 2.3)**
102-24	Nominating and selecting the highest governance body	**Board Charter** **Board Renewal Policy** **Corporate Governance Statement Principle 2 (Recommendation 2.4, 2.5)**

Disclosure	Description	Reference
102-25	Conflicts of interest	**Conflicts Management Policy** **FSC Standard 23 Principles of Internal Governance and Stewardship** **Corporate Governance Statement Principle 3 (Recommendation 3.1)** **Group Register of Relevant Interests**
102-26	Role of highest governance body in setting purpose, values, and strategy	Australian Ethical conducts an annual strategy review where Board and the management team include all aspects of purpose, values and strategy including sustainability **Board Charter**
102-27	Collective knowledge of highest governance body	**Corporate Governance Statement Principle 2 (Recommendations 2.2 & 2.6)** 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 in the **Annual Report** pages 17, 19
102-28	Evaluating the highest governance body's performance	**Corporate Governance Statement Principle 1 (Recommendation 1.6)**
102-29	Identifying and managing economic, environmental and social impacts	**Corporate Governance Statement Principle 7 (Recommendation 7.4)**
102-30	Effectiveness of risk management processes	Pages 13, 14 **Annual Report** page 28 **Climate Report 2022** **Corporate Governance Statement Principle 7 (Recommendation 7.2)** Due diligence is undertaken quarterly by the senior management team and reported to the to the Audit Risk and Compliance Committee under delegation from the Board.
102-31	Review of economic, environmental and social topics	Pages 3-7 **Ethical Investment Policy**
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 Chief Risk Officer has a reporting line and obligation to report to the Chair of the Audit, Risk and Compliance Committee, who in turn is a Non-executive Director. The Company Secretaries have reporting lines 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.
102-35	Remuneration policies	Remuneration Report (as part of the **Annual Report**), pages 36-57
102-36	Process for determining remuneration.	Remuneration Report (as part of the **Annual Report**), pages 36-57
102-37	Stakeholders' involvement in remuneration	Remuneration Report (as part of the **Annual Report**), page 56
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 3:48:1
102-39	Percentage increase in annual total compensation ratio	The highest paid individual's salary increased by 19% and the median salary increased by 2%.

Disclosure	Description	Reference
Stakeholder Engagement		
102-40	List of stakeholder groups	Page 43, Appendix 1 of the GRI Content Index
102-41	Collective bargaining agreements	No staff are employed on collective bargaining agreements
102-42	Identifying and selecting stakeholders	Page 11, 63
102-43	Approach to stakeholder engagement	Pages 11, 27, 29, 31, Stewardship Report 2022
102-44	Key topics and concerns raised	Pages 11, 38, 46, 56 **Annual Report** pages 2, 6, 25, 44
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	The GRI Reporting Principles of Stakeholder Inclusiveness, Sustainability Context, Materiality and Completeness have been incorporated through: • 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 has been carried out in FY20 including shareholders, investors, members and social media followers for the first time. • The range of topics identified as material and supporting information for the reporting year FY22. 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.
102-47	List of the material topics	Page 11
102-48	Restatements of information	No restatements of information in the period.
102-49	Changes in reporting	Nil
102-50	Reporting period	1 July 2021 to 30 June 2022
102-51	Date of the most recent report	22 November 2021
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 Page 11
102-55	GRI Content Index	The GRI Content Index is set out in this table.
102-56	External assurance	Data relevant to selected material indicators has been assured by KPMG using the ASAE3000 Assurance standard. KPMG has issued an independent limited assurance report. Pages 57-58

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
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 is published on our website (net of administration and investment management fees, taxes and other costs). The performance of our retail and wholesale managed funds is published on our website (net of management fees and gross of tax as if distributions of income have been reinvested at the actual distribution reinvestment price). Our performance is tracked against our benchmarks and rated against our competitors by independent agencies such as Lonsec, ChantWest and SuperRatings.	I
201-1 Direct economic value generated and distributed		Pages 5, 10 **Annual Report** pages 3, 6, 22-24,30-32, 47-56	I (no limitations)
201-2 Financial implications and other risks and opportunities due to climate change		Pages 3, 18,19,22, 25 27, 28, 31, 35, 45 **Annual Report** pages 2, 4, 19, 21, 24, 27-29 **Climate Report 2022**	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**	I
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)		All material 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. Pages 6, 14, 19, 32-34 **Ethical Investment Policy** **Modern Slavery Statement 2020**	
308-1	New suppliers that were screened using environmental criteria	All (100%) of Australian Ethical's material operational suppliers and all investee companies are screened against the **Australian Ethical Charter**. See page 32	I (no limitations)
Human Rights Assessment 2016			
Management Approach (103-1; 103-2; 103-3)		**Australian Ethical Charter**	I

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All significant investment agreements 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. 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. **Australian Ethical Charter** **Ethical Investment Policy**	I (no limitations)
Supplier Social Assessment 2016			
Management Approach (103-1; 103-2; 103-3)		**Australian Ethical Charter**	I
414-1	New suppliers that were screened using social criteria	Refer to Disclosure 412-3	I (no limitations)
414-2	Negative social impacts in the supply chain and actions taken	When investee companies are discovered to have negative social impacts and don't respond to engagement, we may divest. Pages 6, 14, 19, 29, 34	I and E (no limitations)
Marketing and Labelling 2016			
Management Approach (103-1; 103-2; 103-3)		Australian Ethical is bound by the Corporations Act (2001), the Superannuation Industry (Supervision) Act (1993), the regulatory guidance produced by the Australian Securities and Investments Commission (ASIC) and the Financial Services Council (FSC) Standards when determining the marketing plans for its products. The risk and legal teams monitor responsible marketing compliance by reviewing all disclosure documents before they are released. The Board approves all new products and 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.	
417-1	Requirements for product and service information and labelling	All 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. **Continuous Disclosure Policy** **Privacy Policy**	I (no limitations)
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 material incidents of non-compliance concerning marketing communications.	I (no limitations)

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
Socioeconomic Compliance 2016			
Management Approach (103-1; 103-2; 103-3)		**Corporate Governance Statement Principle 7 (Recommendation 7.1 and 7.2)**	
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. Socio-economic compliance is central to our ethos and is managed through the EAG Committee who reports quarterly to Board.	I (no limitations)
Financial Services Sector Disclosures (G4)			
Audit			
G4-Disclosure on Management Approach		**Ethical Investment Policy**	I
Product Portfolio			
G4-Disclosure on Management Approach		Pages 17, 46, 39, 41 **Ethical Investment Policy**	I
FS6	Percentage of the portfolio for business lines by specific region, size and by sector	Pages 21, 23, 44-46, 78 **Annual Report** pages 6, 7, 10, 11, 22, 23, 32	I (no limitations)
Active Ownership			
G4-Disclosure on Management Approach		Page 31 Australian Ethical pursues opportunities to influence better management by companies of their impacts on the planet, people and animals 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. 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. **Proxy Voting Policy** **Proxy Voting Record 2022** **Stewardship Report 2022**	

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues	Page 29 **Ethical Investment Policy** **Stewardship Report 2022**	I (no limitations)
FS11	Percentage of assets subject to positive and negative environmental or social screening	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). **Ethical Investment Policy**	I (no limitations)
Australian Ethical Specific Material Topics			
Credibility of Investment Team			
Management Approach (103-1; 103-2; 103-3)		Pages 16-17, 39, 41 **Annual Report** pages 8-11, 21, 24 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 ($1bn) 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).	I
Values and Culture			
Management Approach (103-1; 103-2; 103-3)		Pages 2-4, 9, 11, 25, 37, 43, 48-50 **Annual Report** pages 2, 4, 8-9, 20, 25-26, 38	I
COVID-19			
Management Approach (103-1; 103-2; 103-3)		Pages 10, 11, 25, 38, 48-49, 56 **Annual Report** pages 2, 8, 16-19, 26, 30, 36, 65, 75	I
Climate Change Risks and Opportunites			
Management Approach (103-1; 103-2; 103-3)		Pages 11, 24, 5, 28, 31 **Annual Report** pages 2, 4, 19, 22, 27-29 **Climate Report 2022**	I

Appendix 1

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.

Stakeholder Group	Touchpoints
Members	Investment Trend Member Sentiment report, Net Promoter Score (NPS) surveys, digital onboarding process, significant event notices, annual statements, online member portal, responding to email, social media and phone, invitation to have your voice heard at COP26. See pages 27 and 29.
Investors	Investment Trends Investor Product Needs Report, Net Promoter Score (NPS) surveys, half-yearly & annual statements and distribution statements, online portal, responding to email, social media and phone enquiries, significant event notices.
Advisers	Face-to-face engagement and education on ethical and responsible investing at adviser professional development days, dealer group conferences and site visits. Consultation, engagement and presentation at industry events. Interactive webinars providing updates on our products and ethical stewardship activities. Sponsorship of key industry research with Investment Trends (ESG adviser and investor) and RIAA (Benchmark Report). Sharing industry insights and business/product news with advisers via regular updated via email and on the AE website.
Employees	We moved our work from home arrangements to a hybrid working model with employee flexibility around a 'company anchor day' in the office on Thursdays. We continued to deliver weekly team updates face-to-face and online, along with development opportunities such as Company Day and AEx Week (see pages 48-49 for details). We celebrated our diversity with events such as Wear it Purple Day and International Women's Day. Group-wide volunteering activities were again impacted by Covid.
Shareholders	Annual and Sustainability Report, dividend notices, Annual General Meeting, ASX notices, and shareholder self-serve online portal.
Investee companies	Proxy voting, meetings with management teams, advocacy engagements.
Community	We engaged daily with our growing social media community of more than 143,000 followers, sharing news on the company, how we invest and our customer quotes. During COP26, we gave all Australians a voice at Glasgow. Together we took over the front page of the UK's Financial Times. We were so proud to see over 7,000 Australians sign their name and advocate for real and immediate action on climate change. Pages 27 and 29.

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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 as reported at 30 June 2022.

Information Subject to Assurance

The Assured Sustainability Information as at 30 June 2022, as presented in the 2022 Sustainability Report ("the Report") and available on the Australian Ethical Investment Limited (AEI) website, is comprised of the following:

Assured Sustainability Information	Value
Carbon footprint of AEI equity share portfolio (tCO2e per AUD $ million revenue)	40
Carbon footprint of the blended S&P ASX200 Index and MSCI World ex Australia Index benchmark (tCO2e per AUD $ million revenue)	175
Relative carbon intensity reduction of AEI equity share portfolio compared to the blended S&P ASX200 Index and MSCI World ex Australia Index benchmark (%)	77%
AEI portfolio-level sustainable impact revenue per $1 million invested ($USD) relative to a blend of the S&P ASX 200 Index and the MSCI World ex Australia Index ("*the market*") (times market)	1.8
Affordable Real Estate sustainable impact revenue per $1 million invested relative to the market (times market)	1.0
Alternative Energy sustainable impact revenue per $1 million invested relative to the market (times market)	4.4
Connectivity sustainable impact revenue per $1 million invested relative to the market (times market)	7.9
Education sustainable impact revenue per $1 million invested relative to the market (times market)	14.6
Energy Efficiency sustainable impact revenue per $1 million invested relative to the market (times market)	2.6
Green Building sustainable impact revenue per $1 million invested relative to the market (times market)	3.5
Major Disease Treatment sustainable impact revenue per $1 million invested relative to the market (times market)	0.3

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Assured Sustainability Information	Value
Nutrition sustainable impact revenue per $1 million invested relative to the market (times market)	0.7
Pollution Prevention sustainable impact revenue per $1 million invested relative to the market (times market)	3.5
Sanitation sustainable impact revenue per $1 million invested relative to the market (times market)	0.6
SME Finance sustainable impact revenue per $1 million invested relative to the market (times market)	1.1
Sustainable Agriculture sustainable impact revenue per $1 million invested relative to the market (times market)	4.5
Sustainable Water sustainable impact revenue per $1 million invested relative to the market as at 30 June 2021 (times market)	4.4

Criteria Used as the Basis of Reporting

The applicable criteria used as the basis of reporting by Management has been developed by AEI management *("the criteria")*, and is presented in the Report.

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 AEI 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;
- walkthroughs of the Selected Sustainability Information to source documentation on a sample basis;

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- evaluating the appropriateness of the criteria with respect to the Selected Sustainability Information; and
- reviewed the 2022 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 Directors of AEI.

Use of this Assurance Report

This report has been prepared for the Directors of AEI 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 AEI, or for any other purpose than that for which it was prepared.

Management's responsibility

Management are responsible for:

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

Our Responsibility

Our responsibility is to perform a limited assurance engagement in relation to the Selected Sustainability Information as at 30 June 2022, 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 (including Independence Standards)* 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.

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KPMG

Sydney
22 November 2022

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Ethical Stewardship Report

About the Stewardship Report

This report summarises our ethical stewardship activities for FY22. Advocating for a better world continues to be a core part of our business plan. We are mindful of the fact that advocating for change on behalf of our stakeholders is a privilege and a responsibility. We therefore seek to provide further transparency and detail about our ethical stewardship activities in this report so that our stakeholders, and in particular our customers, can see how we are leveraging their capital to influence for people, animals and the planet, and can hold us to account.

In pages 65-72 we discuss our progress on the four strategic ethical stewardship initiatives we pursued throughout the year. In pages 73-74 we provide some examples of other tactical engagements including our long-term engagement with Lendlease about their Mt Gilead development and its impact on koalas, and our ongoing gender diversity engagement program.

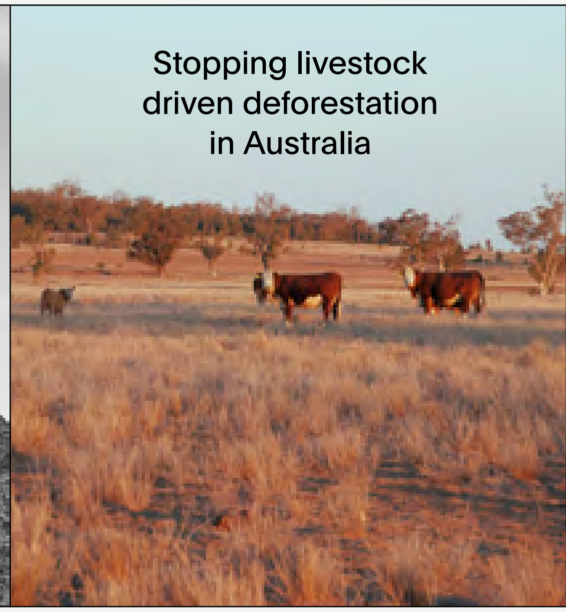
Before we discuss the actual work we did, on pages 61-64 we explain what we mean by ethical stewardship, why we do it, how we think it achieves change, our process for identifying our priority areas of focus, and set out our commitment to achieving real world outcomes.

FY22 Snapshot

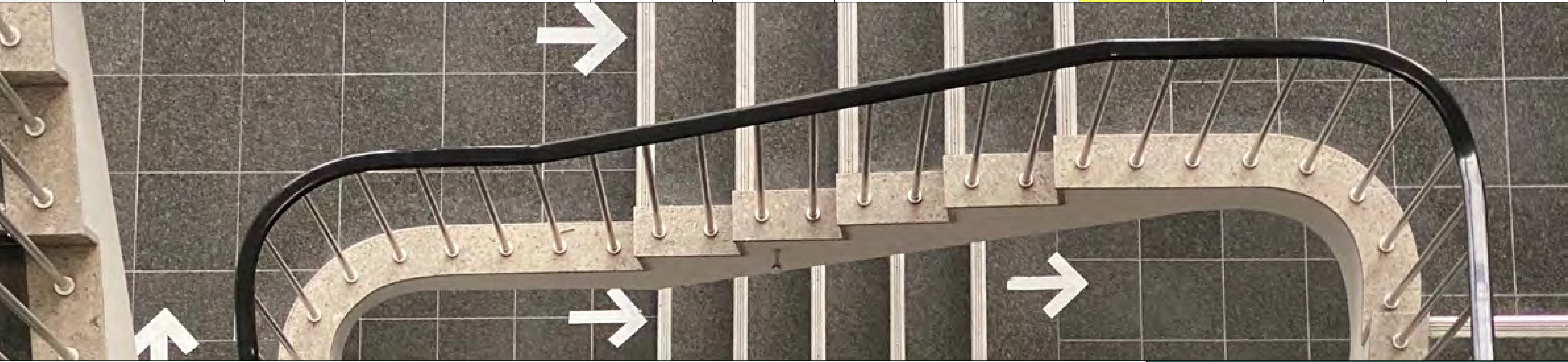
The Ethics Research team engaged[1] over 450 companies for people, animals and the planet.

- 78 of these were 'proactive' engagements[2]
- Companies committed to change following >25% of our proactive engagements
- Our proactive engagements covered 24 sectors and 20 issues
- 2 company engagements ended with divestment
- Overall during the year there were 4 divestments[3]

We pursued four strategic ethical stewardship initiatives:



1. We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with QBE is counted as one engagement which included a meeting, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with NAB in relation to its fossil fuel exposure (which included a meeting and supporting a shareholder resolution) and a separate meeting with NAB to discuss its exposure to deforestation in Australia.
2. We distinguish proactive engagements from passive engagements. Our 'proactive' engagement count includes where we engaged directly with a company, actively contributed to collective engagements (as distinct from simply 'signing on'), used a nominal advocacy holding to support shareholder resolutions, or co-filed a resolution.
3. Not including companies excluded from initial investment or companies not held due to financial investment considerations.



What do we mean by ethical stewardship?

We need systemic change across multiple industries to tackle the most difficult and important challenges of our time, such as climate change, nature loss, human rights abuse and industrialised animal cruelty. As an ethical investor, we use capital allocation to help drive this change, by investing in companies that on balance benefit people, animals and the planet, and avoiding those which cause unnecessary harm in accordance with the Principles of our Ethical Charter. While ethics-driven capital allocation is critical, we know that on its own, our ethical screen is not enough to achieve the economic and social transformation we need to get to a future where people, animals and the planet prosper.

There are a few reasons for this. The fact that we do not allocate capital to harmful industries does not mean they do not continue to exist. For example, we do not invest in fossil fuel companies[4] but we are still seeing new oil and gas projects in Australia. The second reason is that we do not invest in perfect companies. The economy is so far from perfect, inevitably there will be companies in our portfolio that we need to engage with.

Investor stewardship is an important tool that investors can use to have real world influence. Investor stewardship leverages capital to influence investee companies, the economy and society.

At Australian Ethical, responsibility for investor stewardship is shared between the Investment team and the Ethics Research team, but with different objectives.

Traditional investor stewardship

Investment team

Focused on lowering the financial risks and improving the financial returns of individual holdings and the portfolio

Targeted at investee companies

Ethical stewardship

Ethics research team

Focused on reducing the negative and increasing the positive impacts of companies and achieving systemic change

Targeted at investee companies, but also companies outside the portfolio, other investors, governments including regulators, standard-setting bodies, industry associations and other organisations

4. We don't invest in companies whose main business is fossil fuels or in 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, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).

Why do we do ethical stewardship?

We engage in this type of stewardship because it is the right thing to do and because we know that the ability to deliver strong financial outcomes for customers relies on social and environmental foundations which are currently under threat.

This rationale means we do not limit our stewardship to ensuring that investee companies' financial returns versus the level of risk is acceptable. That is obviously very important but on its own will not address, and can even exacerbate, systemic challenges. This is recognised in the UNPRI's guidance for investors on active ownership.[5] A company can seek to strengthen its position by externalising costs onto others. This might be good for their financial performance but bad for humanity, the planet, and the other sentient beings we share it with. From a purely financial point of view, those negative externalities can be a cost across the rest of the portfolio.

5. Active Ownership 2.0 available at unpri.org/download?ac=9721

Can ethical stewardship achieve change?

There is a lot of healthy skepticism about investor engagement. Its impacts are often indirect, difficult to measure and difficult to directly attribute to positive outcomes. It can also take time between starting an engagement strategy and seeing real world impact.

Unfortunately, investor engagement is also an area that is ripe for greenwash. Some can use it to excuse continued investment in fundamentally unethical businesses without being accountable to effecting change within those businesses.

But notwithstanding these challenges, ethical stewardship by shareholders has the potential to have transformative impact. The failure of the proposed AGL demerger, and the incredible work of the organisations and people that helped expose the ethical and financial flaws with the proposal, demonstrates the potential impact of genuine investor stewardship. Investors effectively prevented AGL from spinning out its coal assets, which probably would have extended their life far beyond what is needed for the clean energy transition. With the withdrawal of the demerger proposal, there is now a prospect that AGL will lean into the climate challenge, close its coal generation in line with the net zero by 2050 energy scenario published by the International Energy Agency, and help the transition by investing in renewables, upgrading and expanding grid and other energy infrastructure and reducing energy demand through energy efficient technologies. AGL's future direction has huge implications for Australia and the climate because of the scale of the company's greenhouse gas emissions, representing close to 8% of Australia's total emissions.[6]

6. Commonwealth of Australia (Clean Energy Regulator) 2022, National Greenhouse and Energy Reporting 2020-21 as reported on 28 February 2022 and National Greenhouse Gas Inventory: Quarterly updates.

How does ethical stewardship achieve change?

Achieving change at the scale and pace we need to address the biggest ethical challenges of our time cannot be done by any one individual or organization. We need multiple players using multiple sources of leverage, and positive feedback loops between them all. This includes policy makers, regulatory bodies, academics and research institutions, NGOs, responsible investors, responsible companies, proxy voting agencies, strategic litigants, journalists, consumers, and the occasional billionaire. It takes an ecosystem of people in different roles with a genuine desire to make the world a better place. Responsible and ethical investors have multiple points of leverage within this ecosystem and a range of tools at their disposal.

Investors can influence companies to change. If we are to address the great social and environmental challenges of our time, companies need to change what they are doing. They need to reduce and wherever possible, completely avoid, negative impacts; pivot their businesses to products and services that are sustainable; help consumers make changes to their lifestyles; and support (or at least not obstruct) fair and sustainable government policy.

Investors can encourage this through various mechanisms. Sometimes simple dialogue between investors and management works. Long term investors can challenge short-term and narrow thinking and provide a more objective perspective. And company management can share their deeper knowledge and understanding of the collective challenges we face. Of course, these conversations carry more weight if there are credible consequences for company recalcitrance. Engagement is often ineffective if companies face no sanction for inaction

Consequences can include shareholders:

- voting to remove directors and nominating directors with more progressive views and strategies on ethical issues,
- voting against executive remuneration,
- voting against a merger or (as in the case of AGL) a de-merger proposal,
- publicly questioning company decisions at AGMs and through the media,
- challenging the actions of a company or management in court.

Divestment, and the threat of divestment, is another tool. If done at scale it can affect a company's cost of capital, making it less competitive than its more sustainable competitors. If done publicly it can impact a company's reputation. It can also create market signals that help influence broader change. Sometimes it is helpful to have different investors take different approaches. An ethical investor withholding capital or divesting early can mean companies see the consequences of continued inaction and may be more receptive to the asks put by the investors that remain.

The so-called 'divest or engage' debate is too often used as cover to justify continuing investment where there is slow or no progress by companies. Divestment and engagement aren't alternatives, we need both.

Even when not invested in a company, investors can still positively influence, through engagement with management, through their public voice and through their investments in adjacent industries. For example, Australian Ethical does not invest in fossil fuel companies or conventional animal agriculture companies, but we can still influence through our engagement with the broader investment community, the finance sector and retailers.

How these tools are used in practice will vary depending on the investor's approach, the issue and the company they are seeking to influence. But all investors need to be escalating unsuccessful engagement when companies fail to make progress. For example, if a company continues to spend capital on new projects or infrastructure which is not aligned with the transition needed to limit warming to 1.5 degrees, timely escalation is critical. On the other hand there is a case to provide room for companies and executives genuinely grappling with the challenge of winding down existing high-emissions activities. Recognising the difference between these two cases is crucial from both a climate and investment perspective.

Investors can also influence government and regulators to change. Long term investors with investments across the economy can provide a more objective perspective to encourage policies, laws and regulatory frameworks that protect public long-term interests (as opposed to companies and industries that may be lobbying to protect their narrow interests sometimes at the expense of the public good). This can be through investor statements to governments, policy submissions, and coordinated lobbying campaigns for example through the Investor Group on Climate Change.

At Australian Ethical, we are prepared to use all of the tools at our disposal to influence change and escalate where our efforts are not making progress, including through divestment.

There is no scientific formula to achieve the type of change we need. We do know that influencing big and meaningful change by corporates and government takes time, persistence, and coordinated, strategic and nimble efforts that are responsive to a rapidly evolving context. In recognition of this, we updated our approach to ethical stewardship at the beginning of FY22 to focus on multi-year strategic initiatives within our priority areas of focus, to set real world objectives and roadmaps with in-built flexibility against which we can track progress and hold ourselves to account.

Our process for identifying our priority areas of focus

We have to be strategic about where we are investing our time and resources to influence change. We use the following framework to guide our strategic ethical stewardship initiatives:

We focus on issues related to the three pillars of the Ethical Charter – **people**, **animals** and **the environment**.

Where the issues are systemic, widespread, long term, or create an existential challenge

or

Where we can help reduce suffering, protect the voiceless, vulnerable or irreplaceable

Where we are in a position to influence e.g. as an investor; as a subject matter expert, because of our unique perspective; or because the topic is under-attended

or

Where we see a need to address harm caused or contributed to by the companies in our portfolio or we see an opportunity to help enhance the positive impacts of companies in our portfolio

Issues are ideally

- important to existing and prospective customers
- the subject of existing media interest with space for our voice or where we can generate such interest
- able to be efficiently acted on, such as where there are synergies with our ethical screening and impact measurement, where we can leverage previous work or existing relationships, where we can leverage the Foundation partnerships or where there are synergies with people powered advocacy campaigns

In addition we may engage in more opportunistic or 'tactical' ethical stewardship where we:

- need to engage to confirm an investment is aligned with the Ethical Charter or to encourage alignment (this engagement is informed by the Ethical Frameworks that apply the Ethical Charter to relevant industries and issues)
- can support others' initiatives that are aligned with our position on issues relevant to the Ethical Charter
- see any other opportunity to positively influence on issues aligned with the Ethical Charter

Although we don't refer to the Sustainable Development Goals (SDGs) in this framework, we see a strong alignment of the SDGs with our Ethical Charter, and as a result with our ethical stewardship.

The SDGs are the culmination of a lot of research, thought and discussion and are an excellent tool for governments, companies and investors to identify priority areas they should be seeking to address. We use them as part of our assessment of the impact of our investment portfolios.

Having said that, the SDGs don't address all important impacts on people, animals and the environment. They do not, for example, afford much consideration to the other sentient beings with which we share this planet, specifically the 70 billion+ raised and killed for meat each year[7] and the animals used for other commercial purposes (such as clothing, entertainment, research). The Ethical Charter explicitly recognises that non-human animals deserve dignity and wellbeing and should not be subjected to unnecessary harm.

7. ourworldindata.org/grapher/animals-slaughtered-for-meat. Note this data does not include animals killed for egg and dairy production or fish killed for consumption.

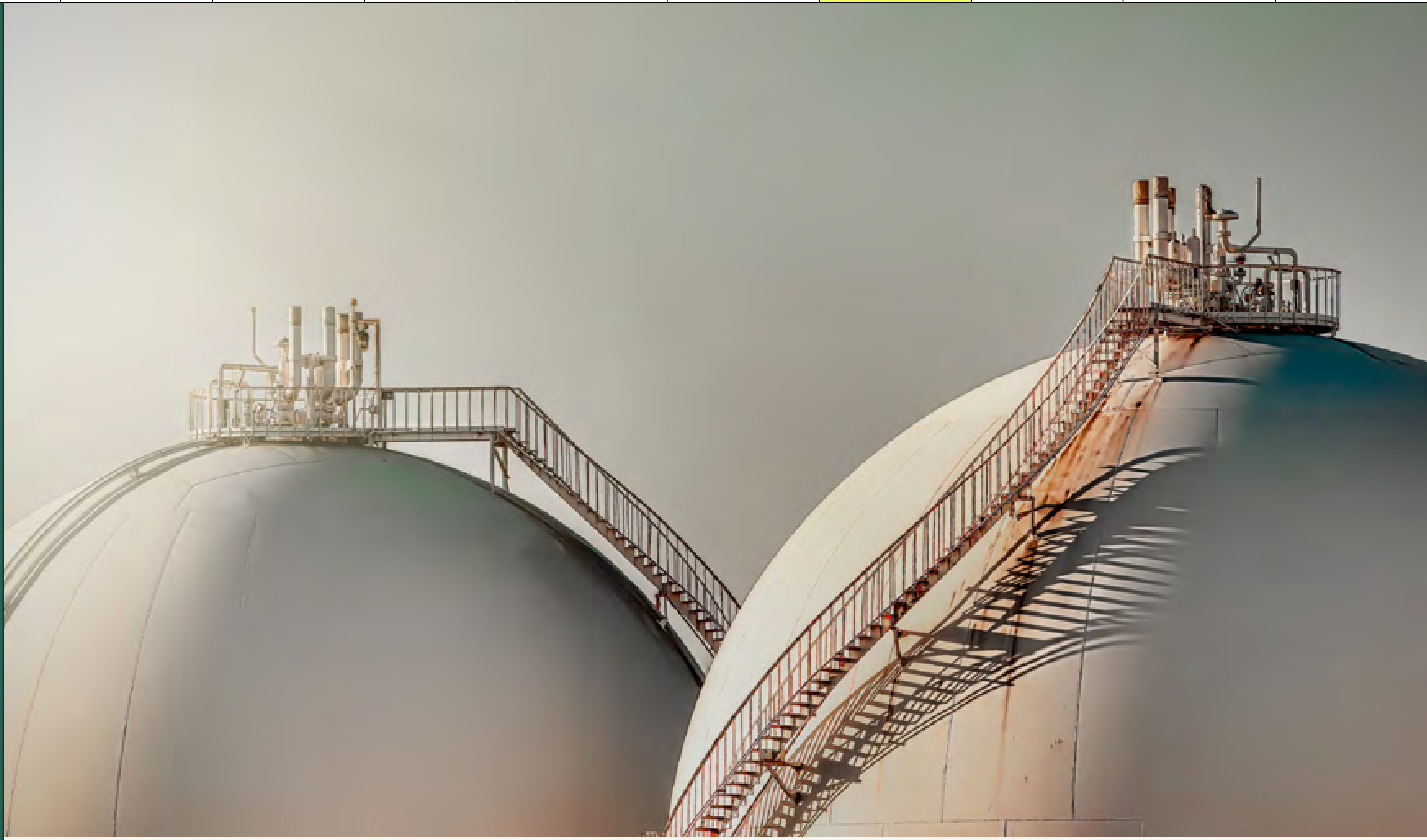
Our commitment to achieving and reporting on real world outcomes

Our objective for engaging in ethical stewardship is to achieve positive real-world outcomes. We owe it to our stakeholders; on whose behalf we conduct our ethical stewardship. And of course, we also need to assess whether our efforts are achieving anything or if we need to change our approach. We therefore prioritise our reporting on progress towards real-world outcomes, over reporting on our level of activity.

To that end, for each of our strategic engagement initiatives, we have set out what our real-world objectives are. The real-world objectives are reflective of what needs to happen for the world to address systemic challenges. They are ambitious. They are beyond what our activities alone can achieve, and therefore outside of our full control. It will also take time to achieve them; while we press for more urgent change, we recognise that meaningful and lasting progress will likely take a number of years. Even if they are achieved, it will be difficult to attribute that success to our efforts.

Therefore, to hold ourselves accountable to progress towards these objectives, we have also set out sub-objectives and activity-based targets for FY23 and will report our progress in subsequent Ethical Stewardship Reports. Our activities need to be agile and responsive to new information and developments. Therefore throughout the year we may need to change our approach toward achieving a particular objective. Where we depart from our set activity targets, we will report on this, our reasons for doing so, and where applicable, set new targets.

Strategic ethical stewardship initiatives



Turning off finance for fossil fuels

The fossil fuel sector is a prime target of our investor advocacy and has been for a long time. We do not invest in fossil fuel companies[8] but for close to a decade we have leveraged our investment in the finance sector to seek to turn off sources of funding that enable unsustainable fossil fuel expansion to continue.

Over time we have seen financial institutions make commitments to align their lending, investing and underwriting activities to the Paris Agreement and to phase out coal. Now the finance industry needs to deliver on their coal exit commitments, and to look beyond coal to other parts of the energy industry and the broader economy. We focused this year on the financial sector's support for the unsustainable expansion of gas projects in Australia. The International Energy Agency tells us that net zero by 2050 means gas needs to decline this decade. But Australian oil and gas companies continue to plan and invest in new oil and gas fields. There is a dangerous disconnect here.

8. We don't invest in companies whose main business is fossil fuels, or in 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, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).

A decade of influencing the finance sector

Banks disclose lending to fossil fuel

In 2013 we asked the Australian big 4 banks to disclose the amount they lend to coal, oil and gas.

Finance companies commit to Paris

We called on the banks and insurance companies to align all large-scale lending and insurance with the 2015 Paris Climate Agreement.

Banks and insurers start excluding coal

In 2017 Westpac and NAB announced exclusions for new thermal coal projects, including any Adani Carmichael mine. In 2019 QBE announced a phase out of its coal exposure after we co-filed a shareholder resolution with Market Forces.

AEI divests

In 2020 Marsh McLennan said it may refuse business if contrary to climate goals and SDGs. This vague commitment fell well short of what we asked. We divested our shares.

Calling for oil and gas exclusions

In 2021 we had meetings with QBE, NAB and Westpac about their continued support of the fossil fuel sector. We challenged QBE on the shortcomings of its climate policy and called on the banks to assess climate alignment of all new oil and gas projects of the companies they fund. We co-filed a shareholder resolution calling on QBE to align its underwriting and investments of oil and gas assets with the Paris Agreement, and at its AGM pointed out that many of its customers are not Paris aligned. At NAB and Westpac's AGMs we supported shareholder resolutions calling for Paris-aligned targets to reduce fossil fuel exposures and transparency about how any new fossil fuel finance is consistent with their net zero by 2050 commitments. We also engaged insurance broker Arthur J Gallagher about its lack of climate criteria or targets. AJG indicated climate commitments were under active consideration.

Funding research

In 2021 we helped finance and contributed to an IGCC-commissioned report which examined high impact planned Australian gas projects and their risks for non-alignment with the Paris agreement.

Banks introduce some oil and gas restrictions

In 2021 NAB announced a cap on its exposure to the oil and gas sector, along with restrictions on lending for greenfield oil and gas extraction projects. Westpac announced requirements for public Paris-aligned business goals for new oil and gas exploration, production and refining customers.

Continued pressure on QBE for its oil and gas exposure

In 2022 we met with QBE's sustainability team to understand how it was progressing on oil and gas exposure. We were disappointed with its lack of ambition. We co-filed a shareholder resolution calling on QBE to disclose Paris aligned targets to reduce exposure to oil and gas assets; and its plans and progress to achieve those targets. At QBE's AGM we challenged its policy which allows insurance of expansion of the oil and gas sector until 2030. We highlighted that QBE was falling behind its competitors in setting restrictions for the oil and gas sector. You can watch the exchange with QBE's Chair here: QBE AGM 2022: Australian Ethical questions QBE on its current oil and gas targets.

AEI divests

In 2022 we divested from major energy insurer Travelers, who refused to expand their limited fossil fuel underwriting restrictions. We also divested from Arthur J Gallagher for lack of action to align its insurance broking services with the Paris Agreement.

Next steps

Major banks are giving high emission customers too much time to align their business with the transition to limit warming to 1.5 degrees. Also, they are not applying their climate-related restrictions to their general corporate lending facilities, which is a major loophole. In FY23 we will raise these concerns with the banks and assess any additional climate-related targets and criteria using the IGCC report, IPCC reports and the IEA's Net Zero by 2050 roadmap. We will also closely scrutinize QBE's first science-based target which it is due to publish in mid-2023 under the terms of its membership of the Net Zero Insurance Alliance. If these financial institutions continue to set targets and criteria that are insufficient, we will co-file shareholder resolutions and assess other ways of escalating the engagement.

Goal

Major financial institutions stop financing unsustainable fossil fuel expansion

The banks

What we did

Meetings

We met with NAB and Westpac in September 2021 to discuss how they are incorporating climate change impacts into their lending decisions and customer engagement. We also participated in an ANZ Bank sustainability roundtable call in November 2021 on these issues. In our discussions we called on the banks to assess climate alignment of all new oil and gas projects of the companies they fund. These are important conversations to be having because we do not want to see the banks weasel out of their Paris commitments by claiming to align their overall portfolio to the Paris Agreement, while still supporting individual oil and gas projects that are fundamentally not aligned.

AGM activism

At the annual general meetings of NAB and Westpac we supported shareholder resolutions sponsored by Market Forces calling for Paris-aligned targets to reduce fossil fuel exposures and for the end of all finance to new fossil fuel projects. In both our private meetings and our public questioning at the AGMs, we pressed the banks for more climate information and action in several areas:

- What steps are the banks taking to be satisfied that their customers' climate targets are real and not window dressing?
- What science-based transition paths and scenarios are the banks using to test new funded infrastructure against the Paris Agreement?
- How do the banks safeguard that general purpose corporate loans aren't used by customers to develop new oil and gas projects which are not aligned with the banks' net zero commitments?

Funding independent research

Independent research is an important tool to hold companies to account. The International Energy Agency's advice raises serious climate concerns about all new oil and gas projects but doesn't provide analysis of specific projects. We saw a need for independent research assessing the Paris-alignment of planned Australian gas projects that could be used to hold financial institutions and their customers to their Paris commitments. This year we helped finance and contributed to an IGCC-commissioned report which examined high impact planned Australian gas projects and their risks for non-alignment with the Paris agreement.

What the banks did

The banks have made some progress this year, including:

- NAB announced a cap on its exposure to the oil and gas sector, along with restrictions on lending for greenfield oil and gas extraction projects.
- Westpac announced requirements for public Paris-aligned business goals for new oil and gas exploration, production and refining customers.
- ANZ set a reduction target of 50% for the emissions intensity of its global power generation portfolio by 2030.
- All banks made commitments to publish further detail of climate-related targets and criteria in 2022.

What next

We see two key areas of weakness across all the big four:

- Insufficient urgency. High emissions customers are being given too much time – 2, 3 and more years – to align their business with the transition needed to limit warming to 1.5 degrees. Banks can't wait until 2025 or beyond to start cutting off funding. There is a case to provide room for companies and executives genuinely grappling with the challenge of winding down existing high-emissions activities. There is no case for latitude when capital is being allocated to expansion of those high emission activities rather than to the alternative technologies and infrastructure which need to replace them. Recognising the difference between these two cases is crucial from both a climate and investment perspective. All significant new capital expenditure – including the debt and equity capital which supports it from banks and investors – should be aligned with the Paris Agreement. From today.
- While some banks are increasing restrictions on where they will provide project finance for new fossil fuel projects, these restrictions typically don't apply to banks' general corporate lending facilities e.g. 'working capital facilities'. This is a major gap or loophole. Although this sort of general lending isn't linked to specific projects, it can be used by the borrower for e.g. new fossil fuel projects. Banks should be testing whether high emissions customers are genuinely aligning with the Paris Agreement – including scrutinising new capital spending – before providing financial support under any type of lending or other arrangement.

Banks and companies often ask us to judge them 'as a whole', taking into account their 'green' alongside their 'brown' activities. Large banks are essential to help fund the US$5 trillion per year the IEA has forecast for investment in climate solutions by 2030 to achieve net zero by 2050. But lending to the renewable energy sector cannot excuse lending to companies or projects that are fundamentally not aligned with the climate transition.

We invest in Macquarie Group, for example, which as well as being a leader in green lending has also been a significant funder and facilitator of the fossil fuel sector. We accept that existing fossil fuel energy can't be shut down tomorrow, and that fossil fuel company borrowings can't be repaid tomorrow. But any new fossil fuel activity and lending needs to be closely scrutinised. We are deeply concerned by Macquarie's support for new gas exploration and infrastructure directed at development of shale gas extraction in the Beetaloo Basin in the NT.

The banks have promised to provide further detail in 2022 on their climate-related targets and criteria for assessing the Paris-alignment of high impact projects. We will use the IGCC report we helped finance (as well as IPCC and IEA reports) to help us test whether the banks' targets and criteria are sufficient and whether they are being genuine in their efforts to align their lending to the Paris Agreement. Of course divestment and other forms of escalation are always on the table where we invest in a bank that we assess is no longer aligning its lending to the Paris Agreement.

Proposed FY23 activities

Assess banks' additional climate-related targets and criteria using IGCC report, IPCC reports and the IEA report.

If their targets and criteria are insufficient:

- Seek further meetings with them where necessary to clarify their positions and signal our concerns
- Make concerns public
- Co-file / support shareholder resolutions and encourage support from other responsible investors through our networks and the UNPRI collaboration platform
- Challenge company management at AGMs
- Consider pathways for other escalations (e.g. seeking to replace directors)
- If their targets and criteria are sufficient, we will need to monitor implementation.

Where we draw the line

We will only invest in large banks where we assess them to be aligning their institutional lending to the Paris Agreement. Our climate assessment considers their lending to:

- The fossil fuel sector, including the type of fuel and its emissions intensity;
- Renewable energy and energy storage; and
- Technologies and activities which reduce energy usage or store carbon (e.g. green buildings, low-emissions transport and reforestation).

We also look at the way banks facilitate financing by others. That is, how a bank might help companies raise financing for environmentally friendly initiatives, including through instruments such as green bonds.

Insurance companies

What we did

Meeting

We met with QBE's sustainability team in January 2022 to understand how it was progressing on restricting oil and gas exposure. In our discussions we pointed out the major gaps we see in QBE's climate policy that sets out how it will assess Paris-alignment when underwriting oil and gas companies. We made it clear we were disappointed with QBE's lack of ambition and in particular:

- its postponement of assessment and action in the oil and gas sector to 2030 (and even to 2040 for companies with up to 59% revenue from oil and gas extraction);
- the fact it has set no date to assess Paris alignment for companies with less than 30% revenue from oil and gas extraction; and
- the fact its restrictions do not apply to treaty reinsurance of oil and gas exposures.

Climate shareholder resolution

We worked with Market Forces to co-file a shareholder resolution calling on QBE to disclose in its annual reporting short, medium and long-term targets to reduce investment and underwriting exposure to oil and gas assets that are consistent with the climate goals of the Paris Agreement, along with plans and progress to achieve those targets. We also added the resolution to the UNPRI collaboration platform to encourage other responsible investors to support this resolution. Unfortunately the resolution achieved only 19.8% support at QBE's AGM, which was a drop from the 21% support a similar resolution achieved in 2021. It is disappointing that more investors are not supporting important shareholder resolutions on climate change.

Questioning at QBE's AGM

At QBE's AGM, Our Head of Ethics Research challenged QBE's policy to wait until 2030 to start restricting its insurance of expansion of the oil and gas sector, and called out that QBE was falling behind its competitors in setting restrictions for the oil and gas sector. Below, you can watch the exchange with QBE's Chair.

Watch the video →

What QBE did

QBE has joined the Net Zero Insurance Alliance, which is a UN-convened group of insurance companies. To join the Alliance, companies must make a number of commitments including to:

- transition all operational and attributable greenhouse gas emissions from insurance and reinsurance underwriting portfolios to net-zero emissions by 2050; and
- set intermediate science-based targets every 5 years. The first target will be based on scientific metrics that will be defined in a target-setting protocol that is due to be published early next year. Existing members will need to publish their first intermediate target within 6 months of publication.

After the AGM, QBE asked our Head of Ethics Research to meet with the company's new CEO. This was the first time we have had an opportunity to discuss our concerns with the CEO of QBE. This demonstrates that investors can publicly call out the shortcomings of investee companies without closing the door to productive private conversations. Responsible investors should not avoid challenging companies publicly just because it's uncomfortable. They should be prepared to use all tools at their disposal to influence positive change.

Proposed FY23 activities

Assess QBE's science-based target when disclosed. If QBE's targets and criteria are insufficient:

- Seek further meetings with them where necessary to clarify their positions and signal our concerns
- Make concerns public
- Co-file / support shareholder resolutions and encourage support from other responsible investors through our networks and the UNPRI collaboration platform
- Challenge company management at AGM
- Consider pathways for other escalations (e.g. seeking to replace directors)

Where we draw the line

We will only invest in large insurance companies that we assess to be aligning their underwriting to the Paris Agreement. Divestment is always on the table for insurance companies that fail the test.

In fact our climate engagement patience has run out with two global financial institutions. We have divested from major energy insurer Travelers, who refused to expand their limited fossil fuel underwriting restrictions. We divested from insurance broker Arthur J Gallagher for its lack of climate criteria or targets. During our 2021 engagement AJG had indicated climate commitments were under active consideration, but these were not delivered.

Research on animals

An estimated 190 million animals were used for scientific purposes in 2015 (not including observational studies).[9] Most of the animals used for scientific purposes will suffer. Their lives may be spent entirely in confinement. Many are bred or genetically altered to introduce a specific disease such as cancer or dementia. Some undergo surgery to mimic conditions such as deafness; many are subjected to invasive procedures, restraints or are forced into situations to induce stress. Generally animals are killed when an experiment ends (if they do not die as part of the experiment).

We do not invest in cosmetic companies that conduct or commission animal research because we do not think the animal suffering is justified. However we invest in companies that conduct or commission animal research for the development and testing of health care products as we recognise that animal research is currently a necessary part of developing those products.

Given sentient animals subjected to animal research can suffer extreme distress and pain, we expect companies that are involved in animal research (directly or indirectly) to take seriously their obligation to avoid and reduce animal suffering wherever possible, including by demonstrating genuine commitment to the global 3R principles. The 3R principles are replace animals wherever possible, reduce the number of animals used and refine conditions and methodology of research to reduce suffering. These principles have been incorporated into regulatory regimes around the world including in Australia.

However we have concerns that application of the 3Rs is in some cases not much more than a box ticking exercise. In Australia, as in most jurisdictions, there is little regulatory oversight of animal research and to our knowledge limited coordinated efforts to advance the 3Rs in the private sector. Given our position as an investor in the healthcare sector, and one of only few investors in the sector that are alive to this issue, we see it as our responsibility to explore with companies opportunities to address these issues.

What we did

Since FY18 we have had engagements with over 14 companies and a number of other stakeholders (including scientists who sat on animal ethics committees, and animal protection organisations). These engagements were fact-finding discussions to help us understand how companies approach the 3Rs, what best practice looks like, and where there are areas for improvement.

A common response we received from companies was that they only conduct or commission animal research when absolutely necessary, and all research is approved by animal ethics committees. We do not consider this sufficient to demonstrate genuine application of the 3Rs. Generally, an Animal Ethics Committee is a committee that sits within the organization conducting the research and includes members who are independent. Based on our consultations, we are concerned that Animal Ethics Committees may not have the knowledge or may not be in the position to say no to an animal research proposal or to identify opportunities to use alternatives. Animal Ethics Committees certainly have their place, but they rarely challenge whether an animal research proposal should proceed and they have not always stopped questionable research on animals going ahead. They can sometimes entrench the status quo and are not a good vehicle to progress the use of alternatives. Following our conversations we developed five minimum expectations of companies involved in animal research to demonstrate genuine application of the 3Rs. These are set out below under 'Where we draw the line'. A key aspect of these minimum expectations is that we expect companies to do more to ensure application of the 3Rs than simply rely on Animal Ethics Committees.

In FY20 we communicated to companies the findings of our engagement and consultations and our minimum expectations. We invited feedback on our proposed minimum expectations.

In FY22 we wrote to nine Australian / NZ companies to ask them to confirm they are meeting our minimum expectations. Of those nine companies, we assessed that five substantially meet our expectations; two provided responses that were inadequate; one has not yet responded; and one we did not continue the engagement as there were no prospects of imminent investment in the company by Australian Ethical.

What the companies did

Over the course of this multi-year engagement program, five companies have made meaningful changes to their approach to animal research. CSL and Immutep have introduced an animal welfare policy, Fisher & Paykel committed to doing so. Pharmaxis reassessed the external research organisations it was working with and stopped working with all that do not have AAALAC accreditation (an independent accreditation on animal welfare). Antisense published a statement on its website that commits it to meet all five of our minimum expectations.

9. journals.sagepub.com/doi/10.1177/0261192919899853

What next?

We will be escalating the engagement with the companies that have failed to demonstrate they meet our minimum expectations. Divestment will be on the table if they do not make meaningful progress towards meeting them.

Animal welfare policies only go so far and the reality is, even under the best conditions, animals suffer when they are used for research. Replacing animals with alternatives has to be the focus. Through this engagement program we have come to a better appreciation of the fact that when it comes to replacing animals with alternatives, individual companies are fairly constrained by what they can achieve by virtue of regulatory requirements and commercial realities. But this is no excuse for inaction. We think there is opportunity to shift the dial on this issue through pre-competitive industry collaboration to fund, validate and commercialise alternatives to animal research.

We have started testing this idea with companies and speaking to various NGOs and research institutions in Australia and overseas to understand where the opportunities are for industry collaboration. Through these discussions we are beginning to form a roadmap of work. This could include:

- bringing this issue to the attention of other investors to increase pressure on companies (e.g. through the UNPRI collaboration platform);
- speaking to international industry associations to understand whether they could facilitate an industry-wide 3R initiative;
- exploring the possibility of benchmarking companies and other research institutions on their efforts as this works well in other contexts to nudge company action; and
- pushing for regulatory and government change such as better funding and support for alternatives and better scrutiny of the 3Rs by government funding organisations like the Australian National Health and Medical Research Council (NHMRC).

Proposed FY23 activities

- escalate engagements with companies that did not adequately respond in FY22. Divestment will be on the table for companies that do not commit to progress in FY23
- commence engagement program with select Australian universities
- publish a statement on the UNPRI collaboration platform
- engage with industry associations to understand their perspectives on an industry-wide 3R initiative

Where we draw the line

Where healthcare companies are involved in animal research, we require evidence of genuine commitment to the 3Rs. Our understanding of what genuine commitment to the 3Rs looks like is constantly evolving as we learn more about the very complicated and opaque world of animal research. Currently, our expectations are:

1. The company engages research institutions that are in a jurisdiction with adequate animal welfare standards, or apply those standards.
2. The company confirms that any research institution it uses upholds the 3Rs principle. Confirmation to be based on the research institution's reputation, questioning the institution in relation to specific practices, and relying on assessments by internal or external experts on animal welfare in scientific research.
3. The company ensures that individuals or organisations with scientific expertise in alternatives to animal research are consulted at the design stage of proposed animal studies.
4. The company ensures that its engagement contracts with research institutions include requirements that the research institution will:
    a. apply high animal welfare standards at all stages of the animals' life for which they are responsible including transport and housing
    b. apply the 3Rs at all stages of the process including experiment design
    c. report on its application of the 3Rs in the contracted research.
5. The company does at least one of the following:
    a. puts some funding towards the development of alternatives to animal research models
    b. supports regulatory changes and public funding of research to improve application of the 3Rs and to support the use of alternatives where they are available. We are happy to discuss further the ways in which companies could show this support to regulators and others; or
    c. has a public statement on the company website that outlines the specific steps the company is taking in relation to the 3Rs.

Livestock driven deforestation in Australia

Animal agriculture uses a disproportionate amount of land and other resources relative to the nutritional value it provides. It is the primary driver of deforestation in Australia, contributing to climate change and biodiversity loss. It also presents an opportunity cost – land currently used for grazing / growing animal feed could be used to sequester carbon and restore ecosystems. Our research suggests we need land to offset not only the emissions from agriculture but also other hard to abate sectors.

About half of Australia's total land area is used for agriculture. Of this land, 86.5% is used for grazing.[10] This does not include land used to grow animal feed.

Using so much land for livestock is hugely inefficient. Research suggests that if we moved from current diets to a diet that excludes animal products the world could reduce food's land use by 3.1 (2.8 to 3.3) billion ha (a 76% reduction).[11]

Why does land use matter?

Every hectare of land we use for extractive industries is a hectare that cannot support wild forests, savannahs, wetlands, natural grasslands and other crucial ecosystems. And all that land we could free up with a change in diet could be used to sequester carbon and restore native habitats and ecosystems.

10. soe.dcceew.gov.au/land
11. josephpoore.com/Poore%20and%20Nemecek%20(2018)%20Reducing%20foods%20environmental%20impacts%20through%20producers%20and%20consumers.pdf

The impact of livestock plays out visibly in Australia

Australia is the only developed country in the world with an identified global deforestation hotspot.[13] Livestock is the primary driver of that land clearing. In QLD, 93% of deforestation and land clearing in 2018-19 was for conversion to pasture.[14]

We also have one of the worst track records for animal extinctions. Clearing of native vegetation is a major cause of habitat loss and fragmentation and has been implicated in the listing of 60% of Australia's threatened species. Estimates suggest that almost 4.9 million animals died due to land clearing every year in the decade between 2005 and 2015.[16] In QLD, around 80% of likely or known koala habitat cleared between 2018 and 2019 was cleared for beef production.[17]

We are not sure if the disproportionate impact of livestock in Australia is well understood or accepted by those who can influence and are exposed to animal agriculture in Australia, including banks, insurance companies, food retailers, consumers and other investors. There is a general understanding that beef has a high emissions footprint, but the focus seems to be on solutions that reduce and offset those emissions (such as seaweed and regenerative agriculture). We are not sure others are considering the impact of animal agriculture from a systems level perspective including the need to allocate significant amounts of land to restore ecosystems and get the Australian economy and the world to net zero.

What we have done

We avoid investments in conventional animal agriculture companies because we assess the harm to animals, and the high environmental impact, to be unnecessary when there are less impactful alternatives. However we consider the impact of livestock in Australia an issue over which we can have positive influence.

In FY22 we progressed two streams of work. First, we want to understand how financers of the livestock industry and the major supermarkets are thinking about the environmental impacts of livestock production in Australia. To that end, we had an initial conversation with NAB about deforestation in their loan books. But we know collaborative investor engagements can sometimes carry far more weight.

In FY22 we worked to create or participate in forums where we thought these collective conversations can happen. We:

- signed up to or continued our involvement in global initiatives through which we will have collaborative conversations about this issue with other banks and retailers:
  - We have been an active member of the UNPRI Sustainable Commodities Practitioners Group which seeks to address deforestation in beef supply chains (amongst other high impact commodities).
  - We signed up to the Finance for Biodiversity Pledge and connected with Nature 100 - a global investor initiative that seeks to facilitate investor engagement on nature related issues – to understand where our efforts might complement the work they are planning to do.
- engaged with Woolworths in a joint investor call arranged by FAIRR, to interrogate how they are planning to address scope 3 emissions and other impacts in their animal-product supply chains and support a transition towards more sustainable plant-based diets.
- signed up to the Financial sector commitment letter on eliminating commodity-driven deforestation.[18] Through that initiative we expect to be part of collaborative investor engagements on deforestation with banks and supermarkets.

Global initiatives such as the UNPRI Sustainable Commodities Practitioners Group and Nature 100 are unlikely to focus on the drivers of biodiversity loss in Australia. Notwithstanding the fact Australia has one of the worst records for mammal extinctions of any country and the east coast of Australia has been identified as a deforestation hotspot, Australia usually doesn't feature high on the priority list relative to places like Indonesia and the Amazon. However, our involvement with these initiatives means we can take learnings from their broader programs. We hope to apply these learnings to the Australian context, informed by Australian research and civil society that has a better understanding of the issues on the ground.

Because we recognise the importance of initiatives focused on local nature destruction, we also sought to establish a nature-focused corporate engagement group within existing Australia-based collaborative investor initiatives. We were successful in establishing a corporate engagement sub-group of the RIAA Nature Working Group. We currently lead this sub-group and we are seeking to encourage the group to look at a targeted program focused on Australian food systems.

The second work stream was to explore the value of commissioning independent research that comprehensively assesses the climate and biodiversity impacts of the Australian livestock industry, and addresses head on the question of whether we need a reduction in livestock in Australia to meet the goals of the Paris Agreement and the goal to halt and reverse biodiversity loss by 2030. We have been speaking closely with several NGOs about this potential research to understand what information is already out there, and where the gaps are. We also started conversations with potential researchers.

Next steps

Proposed FY23 activities:

- continue to pursue collaborative engagements on the climate and biodiversity impacts of Australian livestock through the forums we worked with in FY22;
- develop a research proposal on the climate and biodiversity impacts of Australian livestock; and
- commission that research with the goal of using the output to raise awareness and inform collective engagements.

13. WWF Australia (13 January 2021), Australia remains the only developed nation on the list of global deforestation fronts; wwf.org.au/news/news/2021/australia-remains-the-only-developed-nation-on-the-list-of-global-deforestation-fronts
14. Wilderness Society (August 2019), Drivers of Deforestation and land clearing in Queensland; wilderness.org.au//images/resources/The_Drivers_of_Deforestation_Land-clearing_Qld_Report.pdf; and wilderness.org.au/qlddeforestation, wilderness.org.au/qlddeforestation. See also: Evans, Megan (January 2016), Deforestation in Australia: drivers, trends and policy responses; researchgate.net/publication/301942515_Deforestation_in_Australia_Drivers_trends_and_policy_responses
15. soe.dcceew.gov.au/land/pressures/industry#land-clearing
16. WWF animals lost report
17. wilderness.org.au/protecting-nature/deforestation
18. racetozero.unfccc.int/wp-content/uploads/2021/11/DFF-Commitment-Letter-.pdf

Emissions intensity of building products

The building materials sector is a significant contributor to global carbon emissions. Historically we had limited investment in this sector. But as new technologies are being developed and the sector pathway to climate alignment is becoming clearer, we are now investing selectively in those companies that meet our science-based, sector-specific, ethical requirements.

Given our investment in this emissions-intensive industry, we see it as our responsibility influence more urgent progress towards alignment with the Paris Climate Agreement. In FY22 we engaged with five companies in the sector on climate targets and lower emission / sustainable product offerings.

- **Allegion:** We are currently invested in Allegion, who produce door locks and closers and access control systems. We engaged with them about their emission reduction targets. Towards the end of FY22 we wrote to them to communicate our finding that their targets are not aligned with the Paris Climate Agreement. We will closely assess their future climate disclosures.
- **Boral:** We are currently invested in Boral and are lead investor for the Climate Action 100+ engagement with the company. We met with Boral in July and October, and were pleased to see the company commit to set 1.5 degree-aligned Science Based Targets. It announced 2025 and 2030 reduction targets for its Scope 1 and 2 emissions (18% and 46% from a FY19 baseline); and a 2030 Scope 3 reduction target for cement based materials (22% per tonne).
- **CSR Limited:** We engaged with CSR Limited to assess whether they meet our ethical criteria for investment. We enquired about their building product range (including embodied carbon, lifecycle emissions and circular economy applications) and their 2030 climate targets. We assessed the company to meet our ethical criteria for investment because of its insulation products (which make buildings more sustainable) and its gyprock products (which is a less carbon intensive material compared to alternatives). However we think its climate targets could be more ambitious and more complete, including coverage of scope 3 emissions and joint ventures, and a net zero target.
- **Fortune Brands Home & Security:** We are currently invested in Fortune Brands & Home Security. Towards the end of FY22 we engaged with the company on its emission reduction targets, the fact it does not track Scope 3 emissions or set targets for their reduction, whether it has targets to grow its more sustainable product ranges, and the percentage of its sourced timber that is sustainably certified. The company provided that it will update on major developments in its next ESG report, and we will update our ethical review of the company at that time.
- **Wagners Holding:** We engaged with Wagners Holding to assess whether they meet our ethical criteria for investment. We enquired about their emissions reduction targets and initiatives and sought to gauge their interest in joining industry initiatives to address embodied carbon in building materials. The company did not respond to our engagement. We have ruled out investment in the company on the basis that the majority of its business is in traditional, carbon intensive building materials (cement, concrete and steel) and the company did not (at the time of assessment) have any emission reduction initiatives or targets.

As in many sectors, transition can be accelerated through better collaboration between suppliers, users and regulators to understand and remove barriers to a more efficient transition. In FY22 we were actively involved in the Materials and Embodied Carbon Leaders' Alliance (MECLA), which seeks to drive reductions in embodied carbon in the building and construction industry. Among other things, MECLA is seeking to encourage state governments to require measurement of whole of life carbon emissions for built environment projects, in order to set a benchmark that will lead to an emissions reduction target, and a carbon budget embedded in the National Building Code.

We have not yet set objectives and activity-based targets for this strategic engagement project as we are still in the early stages of understanding our role in positively influencing the sector.

Tactical engagements

Carbon sequestration and protection of wildlife

In FY22 we were invited by an externally managed fund to participate in the development and ownership of carbon sequestration projects. The projects involve investing in Australian pastoral land with specific characteristics and establishing carbon farming projects to generate carbon offsets from underutilized land through human-induced regeneration.

We had some initial concerns about investing in this company. While carbon sequestration projects have clear potential for positive climate and biodiversity outcomes, there is a risk positive impacts will not be achieved or that there may be counterproductive impacts. For example, there might be greater beef sector emissions under scenarios where initiatives of this type bolster the economics of beef production; or negative impacts on biodiversity, particularly when wildlife are excluded from revegetated areas by exclusion fencing. We were concerned that company management may set an objective to maintain livestock productivity on properties the company acquired and thereby increase the risk that the positive impacts were not achieved or were outweighed by negative impacts.

What we did

We made it a condition of our investment that the project would:

- Set biodiversity targets
- Incorporate the views of people independent of the livestock industry on biodiversity and animal welfare

What the fund did

As a result of our engagement, the fund has appointed an independent biodiversity expert that we approved to set biodiversity targets and parameters and review implementation. The fund is in the process of appointing an animal welfare expert to review the terms of the company's standard lease to require farmers to adopt higher than industry standards of animal welfare.

What next?

We will monitor in subsequent reviews evidence of whether this project is meeting climate and biodiversity targets. This is our first investment in carbon sequestration (beyond operational offsetting and grants given through the Australian Ethical Foundation). Our involvement in this project will hopefully help inform the further development of our ethical requirements for carbon sequestration projects and biodiversity impacts more generally.

Where we draw the line

We avoid investments in conventional animal agriculture because we assess the harm to animals, and the high environmental impact, to be unnecessary when there are less impactful alternatives. Accordingly we wanted to make sure that by investing in this company we were not increasing harm caused by the livestock industry. We received confirmation that the company would not own any livestock or be involved in the livestock farming business in any way, other than by leasing what is already grazing land to cattle farmers. We also received confirmation that revenue from leasing the land to farmers is expected to be minor relative to revenue from generating and selling carbon offsets, and well below our tolerance thresholds. We concluded that rather than increasing the negative impacts of the livestock sector, this project has the potential to reduce some of those impacts.

As stated above, we made it a condition of this investment that there are biodiversity targets for the carbon sequestration projects and independent oversight by biodiversity and animal welfare experts.

Lendlease

We continued our multi-year engagement with Lendlease about its housing development at Mount Gilead, which is next to one of the last healthy koala colonies in NSW. We have been very concerned about this development and its potential impacts on the local koala colony since we first became aware of it at the end of 2018. Housing our growing population whilst ensuring there is sufficient land for our native species to thrive is an enormous challenge (exacerbated by the enormous land footprint of our animal agriculture industry). There are no clear answers about how it should be resolved.

What we did

Meetings

Since 2018 we have had multiple meetings and calls with Lendlease. In FY22 specifically we had three calls with the Mt Gilead project team, our Chief Investment Officer had a meeting with Lendlease's CEO and our Head of Ethics Research and Ethical Stewardship Lead had a meeting with Lendlease's Group Head of Sustainability and Head of Sustainability Australia.

Generally the purpose of these meetings has been for us to understand what protections Lendlease are putting in place for koalas including koala corridors, underpasses and ongoing koala monitoring programs. Our questions to Lendlease are informed by briefings we have had from wildlife protection groups.

We also used the meeting with Lendlease's sustainability heads to find out whether Lendlease conducts its own assessments of the public interests in development of a site, or whether it simply relies on government processes.

We put it to Lendlease that in the context of failures of successive local, state and federal governments to protect native habitat and to reverse the decline of koala populations, and in the context of the review of the EPBC Act which found multiple systemic regulatory failings, responsible developers need to conduct their own independent assessments of whether it is in the public interest to develop a site (including consideration of whether there are more appropriate uses such as revegetating native habitat).

Site visit

In early 2021, we secured a site visit with Lendlease and two NGOs, where we asked Lendlease about the scope and the impacts of land clearing required for the development.

Public questioning at half year results

At Lendlease's half year 2022 results presentation we asked the following questions of Lendlease management:

- Can Lendlease guarantee that koalas will have active and safe passage through the Mt Gilead site in perpetuity, and if it can't give that assurance, on what basis does it justify going ahead with the development?
- Does Lendlease independently assess the public interest of a proposed development, for example, by conducting its own assessments of the risk to biodiversity. Or does Lendlease rely on government to make these assessments?

Letter notifying of ongoing concerns

In FY22 we wrote a letter notifying Lendlease that we had multiple ongoing concerns about the development and Lendlease's approach to protection of nature and biodiversity generally. We also set out what steps would help address our concerns.

What Lendlease is doing

Since we first started the engagement Lendlease has committed to restoring high quality habitat on site, building koala underpasses to provide safe crossing, creating koala corridors that meet the requirements of the Office of the NSW Chief Scientist and ensuring that at no point during the development will there be less core koala habitat on site than existed before the development started. However Lendlease did not make any further commitments following our letter notifying of ongoing concerns.

What next?

As Lendlease has failed to engage meaningfully with our letter, we are now considering how we might escalate this engagement. Of course divestment is on the table if we conclude Lendlease does not meet our ethical requirements - something we are continually assessing.

Where we draw the line

We have informed Lendlease that it could be a trigger for divestment if this development threatens the viability of the local koala population. As one of the few remaining koala populations in the Sydney region, it is critical these koalas are protected.

First Nations' land rights

In FY22 we began our engagement with Fortescue Metals Group on the impacts of their activities on First Nations peoples. We do not currently invest in Fortescue, but we are assessing the company for prospective investment. We recognise the potential positive impact of Fortescue's investment in climate solutions through Fortescue Future Industries, such as the Gladstone hydrolyser plant, and its intention to produce green hydrogen at scale to decarbonise the steel supply chain and beyond. These ambitious and potentially transformational activities are critical to reducing carbon emissions and avoiding the worst effects of climate change, especially in hard to abate, high emissions sectors, where new technology and technology scaling is needed to transition.

We have looked at a range of ethical issues associated with Fortescue Metals Group and focused on the impacts of its mining operations on First Nations people. We think this is a key issue due to existing controversies affecting the company, and regulatory policy gaps and lack of transparency that impact the industry more generally, as evidenced most publicly by the destruction of the Juukan Gorge.

We have engaged in research to better understand best practice and companies' individual performance, and to form considered expectations of Australian resource companies' responsibilities to First Nations stakeholders. We have consulted with others working in this area at the Australian Centre for Corporate Responsibility and Australian Council of Superannuation Investors to build our understanding. We intend to continue this work into FY23 to influence better outcomes across issues like free prior and informed consent and cultural heritage protection.

Diversity

In FY22 we engaged 11 companies with low gender diversity on their board and in senior management positions to understand what processes and practices they are putting in place to address these issues. In our FY22 engagements we sought to expand the conversation beyond gender diversity to include ethnicity, orientation and background.

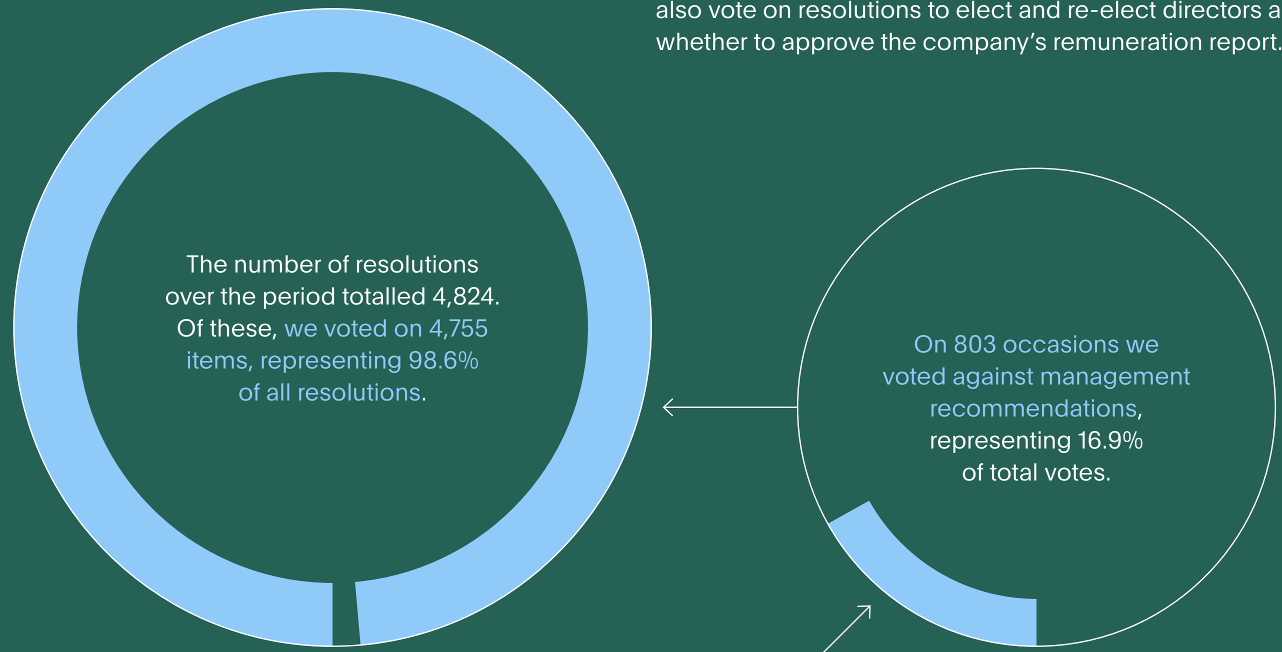
Of the 13 engagements in FY22, seven built on engagements we had with the same companies in previous years. Of those seven, we have seen five make meaningful change over the course of our multi-year engagement. The remaining two both said they will improve their reporting on this issue, and we will monitor their progress.

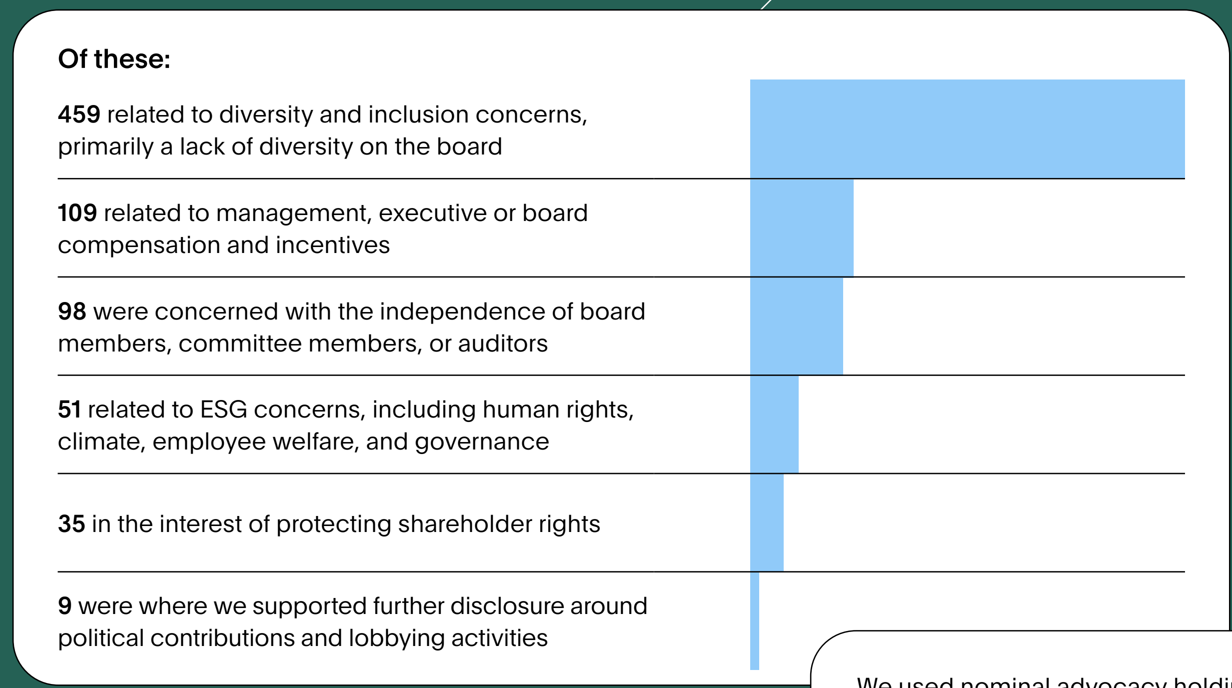
- **Austco Healthcare Ltd:** We began engagement with Austco on gender diversity in FY19. In FY21 Austco disclosed a gender breakdown of their senior executives in line with ASX guidance. We continued our engagement with them in FY22.
- **IDP Education Limited:** We began engagement with IDP on gender diversity in FY19. In FY22 IDP signed up to the 40:40:20 vision statement and enhanced its reporting on diversity, indicating the company's commitment to improving diversity and representation. This included a pledge to achieve a 40:40:20 gender balance across its board and senior leadership team for CEO-1, 2 and 3 level roles by 2030.
- **Nanosonics Ltd:** We began engagement with Nanosonics on gender diversity in FY21. Following our engagement, Nanosonics expanded their measurable objectives on gender diversity, in line with our recommendations. The company also committed to exploring equal parental leave benefits in its FY21 employee benefits review.

  In our FY22 engagement, we noted Nanosonic's progress in its diversity initiatives and disclosures, and discussed encouraging equal use of parental leave across genders as well as other forms of diversity including around ethnicity, orientation and background. Nanosonics has extended the benefit of paid parental leave and flexibility to non-primary caregivers, reporting that it is important to encourage both men and women equally to utilise the resources and leave entitlements, encouraging a healthy balance of parental responsibilities. They also reported 100% of employees who took parental leave during the reporting period returned to work. The company noted it had achieved 100% of its FY21 Diversity & Inclusion objectives and had set out a range of measures for success for FY22, including fostering and maintaining the cultural diversity of its workforce.
- **Urbanise com Ltd:** We began engagement with Urbanise on gender diversity in FY19. Since then Urbanise has improved their diversity reporting and, off the back of our FY21 engagement, implemented parity in its parental leave rights. In FY22 Urbanise appointed two women to their Executive Committee.
- **XREF Limited:** We began engagement with XREF Limited on gender diversity in FY21. Since then the company has appointed a female director to the board with experience in workforce culture and championing gender diversity. We continued our engagement with them in FY22.

How we voted[19]

Voting is an important lever for shareholders to influence company boards and management. This can be voting on shareholder resolutions, commonly resolutions initiated by shareholders about climate; diversity of directors; transparency or other matters of concern. Shareholders also vote on resolutions to elect and re-elect directors and whether to approve the company's remuneration report.





We used nominal advocacy holdings to support shareholder resolutions against Santos and Origin.

19. This breakdown provides the number of instances where a vote was cast due to the reasons mentioned. However, a decision to vote against management recommendations may be attributed to multiple reasons and therefore this breakdown does not reflect numbers of individual votes.

Climate Report

Task Force on Climate Financial Disclosures (TCFD)

Climate change: the risks and opportunities

For more than 35 years, Australian Ethical has been investing to protect our planet. During these three decades, the scientists with the IPCC have been issuing major reports about the state of the climate, gradually expressing more certainty about what is happening and why and the action needed to limit global warming.

The climate crisis is not just a threat to future generations; it is a threat that we are already feeling the consequences of today. If we continue the current global trajectory, the crisis will only worsen, deepening the impact of irreversible changes to our world.

The climate threat is also bringing climate investment opportunity. The latest IPCC report on climate change mitigation, released in April 2022, identified over 40 categories of decarbonisation opportunity across energy supply, agriculture, forestry, buildings, transport and efficiency technologies. These include ammonia and hydrogen powered ships, zero emissions steel produced using hydrogen, concrete which absorbs carbon, and direct capture of CO_2 from the air.

We measure and report on our climate performance following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Our reporting covers strategy, governance, risk management and the metrics and targets we use to measure and manage our climate performance.

Our net zero investment targets

We have a 2040 net zero target for our company and other private sector investments; and 2050 for all our investments including government bonds and other public sector investments.

Why 2040?

The world is not currently on track for the critical global goal of net zero by 2050 – not because it cannot, but because key actors lack ambition. At the same time, damaging impacts of climate change are arriving sooner than predicted by many climate models. Ambitious transformational decarbonisation pathways exist that are able to repower energy with renewables and batteries, to restore land in a manner that draws down carbon and boosts sustainable agriculture, to decarbonise the built environment with reduced embedded energy in materials, and to directly capture carbon to abate sectors that are harder to transform. These pathways become more commercially viable as bold investor demonstrate leadership, driving technologies down the cost curve. Australian Ethical wishes to demonstrate conviction for what is possible and commitment to what is necessary by driving its portfolio to net zero by 2040.

Our ambitious 2040 target and opportunity is achievable. For global emissions to reach net zero by 2050, the world will need diverse successful zero emissions businesses operating across the economy by 2040. Those zero emissions businesses which are leading in the management of climate risk and opportunity are the businesses we want to invest in, so that by 2040 we can offer our clients high performing, zero emissions portfolios. Setting a net zero 2040 target helps drive increased Australian Ethical capacity and innovation to make this a reality. While IPCC and IEA analysis makes clear the scale of action needed for global net zero by 2050, current transition paths can still be accelerated through a range of factors including stronger climate policy, more rapid scaling and improvement of clean technologies, and increased corporate ambition and green consumer demand.

What about public sector investment?

Our 2040 net zero target is for our investment in the private sector. We have a 2050 net zero target for our investment in government bonds and other public sector investments. Governments have a huge role to play in setting policies and allocating capital to drive the transition to net zero. However, we recognise that whereas a company can take action to decarbonise ahead of others, individual countries may have less flexibility to do this when they have responsibilities and activities across the entire economy and society. Some developing economies may be slower to transition, and responsible investors will have a role to continue to contribute capital to support this transition.

There will also be countries which irresponsibly delay climate action even though they have the capacity to act. We will continue to advocate for stronger climate policy from those climate laggards.

Other targets

Our net zero targets are aligned with the emissions reduction needed to achieve a 1.5°C warming limit. We keep our climate objectives and actions updated against the growing impacts of climate change as well as growing opportunities to limit that change. This includes work setting interim emissions reduction targets aligned with the objectives of the Paris Climate Agreement and linked to specific and ambitious concrete action to drive a faster net zero transition.

2022 Carbon footprint of our share investments

The carbon footprint of our investments is one way to check the effectiveness of our ethical investment approach to manage climate risk and to support the transition to a net zero-emissions economy and society. We report three carbon footprint measures for our share investments.

Carbon measure	"Carbon intensity"	"Carbon emissions"	"Carbon exposure"
Description	Investor share of company carbon emissions / Investor share of company revenue	Investor share of company carbon emissions / Amount invested	Average of carbon intensity of companies invested in (weighted by % of investment portfolio)
Climate significance	Measures carbon relative to value of products and services	Measures carbon relative to $ invested	Measures portfolio exposure to carbon intensive companies
AE share investments	40[20]	23	50
Benchmark[19]	175[20]	79	153
	t CO2e per $m revenue	t CO2e per $m invested	t CO2e per $m revenue
AE % below Benchmark	**77%[20]**	**71%**	**67%**

19. The comparison benchmark is a blended benchmark of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings).
20. Data included in KPMG limited assurance scope. KPMG's assurance opinion is available on page 57.

For the last six years we have tracked and reported our share investment footprint using the "carbon intensity" measure, which measures our share of companies' carbon emissions relative to the value of the products and services they produce. The carbon intensity measure is a guide to the carbon efficiency of the positive products and services which we invest in.

The carbon intensity of our share investments remains about one quarter of the share market benchmark, 77%[20] lower than the market. Since last financial year the carbon intensity of our share investments and the benchmark have reduced by about 16%, with the historical trends shown in the following graph. The other two carbon footprint measures for our share investments are also well below benchmark, though not to the same extent. The differences are due to the different calculation methods, and we discuss later how some of the higher carbon companies we invest in affect the different carbon footprint measures.

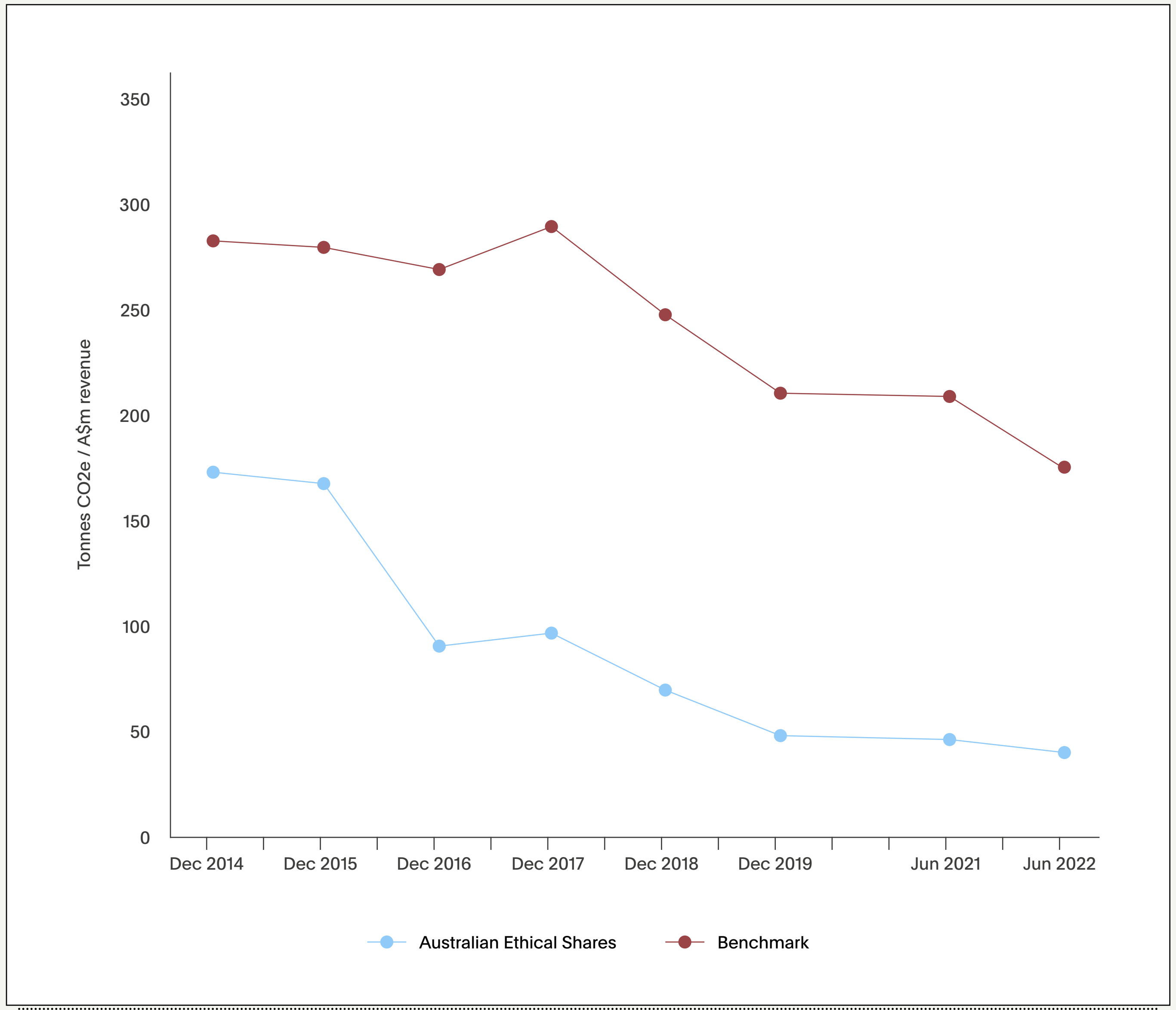
Why is our carbon footprint low?

A range of factors contribute to our lower carbon footprint. We have lower investment in high emissions industry sectors such as mining and traditional energy, and higher investment in lower emission sectors such as information technology (IT), finance and communications.

We do also have higher investment in the high emissions 'utilities' sector. But because our utilities investments include lower carbon renewables companies like Contact Energy, our overall investment in this sector lowers our footprint compared to the benchmark.

Carbon intensity of our share investments

This chart shows the carbon intensity of our share investments at the end of calendar years 2014 - 2019 and end of financial years 2021 - 2022. The Benchmark is a blended benchmark of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). The carbon intensity is calculated from direct and some indirect emissions (Scope 1 & 2 emissions) of the companies relative to their revenue.



Fossil fuel reserves

Carbon footprinting doesn't capture all important climate risks. Fossil fuel reserves aren't included while they remain in the ground, but they will frustrate all efforts to limit global warming if they are extracted and burned. To supplement our carbon footprint comparison, the following table shows how our zero investment in fossil fuel reserves compares to the share market benchmark.

Potential emissions from fossil fuel reserves per A$1,000,000 invested

Our share investments	Share market benchmark
Thermal coal reserves	
Zero	3,133 tonnes CO2 equiv.
Gas reserves	
Zero	307 tonnes CO2 equiv.
Oil reserves	
Zero	229 tonnes CO2 equiv.
Oil sands, shale oil and shale gas	
Zero	149 tonnes CO2 equiv.

Who are the most carbon intensive companies in our portfolios?

Even for low carbon portfolios like ours, analysing our investment carbon footprint is important to check the ethical rationale for our investment in any higher emissions companies. The table below lists our most carbon intensive companies and why we still invest in them under our Ethical Charter, even though they are involved in energy intensive activities such as managing waste and operating data centres.

Company	Country	Company Carbon Intensity*	Positive under our Ethical Charter
NEXTDC Limited	Australia	1,153	IT servers and data centre infrastructure. They are energy hungry but overall help efficient use of resources.
Veolia Environnement SA	France	684	Water and waste management and treatment
Allkem Limited	Australia	623	Lithium for Lithium-ion batteries for electric vehicles and storage.
Digital Realty Trust, Inc.	United States of America	557	Data centres
Contact Energy Limited	New Zealand	421	Renewable electricity (hydro and geothermal)
Boral Limited	Australia	413	Building materials including lower carbon concrete
Cleanaway Waste Management Limited	Australia	407	Recycling and waste management
Owens Corning	United States of America	388	Building materials including insulation
CN (Canadian National Railway Company)	Canada	361	Lower emissions transport (rail)
CP (Canadian Pacific Railway)	Canada	343	Lower emissions transport (rail)
Pilbara Minerals Limited	Australia	330	Lithium for lithium ion batteries for electric vehicles and storage.

* t CO2e / A$M revenue.

Carbon footprinting methods and limitations

Company carbon data often includes estimates and errors, and so footprint and reserve calculations need to be used with caution. There are also different measurement methodologies, and different carbon metrics which can be used to assess carbon footprint, each with different strengths and weaknesses. There is more information on page 104.

Assurance

KPMG have provided limited assurance over this year's carbon footprinting of our share investments disclosures in our climate reporting. Data points that are covered by the limited assurance are identified in the document. KPMG's assurance opinion is available on page 57.

2022 investment in renewables and energy solutions for a zero emissions world

Investment in renewable power generation and other clean energy solutions is critical to support the massive global shift to renewables required to limit warming to 1.5°C. Our analysis this year showed that our share investment in renewables and energy solutions is proportionately 5.6 times that of the share market benchmark[20].

This includes investment in renewable energy generation from wind, solar, geothermal, biomass, small scale hydro (25 MW or less) and wave tidal energy. Also included are biofuels, waste-to-energy, renewables equipment (e.g. solar inverters and wind turbines), transmission of renewable energy, and batteries and other energy storage supporting renewable energy.

This year we changed the method for calculation of our renewables investment as well as the source of data.

As a result the level of our investment this year is not directly comparable with previous years. There is more information about the change on page 104.

Impact data by fund and option

For this year's reporting to our customers, we are calculating and reporting climate and other impact-related metrics for individual Australian Ethical managed funds and superannuation investment options. This includes carbon intensity and renewables and energy solutions investment for listed company investments in our funds and options, as well as revenue earned by those companies from products and services contributing towards achievement of the Sustainable Development Goals (SDGs).

20. Comparison based on shareholdings at 30 June 2022 and using analysis tools and data MSCI ESG Research which cover 88% of the listed companies we hold shares in by value. The comparison benchmark is a blended benchmark of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). There is more information on page 104.

The impacts of climate change for our business

Under the emissions scenarios assessed in the 2021 IPCC reports, global average temperature increases are estimated at between 1.4 and 4.4 degrees above pre-industrial levels over the current century. Higher levels of warming will increase the impacts of climate change. The biggest direct impact of global warming on Australian Ethical's business is its effect 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.

Changes in temperature and rainfall are already affecting the productivity and viability of different types of agriculture. Physical impacts like sea level rise and extreme weather are changing where and how buildings and infrastructure can be safely built, with flow on effects to building and operating costs. Increased flood and fire risk affects insurance costs, and whether property is insurable at all.

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 following table. Although the most 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 more climate exposed industries like energy and agriculture, climate change has flow-on effects across the economy. With strong, well planned 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, we face not only economic disruption but also great social disruption, from growing inequality and movement of people from places hardest hit by the physical and economic effects of climate change.

Timing of climate impacts

Short term

0-3 years

- Nearer term physical impacts of temperature increase such as more extreme weather, fires, drought and flooding; 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.

Medium term

3-10 years

In addition:

- 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 and buildings and infrastructure.
- 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.

Long term

10-100+ years

In addition:

- 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.

How we respond to climate change and pursue net zero

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. This guides us to invest in a way which minimises dangerous climate change. We aim to drive change in three main ways:

1. our investment choices
2. our advocacy and engagement on climate action and policy, and
3. reducing and offsetting our own operational emissions

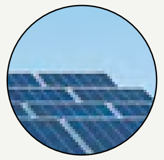
Key features of our approach related to climate risk and opportunity are as follows:

Investment screening

Investors can help limit global warming if they prioritise investment in companies with strategies aligned with limiting warming to below 1.5°C. 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 customers, because we believe that sustainable, risk-adjusted returns will be better in a low-warming world than a high-warming one.

Positive and negative investment screening can support change by improving access to capital and lowering cost of capital for positive activities, and restricting access and raising cost for unsustainable activities. It can also have an impact through its signalling effect to companies, governments, consumers and citizens, including by encouraging more ambitious climate action and promoting consumption choices which favour businesses helping to reduce greenhouse gas emissions while shunning big contributors to global warming.

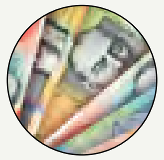
In our day-to-day investing, climate change is the top factor we consider when applying our Ethical Charter to companies because of its wide-ranging implications for people, animals and the planet. We don't invest in companies assessed to be obstructing the objectives of the Paris climate agreement to limit global warming to well below 2°C and to pursue a limit of 1.5°C. The way this test is applied depends on the company and its sector. Our ethical criteria also take account of the growing climate change threat and our increased climate expectations for companies in climate-critical sectors. For example:



Energy

We seek out investment in clean energy solutions like energy efficiency, renewable energy and energy storage. Current investments include wind, solar, hydro and geothermal energy, battery storage, LED lighting, insulation, and clean energy technology start-ups (through the Artesian Clean Energy Seed Fund). We don't invest in oil, gas or coal companies, but we will invest in a transition company like Contact Energy which in the last financial year generated 87% of its electricity from hydro and geothermal renewables. Contact is also investing to grow its geothermal capacity to reduce the need to fall back on gas when low rainfall reduces hydro-power generation. When its new Tauhara geothermal project is up and running in 2023 the company expects renewable generation to increase to 95%.[21]

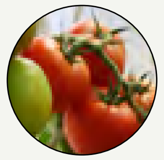
We won't automatically approve renewables companies under our Ethical Charter; we also consider whether they are operating their businesses responsibly. This year we divested from wind energy company Xinjiang Goldwind Science & Technology Co. We were concerned by reported connections between the company and Uighur forced labour programs, and the lack of detail in the company's reporting about its management of human rights impact including human rights due diligence. Last year we divested from Siemens Gamesa Renewable Energy over concerns about use of the company's wind turbines to supply energy for the extraction of natural resources by Morocco in the occupied territory of Western Sahara.



Financial services

We expect large banks to be aligning their institutional lending activities with the objectives of the Paris Climate Agreement. We consider both their restrictions on fossil fuel lending and action to support climate solutions like renewable energy, energy storage, green buildings and low-emissions transport.

This year we divested from Arthur J. Gallagher & Co and The Travelers Companies, Inc for not aligning their insurance services with a transition to net zero in accordance with the Paris Climate Agreement. Insurers and insurance brokers have an important role to help direct new underwriting and capital towards activities which support rather than obstruct a transition to a net zero economy.

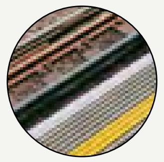


Food sector

We restrict investment in current systems of commercial animal agriculture including meat, dairy, eggs and seafood. We focus on investment in lower emissions plant-based protein and nutrition. The World Resources Institute assesses that "beef requires 20 times more land and emits 20 times more greenhouse gas emissions per gram of edible protein than common plant proteins, such as beans".

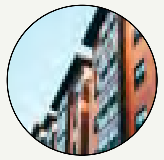
Through the Morrison & Co Growth Infrastructure Fund, we invest in Sundrop Farms which grows truss tomatoes in arid conditions in South Australia. They meet part of their energy needs from a concentrated solar power tower system, and part of their irrigation needs from desalinated sea water.

In our advocacy reporting we describe our involvement this year in carbon farming projects.



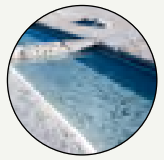
Transport sector

We restrict investment in conventional cars and trucks and in air travel because of their high emissions intensity compared to rail, ships and buses and other forms of public transport. While we'll invest in low emissions transport like rail, in some cases we exclude companies for their business focus on fossil fuel freight, including Australian Rail Track Corporation (ARTC), Aurizon and Pacific National.



Real estate sector

We will not invest in general purpose residential, office, retail or commercial property portfolios where they demonstrate below average environmental sustainability, with energy efficiency being a key factor.



Mining sector

Minerals will only be assessed as positive under our Ethical Charter if the continued extraction and use of the mineral is aligned with the transition to a world which limits warming to 1.5°C; or if it plays a significant role in an efficient net zero transition for society and the economy. Our mining investments during the year included lithium miners Allkem and Pilbara Minerals.

Across sectors

Companies in any sector may be excluded for obstructing the Paris agreement objectives where they are assessed to be obstructing informed climate policy debate; they specialise in servicing the fossil fuel sector; or they show general disregard for energy efficiency in their operations where they are involved in production of emissions intensive products and services. In the building sector this year we excluded James Hardie Industries, Wagners and Brickworks for insufficient strategies and targets to lower the emissions intensity of their key building products. By contrast we assessed Boral and CSR to have credible emissions reduction targets.

21. Contact Integrated Report 2022 contact.co.nz/aboutus/investor-centre/report

Influencing companies

We engage with companies to influence better management of the climate impacts of the way the company's products and services are produced, supplied, consumed and disposed of. We encourage better measurement and reporting of direct and indirect greenhouse gas emissions; short- and long-term emissions reduction targets; 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 influence through private engagement, voting at company meetings, public praise or criticism, shareholder resolutions and divestment. In some cases this occurs when we are gathering and reviewing company data to assess companies against our climate and other ethical criteria. We communicated with many companies on climate related issues this year, including in real estate, mining, construction materials, food and financial services. We encouraged companies to show stronger climate ambition, and to demonstrate the action they are taking today to set strategies and allocate capital which puts them on a path to net zero by 2050. When we are assessing climate action, we examine whether the company is addressing its most significant direct and indirect emissions, and whether it is setting evidence-based targets aligned with the Paris Climate Agreement.

Further details of our company climate engagement and advocacy are included in the advocacy section of this report, including in the banking, insurance, building materials and food sectors.

Investment industry influence

By sharing experience of investment climate opportunities and challenges, we can learn from other investors and encourage broader investor support for strong climate action. We are active participants in the climate focused work of the Investor Group on Climate Change (IGCC) and Climate Action 100+. This year we helped finance and contributed to an IGCC-commissioned report which examined potential new high impact Australian gas projects and the risk of their non-alignment with the Paris Climate Agreement. We share our perspective and experience privately and publicly, including at conferences and panels organised for investors and financial advisors.

Public climate voice and policy advocacy

Investment decisions affect cost of capital, but often the most powerful impact of ethical and responsible investing is the public praise and disapproval associated with decisions to invest in sustainable businesses and to divest from or criticise unsustainable ones. The balanced voice of long-term investors is needed alongside voices of business and civil society (which are often more narrowly focused). It can inform and influence government and business directly, and it can inform and influence citizens and consumers who hold government and business to account.

Through policy submissions, consultation with government and our public voice we aim to encourage more effective climate policy, including better energy policy, carbon pricing and corporate climate disclosure. Australian Ethical communicates continuously with a variety of audiences about climate, including calls for climate action in mainstream and social media, as well as more technical perspectives in finance industry media and public policy submissions to government. Our message is consistent though tailored. For non-specialists we develop clear and engaging content with a call to action, including in our website blog.

Investment portfolio management

Our ethical screening process outlined above eliminates many high carbon risk companies from our investment universe and portfolios. Our ethical research of the climate impacts of companies and industry sectors and their products and services can also assist us in identifying climate-related financial risks and opportunities and feed into our buy, sell and portfolio management decisions for those companies which are part of our investment universe. For example, company prospects and valuations in the energy sector may be affected by our assessment of the future regulatory environment for the sector.

As another example, real estate and infrastructure are exposed to many physical impacts of different levels of global warming. Greater extremes of heat and cold raise operating costs and in some cases will threaten operational viability. Increased frequency and severity of wind, fire, storms and flooding across the globe mean many assets will suffer significant damage more often, increasing repair costs and the need for additional investment to protect them. Insurance may provide some short-term protection, but insurance costs will continue to increase. In some cases risks will be so extreme that insurance will become unaffordable, or simply not available at any price. We rely heavily on the management of climate-related risks by our external property and infrastructure managers.

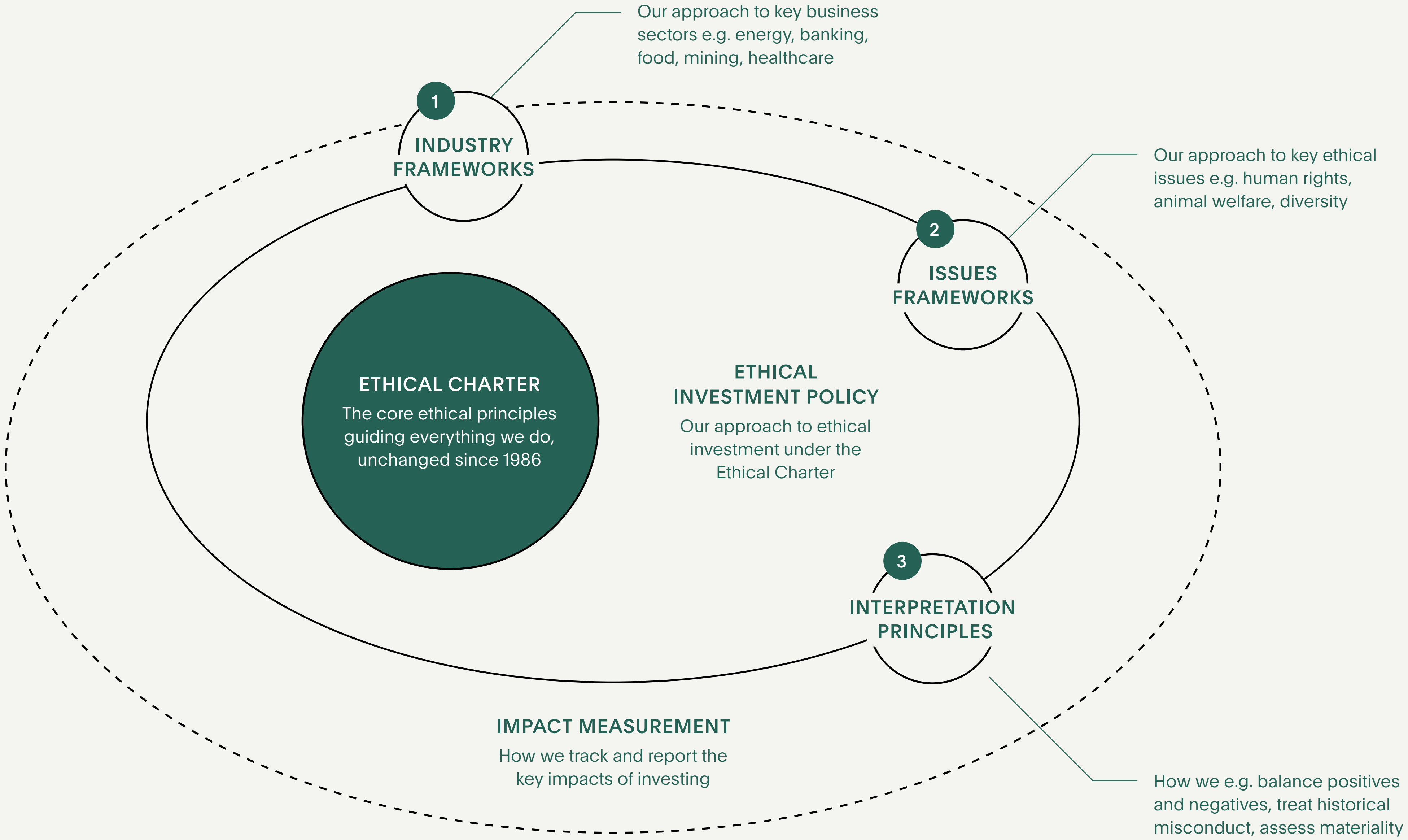
We encouraged companies to show stronger climate ambition, and to demonstrate the action they are taking today to set strategies and allocate capital which puts them on a path to net zero by 2050.

Governing climate-related decision making

Our approach to ethical investment is governed by our Ethical Charter. The Charter principles are applied using our ethical frameworks, policies and measurement systems. These require assessment of the impacts of climate change on people, animals and the environment, which in turn affects the way we invest including through negative and positive screening, engagement and advocacy, and climate performance measurement and reporting.

Our Chief Investment Officer and Head of Ethics Research are responsible for implementation of our Ethical Charter across our investment activities. They approve new and updated ethical frameworks, which include our climate-related ethical screening criteria for emissions intensive sectors. The Board of directors has oversight of our ethical frameworks, with quarterly reporting to the Investment Committee and Board of changes to frameworks and critical ethical issues.

Our ethics research team applies our Ethical Charter on a day-to-day basis in our investment screening and ethical stewardship. The team monitors existing and emerging ethical risks (including climate-related risks) using diverse company, industry, government, responsible investment, scientific, civil society and news sources.



Climate risk management

We identify, assess and manage material climate-related investment risks through our ethical investment process. For example, our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5°C. These companies are better positioned to manage many climate-related risks, such as the risk of 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.

Our ethics research team monitors existing and emerging climate-related risks using diverse information sources. The team monitors developments in scientific understanding of the rate and impacts of global warming; in domestic and international climate policy and regulation; and in technological innovation in climate mitigation and adaptation.

The ethics research team assesses whether these developments require review of our existing ethical assessments of companies and industry sectors, including our company engagement priorities. As an example of this process, our periodic ethical review of a carbon intensive sector like the energy sector takes into account changes in renewable energy and energy efficiency and storage technologies and their social and environmental impacts; changes in levels of atmospheric carbon; changes in scientific understanding of the pace, extent and impacts of global warming; changes in energy infrastructure such as the grid; and changes in energy market supply and demand. Consequential changes to our ethical framework for the energy sector and engagement objectives are prepared by the ethics research team and reviewed and approved by the Chief Investment Officer and Head of Ethics Research. These changes may include additional investment exclusions or inclusions (e.g. a change in our screening of biofuels), or a change in our engagement and advocacy objectives and priorities for companies in the sector. The changes to our energy sector framework may then have flow on effects to other frameworks (e.g. to the way we assess the alignment of banks' lending with the Paris Agreement under our banking framework).

Measurement, transparency, accountability

We measure and report annually on our climate performance, including the emissions intensity of our share investments (portfolio carbon footprinting), our operational carbon footprint and the extent of our investment in renewables and energy solutions. This helps us test the effectiveness of the application of our Ethical Charter to manage climate risk and opportunity, as well as our progress towards our net zero emissions target for our investments.

We discussed our net zero investment targets earlier in this report. We continue to work on setting interim emissions reduction targets which are aligned with the objectives of the Paris Climate Agreement and linked to specific and ambitious concrete action to drive a faster net zero transition.

The current focus of our ethical screening and engagement is the need to reduce emissions to limit dangerous climate change (mitigation of climate change), and the above measurement metrics reflect this mitigation focus. Of course it is also crucial that companies have business models, strategies and assets which are adaptable and resilient to the physical impacts of current and future climate change.

We do not currently report 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, including to help limit climate change which we expect to be positive for our portfolios. By shifting capital from fossil fuels to renewables, investors help to bring down the price of renewable energy and encourage investment in more flexible electricity grids and energy storage. They 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. We have trialled some external tools to “stress test” our portfolios under different transition scenarios. The insight these provide has been limited by their restricted coverage of the companies and sectors we invest in.

Our operational emissions

The following table shows our operational emissions for FY22 as well as historical emissions. The last three years’ emissions are significantly higher than the preceding years because we significantly expanded the scope of our measurement from FY20. This year our emissions further increased, with the majority of the increase due to continuing expansion of the indirect emissions we include in our reported footprint. For example, this year we added expenditure on external investment data and technology platforms. In addition, base building electricity use was higher with higher levels of work from the office, and we have expanded the scope of the working from home emissions we capture. Marketing emissions and IT continue to be the single biggest contributors to our operational emissions. While marketing emissions grew in FY22 due to increased marketing spend, emissions intensity reduced with greater inclusion of lower carbon platforms like radio and TV. There’s a more detailed breakdown of last year’s footprint on the following page.

Company	FY18	FY19	FY20	FY21	FY22
Scope 1 & 2 emissions (tonnes of CO2 emissions pa)*	50.1	50.2	0	0	0
Operational Scope 3 (tonnes of CO2 emissions pa)*	36.5	54.7	449.5	349.8	569.6
Full scope emissions per full time equivalent employee*	0.86	0.77	6.9	4.4	5.5
Full scope emissions intensity (total per $A million revenue)*	2.4	2.6	9.0	5.9	8.0
Full scope emissions per $A billion funds under management*	31	31	111	57.6	86.6
Offsetting of reported operational emissions	100%	100%	100%	100%	100%

* Figures are not directly comparable. Emissions measured and reported for FY18 and FY19 were limited to directly metered electricity and business travel with our purchase of renewable electricity incorrectly included under Scope 2 emissions. In each subsequent year we have expanded the scope of our operational emissions foot printing, increasing the emissions we report.

Reducing emissions

We limit our operational emissions in a number of ways. We purchase renewable electricity for our directly metered office power. We consider climate performance in our selection of significant suppliers of products and services. We continue to explore further action we can be taking, and the expansion of our emissions measurement will contribute to our understanding of where we can have the greatest impact. The disruption caused by the Covid pandemic has also highlighted opportunities to limit business and commuting travel emissions through increased use of online meeting technologies and more flexible work practices.

Offsetting emissions

We continue to offset our reported operational emissions. Carbon offsetting plays an important role for companies on the journey to net zero by 2050, provided they recognise the imperative to minimise emissions as much as possible before offsetting what remains. When offsetting our operational emissions, we look for opportunities for carbon abatement which also deliver additional benefits to people, planet and animals.

This year we offset our operational footprint with several different types of carbon credits. For half we continued to offset with ACCU carbon credits from Arnhem Land Fire Abatement (ALFA), an organisation created by Aboriginal landowners to support their engagement in carbon farming in Arnhem Land in the Northern Territory. ALFA support traditional owners to manage fire projects across an area of more than 80,000 square kilometres, encompassing savanna, sandstone escarpments, monsoon rainforest, river ecosystems, floodplains, and remote coastal areas. Through their partnership with community-based Aboriginal ranger groups, ALFA supports Traditional Owners in utilising customary fire knowledge to accomplish largescale fire management on country. Our purchase of ALFA carbon credits is aligned with the funding our Foundation has provided to the Mimal Land Management Aboriginal Corporation (Mimal) women's program via the Karrkad Kanjdji Trust. Ranger programs and the income they generate from offsetting programs have wide reaching benefits, not just for the climate but for the communities and people involved, as well as preserving species, land and culture.

We have purchased two other types of carbon credit for the other half of our offsetting. We purchased "Verra - REDD+ VCU" credits from the Rimba Raya Biodiversity Reserve, which protects critical rainforest and habitat from deforestation as well as supporting local employment, education and healthcare. We also purchased "Verra – VCU" credits from Indian wind projects contributing renewable energy to regional electricity grids in the Indian states of Andhra Pradesh, Madhya Pradesh, Rajasthan and Telangana.

Detailed breakdown of our operational carbon footprint

Activity/Service	Activity Data	Units	Emissions (tCO2-e/yr)	Percentage
Utilities				
Electricity	50,517.7	kWh	0.000	0.0%
Base Building Electricity	68,918.4	kWh	41.120	7.2%
Carbon Neutral Electricity	3,195.7	kWh	0.000	0.0%
Telecommunications	73,970.5	$	11.499	2.0%
Water	0.2	ML	0.509	0.1%
Base Building Water	0.1	ML	0.000	0.0%
Equipment				
IT Equipment	20,070.7	$	2.728	0.5%
Printing and Stationery	84,702.5	$	21.842	3.8%
Merchandising	11,292.3	$	4.287	0.8%
Office Furniture	29,260.0	$	5.124	0.9%
Employees				
Employee Commute	228,627.0	passenger. km	20.962	3.7%
Working From Home	378,078.0	h	58.744	10.3%
Flights				
Business Flights	161,352.4	passenger. km	29.670	5.2%
Transport Fuels-SCOPE 3				
Privately owned/ controlled	1,837.3	L	4.475	0.8%
Stationary Fuels				
Diesel oil	9.1	L	0.026	0.0%

Activity/Service	Activity Data	Units	Emissions (tCO2-e/yr)	Percentage
Third Party Services				
Cleaning Services	54,708.6	$	5.996	1.1%
Food & Catering	81,863.7	$	16.019	2.8%
Postage	18,340.3	$	4.339	0.8%
Couriers	2,651.9	$	0.611	0.1%
Computer and technical services	600,732.8	$	83.314	14.6%
Domestic Hotel Accom.	213.0	occupancy. nights	12.209	2.1%
International Hotel Accom.	19.0	occupancy. nights	0.263	0.0%
External Paid Media			124.440	21.8%
Taxi	39,449.5	$	2.299	0.4%
Rideshare	3,990.1	$	0.427	0.1%
Software	297,512.4	$	48.551	8.5%
Services to Finance and Investment	908,800.0	$	45.038	7.9%
Security Broking and Dealing	632,088.9	$	18.469	3.2%
Miscellaneous Manufacturing	8,988.1	$	3.412	0.6%
Food & Beverage				
Drinks (Wine & Spirits)	1,158.9	$	0.213	0.6%
Drinks (Soft drinks)	1,158.9	$	0.075	0.0%
Synthetic Gases				
Refrigerant	1.5	kg of refrigerant	1.966	0.0%
Waste				
Landfill	0.6	t	0.818	0.3%
Recycling	0.2	t	0.0	0.1%
Gross total	**569.6**			**100%**

Activity values presented in this table may be a derived number expressed as the quantity unit for use with the NGA factors workbook or NGER (Measurement) Determination (whichever is relevant) as converted from raw data supplied.

The SDGs

A global blueprint for a better future

Aligned to the goals

The 17 global Sustainable Development Goals (SDGs) were set by the United Nations General Assembly in 2015 as a blueprint of how to achieve a better and more sustainable future for all by 2030.

The SDGs identify 17 goals which governments, business and civil society need to achieve to build a just and sustainable future, things like climate action, reducing inequality and responsible consumption and production.

The UN Secretary-General marked the start of the Decade of Action (2020-2030) with the first annual SDG Moment on 18 September 2020. His key message was that at a time of great global uncertainty, the SDGs help show the way forward to a strong recovery from COVID-19 and a better future for all on a safe and healthy planet.

This is not news to us. Australian Ethical has been investing and advocating for a safe and healthy planet since 1986.

We continue to act in the Decade of Action by diligently maintaining our ethical approach to everything we do, by continuing to grow the pool of good, sustainable investments for our customers, by advocating for equality, animal welfare and climate protection and by expanding the depth and transparency of our reporting.

On the following pages we explore how our investment choices are linked to the delivery of many SDGs.

The 17 Sustainable Development Goals (SDGs)

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnership for the goals

The Australian Ethical Charter

The Australian Ethical Charter, written by our founders in 1986, is the DNA of our business, guiding everything we do. Their foresight means we have been aligned with the spirit of the SDGs for more than 30 years. The way we select investments, the way we engage and advocate on behalf of investors and shareholders and our community impact activities delivered through the Australian Ethical Foundation have been supporting the spirit of the UN's global SDGs, before they were even conceived.

As the following table demonstrates, every one of the 23 principles of the Australian Ethical Charter is aligned in some way to at least one of the UN global SDGs.

Australian Ethical has been investing and advocating for a safe and healthy planet 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	8
b.	the production of high quality and properly presented products and services	12
c.	the development of locally based ventures	10
d.	the development of appropriate technological systems	7
e.	the amelioration of wasteful or polluting practices	13
f.	the development of sustainable land use and food production	15
g.	the preservation of endangered eco-systems	14
h.	activities which contribute to human happiness, dignity and education	3
i.	the dignity and wellbeing of non-human animals	15
j.	the efficient use of human waste	12
k.	the alleviation of poverty in all its forms	1
l.	the development and preservation of appropriate human buildings and landscape	11

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

i.	pollute land, air or water	15
ii.	destroy or waste non-recurring resources	11
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	12
iv.	market, promote or advertise, products or services in a misleading or deceitful manner	12
v.	create markets by the promotion or advertising of unwanted products or services	12
vi.	acquire land or commodities primarily for the purpose of speculative gain	15
vii.	create, encourage or perpetuate militarism or engage in the manufacture of armaments	16
viii.	entice people into financial over-commitment	1
ix.	exploit people through the payment of low wages or the provision of poor working conditions	8
x.	discriminate by way of race, religion or sex in employment, marketing, or advertising practices	5
xi.	contribute to the inhibition of human rights generally.	16

How our investments help to deliver the SDGs

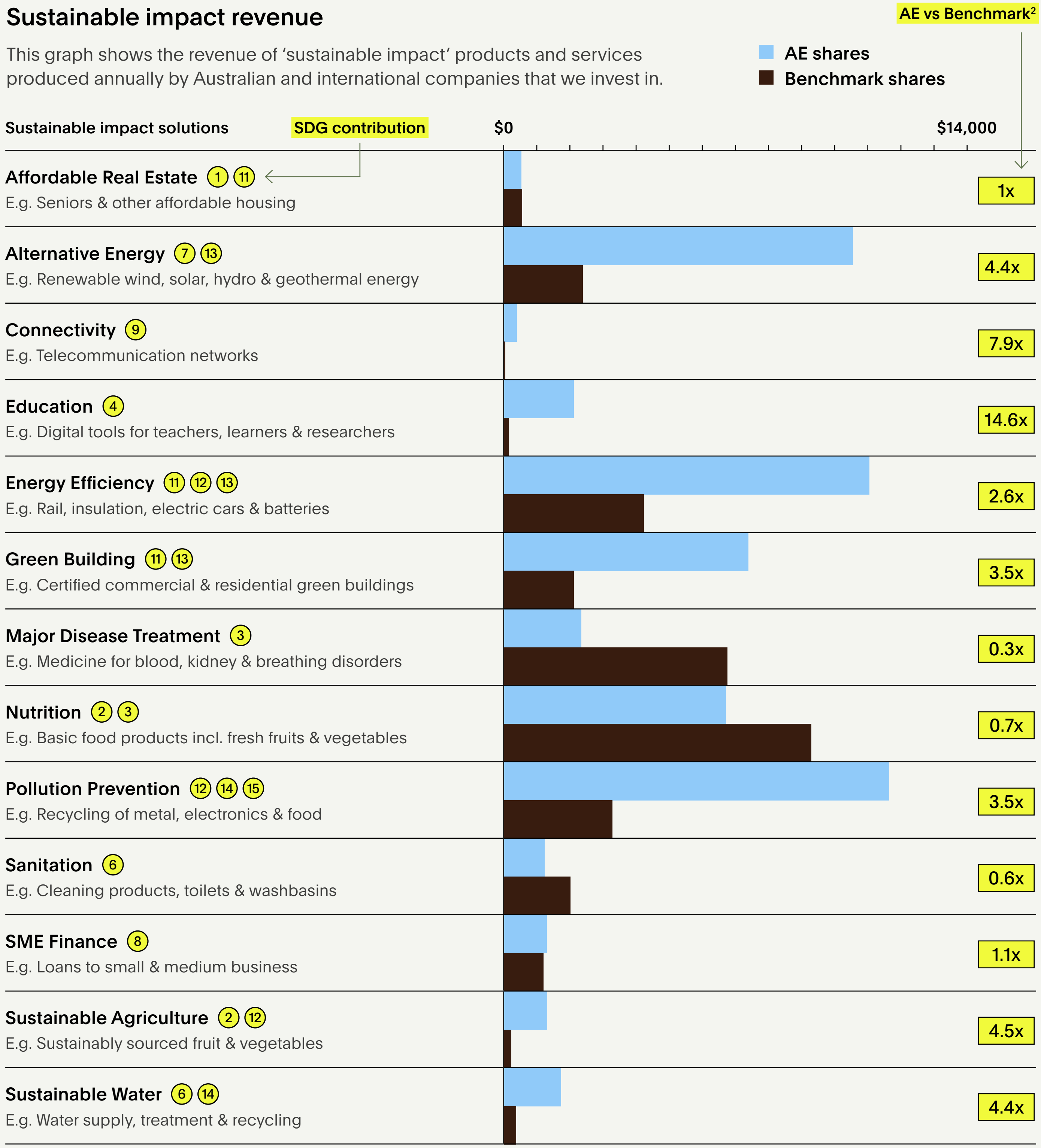
One measure of the impact of companies is the annual revenue they earn from products and services which are helping to meet the SDGs. We use the MSCI Sustainable Impact Metrics framework to review the companies we invest in for their sustainable impact compared to the impact of the Benchmark[1]. This way we can see how our investments (categorised under 13 of MSCI's global impact themes) are helping to support the delivery of the SDGs.

Customer statements

For this year's reporting to our customers, we are calculating and reporting sustainable impact revenue and other impact-related metrics for individual Australian Ethical managed funds and superannuation investment options.

Sustainable impact revenue

This graph shows the revenue of 'sustainable impact' products and services produced annually by Australian and international companies that we invest in.



1. For the information on these pages we have used our portfolio shareholdings at 30 June 2022 and sustainable impact revenue data and analysis tools provided by MSCI ESG Research LLC accessed 22 July 2022. The analysis and comparison to benchmark is based on listed shares in those companies for which we have relevant data available from MSCI, being 88% of our listed share investments by value and over 99% of benchmark shares by value. For the comparison we have selected indices which we consider to be an appropriate investment benchmark for listed shares which Australian Ethical invests in. We use a blended benchmark of S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). The benchmark indices reflect the composition of relevant share markets, without selection of companies based on ethical, sustainability or ESG factors. The industry mix and other characteristics of Australian Ethical's portfolios are different. We have determined the links between the MSCI categories of sustainable impact solutions and the Sustainable Development Goals (SDGs). MSCI ESG Research is not responsible for the way we have used their data and tools to calculate the amounts in the table. We present information and the benchmark comparison only for investment in listed shares in those companies which have been analysed by MSCI ESG Research for their sustainable impact. More information on page 104.
2. Data included in KPMG limited assurance scope. KPMG's assurance opinion is available on page 57.

Some key results:

Overall, revenue from sustainable impact solutions is **1.8 times**[2] the sustainable impact revenue for an equivalent investment in the Benchmark*.

Revenue from sustainable water and agriculture and pollution prevention solutions is **3.7 times** Benchmark*.

On the climate front, revenue from Alternative Energy, Green Buildings and Energy Efficiency is **2.9 times** Benchmark*.

Revenue from "major disease treatment solutions" is well below Benchmark (about one third). Our lower revenue for these solutions is impacted by our current exclusion of some 'big pharma' companies like Pfizer and Johnson & Johnson. While these companies develop and produce many important drugs and vaccines, they can also raise ethical concerns from the use of animal testing (in some cases for non-medical products) and slowness to act on product safety concerns. We do invest significantly in smaller biotech companies, though often their current revenue is small as they are focused on research and development of new medical solutions.

* Compared to an equivalent investment in the Benchmark.

We have asked KPMG to provide limited assurance over key sustainability disclosures in our reporting. Data points that are covered by the limited assurance are identified in the document. KPMG's assurance opinion is available on page 57.

Case studies

Pollution prevention

3.5x

market

Targets

SDG 12

Responsible consumption and production

Target 12.2

By 2030, achieve the sustainable management and efficient use of natural resources

Target 12.5

By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Revenue derived from pollution prevention constituted a large portion of our portfolio's overall sustainable impact revenue per million dollars invested into our portfolio at roughly $12,000, compared to roughly $3,000 for an equivalent investment in the benchmark. We invest in companies that assist in pollution prevention under Charter element e (the amelioration of wasteful or polluting practices).

Example

Sims Metal Management Limited ($8,500 per million invested, representing over 90% of the company's revenue) is a metals and electronics recycler, also offering services around environmentally responsible recycling of items like refrigerators and electrical and electronic equipment where the cost of recycling can be more than the value of recycled materials.

Education

14.6x

market

Targets

SDG 4

Quality education

Target 4.2

By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education

Target 4.4

By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship

Revenue derived from education had the highest sustainable impact revenue multiplier compared to the benchmark, at roughly $2,000 per million dollars invested compared to $150 for an equivalent investment in the benchmark. We invest in companies that provide education and education-related services under Charter element 8, activities which contribute to human happiness, dignity and education.

Examples

G8 Education ($1,400 per million invested) is one of Australia's largest providers of early childhood education and care. We invest in G8 as we assess childcare and education as positives under our Ethical Charter, for their direct benefits to children and for helping parents manage childcare and education responsibilities (alongside career and other responsibilities and interests). G8 contributes to Target 4.2 of the SDGs, around all girls and boys having access to quality early childhood development, care and pre-primary education.

IDP Education ($200 per million invested) provides education-related services including the placement of students into education institutions, English language schools and the administration of IELTS (International English Language Testing System).

Pearson ($140 per million invested) offers education services and related products such as courseware, and assessment related service delivery to academic institutions.

Nutrition

0.7x
market

Targets

SDG 2

Zero hunger

Target 2.1

By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

We invest in companies that contribute to Charter element 6, the development of sustainable land use and food production. However, it can be challenging to find opportunities to invest in sustainable agriculture. Taking into account its heavy climate and animal impacts, we rule out direct investment in conventional commercial animal agriculture, which makes up a large part of the market. Revenue relating to nutrition in our investment portfolio lags behind the benchmark at roughly $6,700 per million dollars invested compared to $9,300 for an equivalent investment in the benchmark.

Examples

Costa Group ($2,400 per million dollars invested) produces, packs, and markets products such as berries, mushrooms, tomatoes, citrus, bananas, grapes and avocados. We invest in the company because its products form part of a healthy diet (as recommended by the World Health Organisation), are produced in an environmentally sustainable way, and avoid unnecessary harm to humans and animals.

Coles Group ($1,900 per million dollars invested) is a supermarket retailer that sells food products and fresh produce. Australian Ethical added the company to our ethical universe in FY22 after our ethical assessment concluded that Coles demonstrates genuine commitment and credible action to manage its negative impacts. Read more about our ethical assessment of Coles.

Woolworths Group ($1,300 per million dollars invested) is another supermarket retailer selling food and fresh produce. Similar to Coles, the company was added to our ethical universe after drawing the conclusion that Woolworths also demonstrates genuine commitment and credible action to manage its negative impacts. Read more about our ethical assessment of Woolworths.

Major disease treatment

0.3x
market

Targets

SDG 3

Good health and well-being

Target 3.4

By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and wellbeing

Our revenue from major disease treatment is smaller than that of the benchmark at roughly $2,300 compared to $6,800. Although we invest heavily in the healthcare sector, general hospital care is not included in the scope of this objective, and the positive impact of many of our investments supporting medical research is not captured as revenue will only be earned once successful research is commercialised. Our lower revenue is also impacted by our current exclusion of some 'big pharma' companies like Pfizer and Johnson & Johnson. While these companies develop and produce many important drugs and vaccines, they can also raise ethical concerns from the use of animal testing (in some cases for non-medical products) and slowness to act on product safety concerns.

Examples

CSL Limited ($500 per million invested) develops products for the treatment of diseases such as respiratory diseases, infections and hepatitis B, and orphan drugs used for the treatment of bleeding episodes and attacks of angiodema.

Amgen Inc ($400 per million invested) develops and manufactures drugs, including orphan drugs, used for the treatment of diseases such as chronic heart failure, migraine, hyperparathyroidism, and drugs used for the treatment of juvenile rheumatoid arthritis, end-stage renal disease, hypercalcemia in parathyroid carcinoma and multiple myeloma.

Incyte Corporation ($200 per million invested) sells products for the treatment or diagnosis of major diseases including lung cancer, leukemia, bile duct cancer, B-cell lymphoma, myelofibrosis, and polycythemia vera.

Resmed ($200 per million invested) sells products that diagnose or treat respiratory disorders such as sleep apnea and chronic obstructive pulmonary disease.

Australian Ethical Foundation

Impact Report

About the Australian Ethical Foundation

Every year, Australian Ethical Investment Limited (Australian Ethical) donates 10% of profits* to the Australian Ethical Foundation Limited (The Foundation) to create environmental and social impact in Australia and overseas. Since the year 2000, Australian Ethical has donated over $8 million, driving positive outcomes for the planet, people and animals.

The Foundation's vision is to direct as much philanthropy as possible to effective solutions addressing the climate emergency. This is because we believe a sustainable planet - free from climate disaster – underpins all of Earth's systems (from biodiverse ecosystems to capital markets) and allows for people and animals to thrive.

We do this by utilising and funding leading research, reporting and analysis to unearth and support highly effective charities addressing climate change. We aim to be a pioneer in effective climate philanthropy in Australia, leading the way for other funders to follow.

* After tax and before bonuses

Since the year 2000, Australian Ethical has donated over $8 million, driving positive outcomes for the planet, people and animals.

Governance

The Australian Ethical Foundation is governed in accordance with the Australian Charities and Not-for-profits Commission (ACNC) regulations and the Australian Ethical Foundation Constitution.

Australian Ethical Foundation Team

Nick Chadwick

Head of Foundation

Nick manages the day-to-day operations of The Foundation including grant-making assessment and distribution, strategic planning, partnership building and impact reporting. Nick holds an MBA (Social Impact) from UNSW and has previously worked in roles at leading Australian charities.

Kathy Kung

Foundation Chief Financial Officer

Kathy (BCom, CA) is a Chartered Accountant with over 20 years experience in financial services, including roles at Bank of America, Merrill Lynch and PricewaterhouseCoopers. Kathy has also held the position of Head of Finance for Australian Ethical since 2017.

The Australian Ethical Foundation is a registered charity.

The Board of Directors

Kate Greenhill

Non-Executive Director since 2013
BEc, FCA, GAICD

Kate is Chair of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees and is a Member of the People, Remuneration and Nominations Committee and the Investment Committee. Kate is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited, and a Member of the Australian Ethical Superannuation Pty Limited Insurance Benefits Committee.

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 25 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients. Kate is also the Treasurer of a not-for-profit organisation in the education sector and a Director and Chair of the Audit and Risk Management Group of Intersect Australia Ltd.

Steve Gibbs

Non-Executive Director since 2012 and Chair since 2013
BEcon, MBA

Steve chairs the People, Remuneration and Nominations Committee, is a member of the Investment Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. He is Chair of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Steve is also the Non-Executive Chair of Netlinkz Limited. Steve has extensive experience at both an executive and non-executive level in the investment and superannuation industries, including being a former CEO of the Australian Institute of Superannuation Trustees, a former CEO of what is now Commonwealth Superannuation Corporation and a non-executive director of Hastings Funds Management and Westpac Funds Management. Steve has been recognised for his commitment to, and expertise in, ethical and responsible investing.

Michael Monaghan

Non-Executive Director since 2017
BA, FIAA, FAICD

Michael is Chair of the Investment Committee and a member of the People, Remuneration and Nominations Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. He is a director of Australian Ethical Superannuation Pty Limited and the Australian Ethical Foundation Limited.

Michael has more than 30 years' experience in investment, consulting and leadership of financial services organisations both in Australia and internationally. He was Managing Director of State Super Financial Services Australia Limited (StatePlus) from 2011 to 2016 and previously was a Partner in the actuarial practice of Deloitte Touche Tohmatsu, the CEO of Intech Investment Consultants and held senior executive positions at Deutsche Bank, IBM and Lendlease Corporation. Michael is currently a Director of Flag Income Notes 3 Pty Ltd and Alpha Vista Financial Services Holdings Pty Ltd, a start-up global asset management business leveraging large scale data and computing capabilities and artificial intelligence.

Mara Bûn

Non-Executive Director since 2013
BA (Political Economy), GAICD

Mara is a Member of the People, Remuneration and Nominations Committee, the Investment Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. She is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar. She is a Founder of The Salmon Project, specialist advisors to Climatetech and Agritech scale-ups advancing Series B venture funding through deep tech R&D. She is the Non-Executive Chair of four organisations: the Gold Coast Waterways Authority; Bowerbird Collective, a chamber music ensemble dedicated to nature conservation through performance; asset consultants Australian Impact Investments; and the Australian Conservation Foundation where Mara is also President.

Julie Orr

Non-Executive Director since 2018
BEc, MCom, MCom(Hons), CA, GAICD, FGIA

Julie is a Member of the People, Remuneration and Nominations Committee, the Australian Ethical Investment Limited Audit, Risk & Compliance Committee and the Investment Committee. She is a Director of Australian Ethical Foundation Limited, AvSuper and Masters Swimming NSW. She is also a member of the NSW Biodiversity Conservation Trust Audit & Risk Committee.

She has over 20 years of experience in executive and board roles including experience with superannuation, investments, financial planning, stockbroking, research, insurance, audit, finance, acquisitions and business integration. Julie's most recent executive experience was Group General Manager Corporate Development and General Manager Operations for IOOF. She was previously Director of Finance India and Asia Pacific for Standard and Poors, Head of Research for Morningstar, Chief Operating Officer at Intech and Senior Audit Manager with EY. Julie's prior board experience includes Perennial Value Management, Ord Minnett, Tax Payers Association (NSW Division) and Tax Payers Research foundation.

FY22 in review

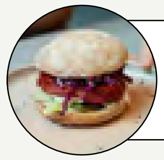
The Australian Ethical Foundation had another high impact year, allocating $1.6M in funding support to over 25 charities fighting climate change across our strategic priority areas: stopping sources of carbon pollution, supporting carbon sinks and empowering women and girls.

Our first ever Visionary Grants annual public grant round awarded funding support to 8 amazing organisations working on a variety of innovative projects to combat the climate crisis. Projects ranged from using drones to replant seagrass meadows to designing energy security initiatives for First Nations communities. Our funding will hopefully progress these new ideas to their next stage in development. Our Visionary Grants program is being run again in 2022, with another set of winners to be announced in early December, 2022.

FY22 also marked the launch of Giving Green in Australia, a website and resource to recommend Australia's most effective climate change charities. The recommendations were based on a 12 month research process applying effective altruism principles, fully funded by the Australian Ethical Foundation. The Foundation will continue to fund the work of Giving Green, to update and research further charities for inclusion into the recommendations, as we endeavour to expand out this offering for all Australian donors.

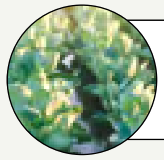
Despite the year starting strict Covid lockdowns, The Foundation was able to continue building strong partnerships with other funders and key players across the philanthropic sector, as we look to learn and grow from other funders in the space. We're looking forward to another year of supporting amazing charities across Australia working to make the world a better place.

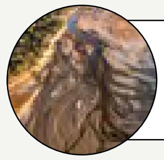
2022 Strategic Grants

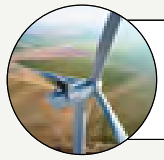

Food Frontier

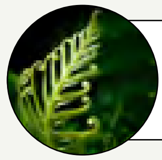

Original Power

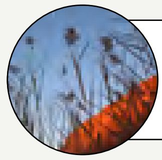

Population Services International (PSI)

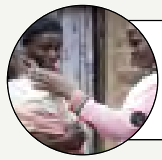

Farmers For Climate Action

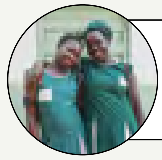

Environs Kimberley


Giving Green (IDinsight/The Life You Can Save)


Australian Conservation and Biodiversity Foundation

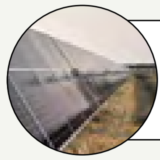

Environmental Justice Australia (EJA)

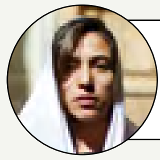

Living Goods

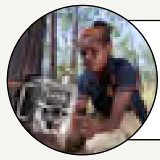

One Girl

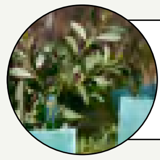

Love Mercy Foundation

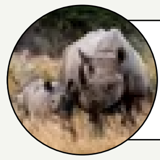

Human Rights Watch


Beyond Zero Emissions


The Fistula Foundation


Karrkad Kanjdji Trust (KKT)


Greenfleet


Wildlife Asia

+ Our 2022 Visionary Grant winners (announced December 2022)

10%
yearly profits donated through the Australian Ethical Foundation*

$1.6M
provisioned for donations in FY21

$500,000
funded through Visionary Grants program^

25+
charities supported fighting climate change

$8M+
donated since 2000

Giving Green
established leading Australian research to unearth Australia's most effective climate charities

*After tax and before bonuses
^Included in the allocation of $1.6 million

Our 'Theory of Change'

We believe that without a sustainable planet free from the worst effects of climate change, the systems that underpin a healthy life for people and animals with fail. As such, the core focus of The Foundation's work is to fight climate change as effectively as possible.

With less than three per cent of global philanthropy being utilised towards climate and nature work, it is imperative the funding directed to these causes goes to the most effective charities in the space. That's why we're applying effective altruism principles to help inform part of our strategy and grant-making.

Paul Hawken's 'Project Drawdown' provides an accumulation of leading global research that highlights the most effective solutions to address climate change. By using this information, along with other research, The Foundation specifically targets initiatives across people, planet and animals that all directly and practically address climate change. Funding for these initiatives is targeted at both systemic and advocacy efforts, as well as grassroots projects.

The Foundation's key focus areas for funding are:

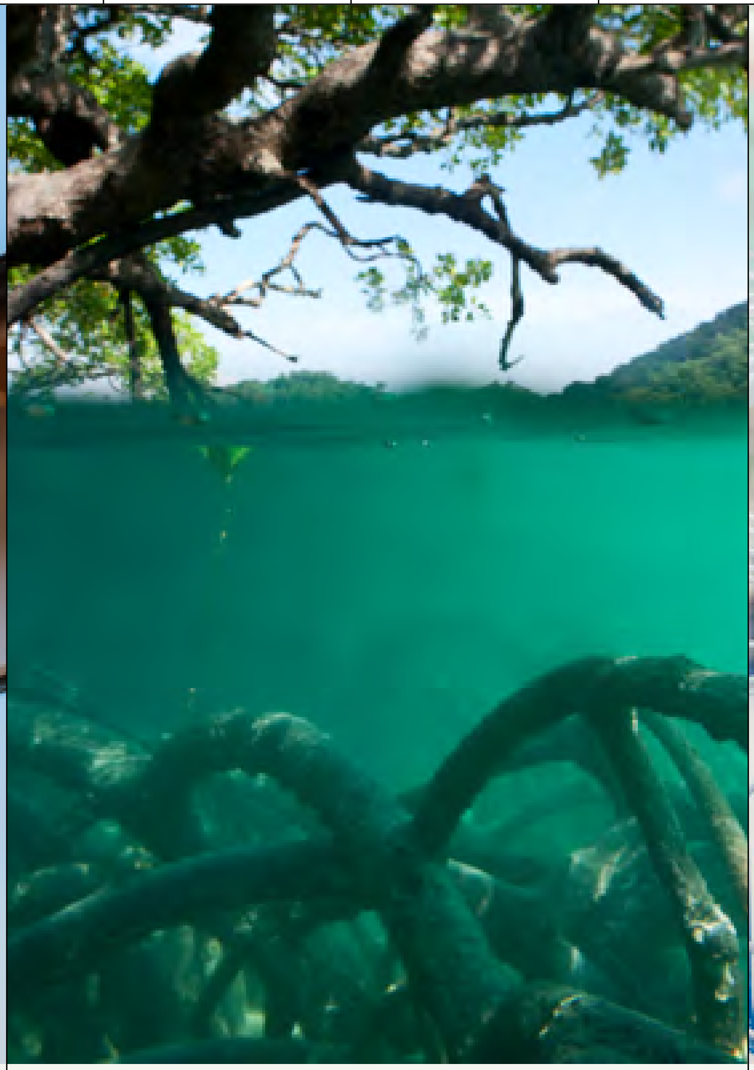
- Stopping sources of carbon
- Supporting carbon sinks
- Educating and empowering women and girls

Stopping sources of carbon

Australia is a global leader in the export of fossil fuels and livestock agriculture, so it's important we shift domestic energy policies, energy creation and food supply towards cleaner solutions - while ensuring this process is equitable and empowering for all. We also need to ensure emissions from other important sectors, like transport, buildings and food are rapidly reduced.

Currently, our key funding priorities include:

- Supporting the adoption of new forms of energy production (renewables)
- Supporting the prevention of new fossil fuel projects
- Supporting the development of alternative proteins markets (plant-based meat and cellular agriculture), to reduce deforestation pressures, carbon emissions and animal suffering.



Supporting carbon sinks

Temperate and tropical forests (green carbon) and seagrass meadows, tidal marshes and mangrove forests (blue carbon) sequester large amounts of atmospheric carbon. They also provide vast biodiversity benefits for the planet, supporting most ecosystems that underpin life on earth. We're funding initiatives to protect and restore these important areas, helping them recuperate and function to absorb and store more carbon over time.

Currently, our key funding priorities are:

- Protecting and restoring temperate and tropical forests (and the biodiversity they support)
- Protecting and restoring oceans (and the biodiversity they support)

Educating and empowering women and girls

Securing gender equality and advancing women's wellbeing is one of the leading solutions to address climate change.* When levels of education rise, access to reproductive health care improves and women's political, social and economic empowerment expand, women can control their family size and their lives, curbing population growth and building healthier more inclusive societies.

That's why we commit our funding to women's education, health, wellbeing, safety and economic empowerment.

* Table of solutions reviewed and assessed by Project Drawdown, drawdown.org/solutions/table-of-solutions

Process of change

The Australian Ethical Foundation utilises the following framework to ensure our philanthropic funds are donated efficiently across the most appropriate sectors.

$ is distributed via

The Foundation distributes grants through two funding streams:

Visionary Grants
A public grant round targeted at innovative climate solutions

Strategic Grants
Private by-invitation funding directed at effective climate charities

to

The role of The Foundation's grant-making

Support innovative climate solutions

Scale effective and proven climate mitigating activities

Inspire a new vision for a sustainable future

and

The Foundation's funding is targeted at these areas to create the most effective impact

Stop sources of carbon

Support carbon sinks

Educate and empower women & girls

How we assess our grants

The Australian Ethical Foundation utilises an impact measurement framework to assess and award all its funding. Within it there are four main components that are assessed and scored:

1. **Theory of Change:** Explores how well has a project considered the change it is seeking to create.
2. **Outcomes Measurement:** Understands how well an organisation measures the impact it is generating and how they are learning from it.
3. **Organisation and Team:** assesses how experienced and capable a team and their governance structures are.
4. **Effectiveness:** measures how effectively a charity utilises its funding to generate the impact it is seeking to have (which draws on effective altruism principles, further outlined on the right).

Effective altruism

The Foundation utilises effective altruism principles in how it assesses grants, and also how it aims to progress the climate philanthropy sector as a whole.

Effective altruism is about doing the most good for every dollar donated, by using evidence and analysis to determine the best issues to work on, and which interventions have the greatest potential for impact. Effective altruism research is guided by three questions:

1. Is the issue large in scale? How many people are affected, and to what extent?
2. Is the issue highly tractable? How much progress can we make with additional resources?
3. Is the issue neglected? How many resources are already being directed toward the problem?

Effective climate funding: Giving Green

Beyond incorporating effective altruism ideas into part of our assessment framework, The Foundation is also funding leading Australian research, utilising effective altruism principles, to unearth Australia's most effective charities fighting climate change.

The research work was led by Giving Green, a subsidiary of IDinsight, in partnership with The Life You Can Save Australia, both leading proponents of effective giving in Australia and the United States.

Giving Green was formally launched in December 2021, providing public recommendations for Australian donors to effectively fund the climate crisis. After a 12 month research process, Giving Green recommended Beyond Zero Emissions, Original Power and Farmers for Climate Action as 3 of the most effective charities fighting climate change. The Foundation has committed to funding all 3 groups.

To read more about Giving Green and how the research was conducted, please visit the Giving Green website.

Impact case studies

Food Frontier

Stopping sources of carbon

Since 2019, we've been funding the work of Food Frontier – Australia's leading think tank on alternative proteins – to help diversify protein supply with nutritious and sustainable alternatives.

With the world's population predicted to grow to 10 billion by 2050, demand for protein continues to rise. The impacts of conventionally farmed and fished animal protein on our environment and public health have leading authorities stressing the need for a more diverse protein supply to feed growing populations safely and sustainably. Informed by this overwhelming evidence, Food Frontier works to diversify diets with nutritious, sustainable and satisfying protein alternatives – made from plants, cell-cultivation and precision fermentation – ultimately addressing our region's over-reliance on industrial animal agriculture and reducing major threats to our ecology, economy and health.

Food Frontier continues to support the growing plant-based meat category and expanding interest in cellular agriculture by providing industry support, thought leadership and policy engagement.

Over the course of our funding, the following advancements have been achieved in the alternative proteins ecosystem:

- 85% growth in plant-based meat brands on-shelf, with 26 brands now made by local companies
- More than 150% growth in the number of plant-based meat products on-shelf in Australia, with more than 250 products now available.
- 83% growth in the number of plant-based meat companies operating in Australia and New Zealand
- The number of cellular agriculture companies doubled in Australia and New Zealand
- Food Frontier hosted the first-ever Alternative Proteins national conference, bringing together hundreds of leading food and agriculture specialists and policy makers from around Australia.

Source: Food Frontier

Beyond Zero Emissions

Stopping sources of carbon

Beyond Zero Emissions (BZE) is an independent, solutions-focused think tank. They conduct and publish research on solutions that unlock economic potential for industries, regions and communities, showcasing real-world projects as opportunities to prosper in a zero-emissions economy.

We have been funding their work developing Renewable Energy Industrial Precincts (REIP's) across Australia, primarily in the Hunter and Gladstone regions and also scoping new locations.

Core components and outcomes of their work over the last year included:

- Scoping locations and communities for future REIP's
- Supporting key decision makers in industry, finance and politics to understand the necessity and importance of REIP's
- Empowering all federal candidates in regional locations at the last election to understand the benefits of REIP's
- Hosting an Investor Roundtable with Climateworks Centre to demonstrate significant investment opportunities in Australia's regions for large-scale clean technology and renewable energy projects.

Source: BZE 2021 acquittal reporting to AE Foundation

Australian Conservation and Biodiversity Foundation

Supporting carbon sinks

The Australian Conservation and Biodiversity Foundation was established in 2021, with the goal to end native forest logging by 2030. As a backbone funding and strategic organisation, ACBF is protecting and restoring Australia's native forests by rapidly building capacity across multiple sectors.

By 2030, ACBF aims to achieve:

- the end to commercial logging and clearing of Australia's forests
- 8 million hectares of restoration of forest habitats

This will deliver 100 million tonnes of abatement a year and help recover hundreds of threatened plant and animal species. Achieving these goals will require a major intervention – to develop and coordinate a broad-based alliance across Australia's climate and nature movements. This will focus on aligning partners in the business and investor communities, in the scientific community, amongst traditional owners and in rural and regional Australia to deliver a campaign that can transform Australia.

The Orangutan Project

Supporting carbon sinks

The AE Foundation has been supporting The Orangutan Project's Wildlife Protection Units (WPU) for over 5 years - a community-based ranger unit that patrols the Bukit Tigapuluh Landscape. Located roughly in the geographic centre of the Indonesian island of Sumatra, this extremely biodiverse area provides important habitat for various rare wildlife species including critically endangered Sumatran elephants, Sumatran tigers, and a re-introduced population of Sumatran Orangutans. The ecosystem is also a large carbon sink, with vast peatlands and forests sequestering carbon. In addition, Bukit Tigapuluh is home to Talang Mamak, Orang Rimba, and Malayu Tua, native people that all depend on an intact forest ecosystem as does the endemic wildlife. The WPU's also employ local, full time staff, most of which are recruited from communities located within or close to the Bukit Tigapuluh ecosystem.

The main goal of the WPU is to protect the forest and its wildlife populations from all threats, and to work towards a harmonious coexistence between wildlife and local communities.

Over the course of our funding, The Orangutan Project have protected this large swathe of forest by:

- Conducting a total of 3,024 patrol days
- Responding to 763 individual conflicts, supporting local communities
- Logging 18,000 individual wildlife records
- Patrolling over 140,000km
- Protecting over 2,000km^2 of important ecosystem buffer zones

Source: The Orangutan Project 2021 acquittal reporting to AE Foundation

Population Services International (PSI)

Educating and empowering women & girls

Through PSI's Sexual and Reproductive Health and Rights (SRHR) work over the last several decades in Kenya, it has learned that the journey women face from puberty to menopause remains confusing, unclear, "trial and error" based and often riddled with shame and guilt. In 2020, driven by insights gathered from target demographics, PSI (with funding from the Australian Ethical Foundation) developed and tested SRH content in six countries to gauge the viability of addressing these issues through social enterprise and technology.

PSI knows that sexual pleasure is a driver of sexual behavior. Sex-negative programming often produces effects opposite from those intended, and health programs that incorporate sexual pleasure consistently have positive results. However, evidence is generally limited to high-income settings, and less is known about the relationship between pleasure and sexual activity and potential entry points for pleasure-inclusive programming in different environments.

To address these challenges, PSI, with support from the Australian Ethical Foundation, developed Nena, a seamless digital solution to reframe the narrative to make SRHR more meaningful and relevant. Over the last year, PSI refined, optimised and tested this on-demand chatbot as a pleasure forward guide for young people exploring sexual and reproductive health. Through Nena, PSI also improves sexual literacy, self-efficacy and agency.

Nena launched at the end of 2021 and is already proving effective, with online comparison testing showing that content with a pleasure component is 126% more effective at engaging users versus campaigns that only focus on contraception.

Since launch, Nena has:

- Reached 4,065,896 users through social and behaviour change communications
- Provided 10,000+ users, specifically more than 5,900 women, with access to digital tools
- Achieved an 86% (4.3/5) satisfaction rating for digital health solutions

Source: PSI 2021 acquittal reporting to AE Foundation

Both *PSI* and *Living Goods* are 'recommended charities' from *The Life You Can Save Australia*. This organisation recommends charities that save lives and improve well-being where each dollar goes the furthest. Read more here.

Living Goods

Educating and empowering women & girls

The Australian Ethical Foundation has been supporting Living Goods to reliably deliver lifesaving, affordable, critical medicines to the doorsteps of millions in Uganda. Living Goods recruits, trains, equips, and manages networks of Community Health Workers (CHW's) who provide their communities with health education, accurate diagnoses, essential medicines, and health products that save and improve lives. Living Goods programs address the significant shortage of frontline health workers and the inadequate distribution of health products and knowledge.

Living Goods works with governments and partners to ensure community health workers have access to digital technology, medical treatments, supervision and compensation to cost-effectively deliver high quality, impactful health services.

In 2021, CHW's funded by the Australian Ethical Foundation:

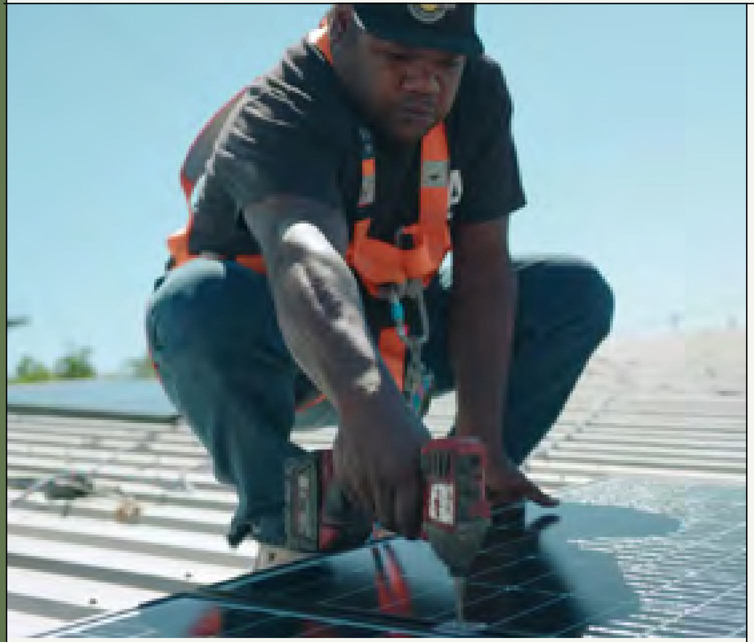
- Supported 11,500 people in their communities,
- Provided 4,645 treatments and positive diagnoses to children under five-years-old,
- Administered over 6,000 assessments to children under five-years-old,
- Registered 395 pregnancies.
- Continued delivering vital health services and scaled family planning services

Furthermore, the preliminary results from a new external Randomized Controlled Trial (RCT) of Living Goods supported CHWs in Uganda show a strong 30% reduction in U5 child mortality and a 27% reduction in infant mortality. This highlights that well-equipped and supported CHWs can save lives at scale, but also showcases how and why data and research are such critical enablers for iterating and improving community health programs.

Source: Living Goods 2021 acquittal reporting to AE Foundation

2021 Visionary Grant Winners

Our public funding round, Visionary Grants, provides early stage philanthropic funding for ideas that could change the game in the fight against climate change.



Original Power

Clean energy security for First Nations communities

The Marlinja Community Solar Project is a community-led initiative improving household and community-wide energy security for residents of Marlinja outstation in the Northern Territory. Residents of Marlinja are severely impacted by energy security, through regular power outages on network transmission lines and frequent household power disconnections due to inappropriate housing design and high power costs.

Original Power is replacing Marlinja's reliance on expensive and polluting diesel-fired power with clean, low cost solar and battery storage through a centralised solar array and wireless distribution of electricity credit to all homes. This project is a blueprint for other communities to roll out this model of energy security and gain the benefits of lower cost, more reliable power.

You can watch more here, and read more here.

Central Queensland University (CQU)

Using drones to replant seagrass meadows

CQU are piloting a new seagrass restoration method utilising drones to disperse seagrass seeds across tidal marshes that cannot currently be accessed. Drones will also map the restoration sites using LiDAR and multispectral imaging to assess target locations for planting and successful survival rates of seeds.

This research project by CQU will reseed >20 hectares of seagrass within the Port of Gladstone, working in partnership with Gidarjil Development Corporation and First Nations rangers to harvest seagrass flowers.

Mapping and planting are set to kick off in spring 2022.

Read more here.

Accounting for Nature

New environmental accounting software

Accounting for Nature is helping address this. Building on the award-winning Accounting for Nature ® (AfN) Framework, this project has developed new software that allows landowners and organisations to streamline their nature-based asset valuations.

Specifically, this will allow landowners to import remote sensing and field data; create and verify an environmental account; link this account to carbon offsets (e.g. carbon offset unit registries); and once certified by Accounting for Nature Ltd, export this environmental account data to align financial reporting data with carbon and environmental accounting metrics.

This technology will empower landowners to improve their biodiversity accounting management and help avoid greenwash through evidence of real and measurable improvements to natural capital.

Learn more here.

Appendix

Methods & limitations of investment impact measurement including carbon footprinting and sustainable impact revenue

General limitations of impact measurement and data

Impact measurement is an emerging practice for investments. Being able to measure the environmental and social impacts of one company is difficult enough; when you extend to a portfolio of hundreds of companies the difficulties multiply. Complications include:

- Most products and services and activities have many positive and negative effects which vary depending on the situation, so it can be challenging to identify the most material impacts and to balance good and bad. Food production, for example, is obviously essential for human well-being, but has varied effects on people, animals and environment. Many foods can be healthy or unhealthy, sustainable or unsustainable, depending on the way they are produced and consumed.
- The impact of investment is different to the impact of companies invested in. Investment choices make a difference, but quantifying the impact of those choices is difficult. We can't claim direct credit for the good deeds of the companies we invest in; or that we can stop the harm caused by irresponsible companies simply by selling their shares. The impact is often more indirect. Demand for shares in more sustainable companies makes it cheaper for them to raise new capital for growth. There's also the public 'signalling' effect on the reputation of a company when an ethical investor decides to buy or sell shares of the company. These effects can be significant as responsible investing action and voices grow, as we have seen with the fossil fuel divestment movement.
- Company carbon and other impact data often includes estimates or is incomplete, and may include errors. Companies make different decisions about what they do and don't include when measuring and reporting their operational footprints or the revenue they earn from different products and services. Information may be inaccurate or incomplete, and data providers may use their own estimates. There are different methodologies and frameworks for classifying and taking account of positive and negative impacts of a company's operations, products and services.

Caution should be exercised when considering impact data because of its limitations, and because past performance is not a reliable indicator of future performance. Impact data is only one factor that may be considered when making an investment decision and this information should not be taken as a recommendation to buy, sell or hold a particular financial product. It is important to consider financial characteristics of investments (including fees and investment risk) when assessing potential investments to pursue your financial and other objectives.

Carbon footprint metrics and data

Investment carbon footprint metrics need to be used with caution. Company carbon data often includes estimates or is incomplete, and may be out of date or include errors. Companies make different decisions about what they do and don't include when measuring and reporting their operational footprints. Data providers use estimates for some companies.

There are also different portfolio measurement methodologies, and different carbon metrics which can be used to assess carbon footprint, each with different strengths and weaknesses. We report three carbon footprint measures for our share investments, "Carbon intensity", "Carbon emissions" and "Carbon exposure". The TCFD reporting recommendations compare these and other footprint metrics here.

We assess our share investment carbon intensity based on the carbon intensity of the companies we invest in. The carbon intensity is calculated from direct and some indirect emissions (Scope 1 and 2 emissions) of the companies relative to their revenue. The carbon intensity for 2014 to 2017 was assessed by S&P Trucost. Since then we have used tools and data provided by MSCI ESG Research LLC. Although we have used different data providers, we consider the comparison with previous years to be meaningful because there is general alignment between the methodologies and data sources used by MSCI ESG Research and S&P Trucost. However, there are differences in data, estimates and company coverage which affect direct comparability.

More information on carbon footprinting methodology and metrics is available here.

We also used the MSCI ESG Research tools and data for our reporting on fossil fuel reserves and carbon intensity of individual companies.

What's not included in carbon footprint metrics

Current carbon footprinting methods don't generally take into account emissions produced or emissions saved from the use of a company's products. One reason is difficulties in fairly allocating the emissions or emissions savings between the many companies involved in production and use of the products. For example, how should the emissions from the burning of coal be allocated between the coal miner, the coal fired electricity generator and the businesses using that electricity?

The same double counting issues apply to products that result in emissions reductions ('avoided emissions'), for example solar panels which over their life can reduce emissions by displacing other sources of electricity production like fossil fuels. These emissions savings are much more relevant to our ethically screened investment portfolios. It's important to calculate and allocate these savings, to help us better understand what emissions savings our investments are supporting.

We explored these issues and potential solutions in our Emissions Crediting Project several years ago. We are now seeing the development of new carbon datasets and tools which can be applied at a portfolio level to investment portfolios to calculate Scope 3 emissions and emissions savings.

Sustainable impact including renewable and energy solutions data

We have used sustainable impact revenue data and analysis tools provided by MSCI ESG Research LLC for the sustainable impact revenue data in the Sustainable Development Goals (SDGs) section of this report and for the comparison of our investment in renewables and energy solutions in the climate section of this report. The links with the SDGs are based on links Australian Ethical has determined between MSCI's categories of sustainable impact solutions and selected SDGs.

Company reporting of the revenue they earn from different products and services may be inaccurate or incomplete, and MSCI may make estimates in breaking down and categorising company revenue. There are different methodologies and frameworks for classifying sustainable products and services and for taking account of negative impacts of a company's operations.

We changed the method for calculation of our renewables investment this year as well as the source of data. As a result the level of our investment this year is not directly comparable with previous years. One difference is that the new method does not include investment in renewable energy from large scale hydro, instead only lower footprint small scale hydro is included. Large scale hydro is excluded because of concerns about the social and environmental impacts of building big dams. Although we assess new large scale hydro dams as negative under our Ethical Charter, we will invest in companies like Contact Energy and Mercury which generate electricity from large dams that were built in the last century. Under the new method we only include that part of our investment in companies like Contact Energy and Mercury proportionate to their revenue from renewables other than large scale hydro. Another change is that the comparison now includes – in addition to renewable energy generation – investment in biofuels, waste-to-energy, renewables equipment (e.g. solar inverters and wind turbines), transmission of renewable energy, and batteries and other energy storage supporting renewable energy.

Use of MSCI ESG Research LLC tools and data; Listed shareholdings at 30 June 2022; Timing of running of reports

We used the MSCI ESG Research tools and data for our calculations and reporting this year on 22 July 2022, against shareholdings and benchmark weights at 30 June 2022. The analysis and comparison to benchmark is based on listed shares in those companies for which we have relevant data available from MSCI, being 88% of our listed share investments by value and over 99% of benchmark shares by value. MSCI ESG Research is not responsible for the way we have used their data and tools or for the information we have reported.[4]

More information on MSCI carbon footprinting and sustainable impact methodology and metrics is available here:

- https://www.msci.com/documents/10199/2043ba37-c8e1-4773-8672-fae43e9e3fd0
- https://www.msci.com/documents/1296102/1636401/ESG_ImpactMetrics-2016.pdf/0902a64f-af8d-4296-beaa-d105b7d74dc3

For our annual sustainability reporting we update key metrics using MSCI ESG Research tools and data based on listed equities holdings and benchmark weights as the end of the financial year (30 June). Although this portfolio and benchmark composition doesn't change, the output of the analysis tools will change depending on when we run the analysis using the MSCI tools. This year we ran the MSCI reports on 22 July 2022. Running the reports later can mean that company data is more current, because of the lag in company reporting and in MSCI's updating of company footprints. It can also affect results because the MSCI tool uses the market capitalisation of companies at the time the report is run. These effects apply to the analysis both of our listed shareholdings and of benchmark holdings.

Choice of benchmark for comparisons

For comparison we have selected indices which we consider to be an appropriate investment benchmark for listed shares which Australian Ethical invests in. We use a blended benchmark of S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). The benchmark indices reflect the composition of relevant share markets, without selection of companies based on ethical, sustainability or ESG factors. The industry mix and other characteristics of Australian Ethical's portfolios are different.

Currency considerations

Some of the data we use is provided in US$ terms, and some of this data has been converted to US$ using exchange rates selected by the data provider. Where we have needed to convert to A$ for reporting of this this year's information we have used an average exchange rate as published by the Australian Taxation Office for the 2022 financial year.

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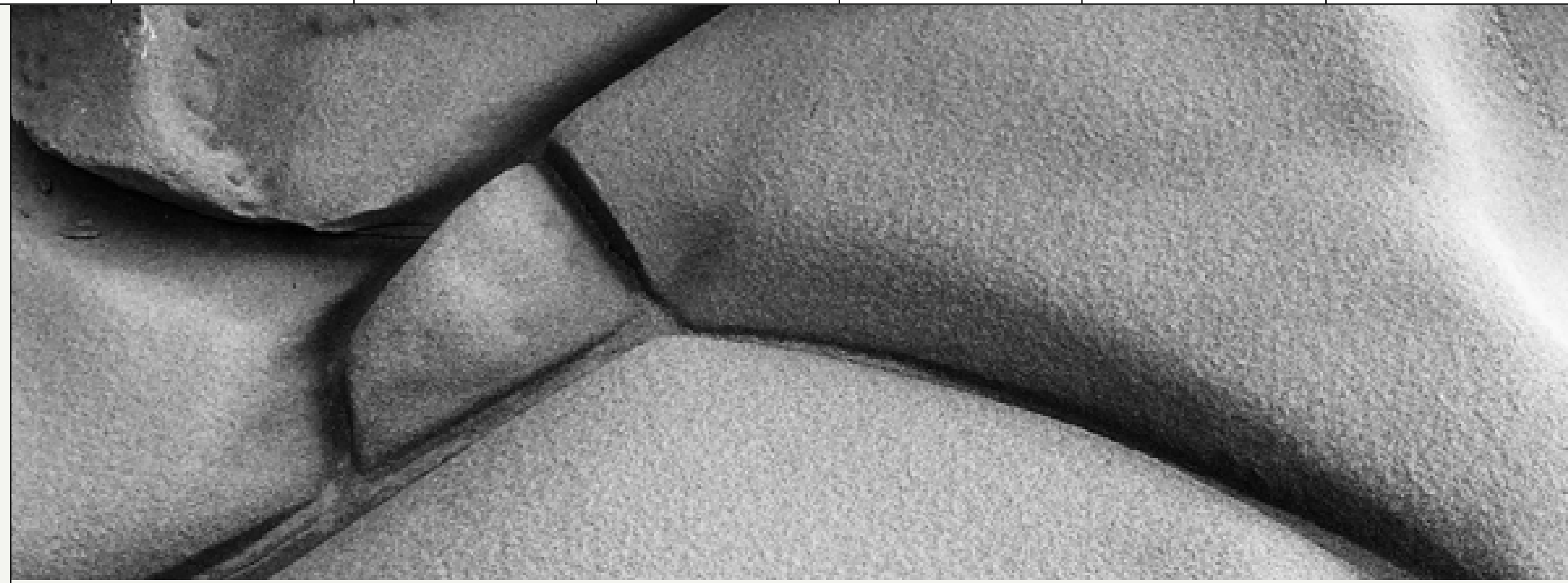

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