

**Australian
Ethical**



Sustainability Report 2021

INVESTING FOR A BETTER WORLD





About this report

Welcome to the Australian Ethical Sustainability Report for 2021.

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

Since 2002 we have used the Global Reporting Initiative (GRI) reporting framework to help us track and report our impacts. In 2017 we began exploring how our investments align to the UN's Sustainability Goals, each year diving deeper into our impact. In 2018 we released our first annual TCFD Report, next we added a **Modern Slavery Statement** for 2020 and now 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.

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.

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

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.

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.

As in previous years, we have asked KPMG to assure key sustainability disclosures in our reporting (see page 55).

Our other 2021 reports:

▶ [Annual report](#)

▶ [TCFD Report](#)

▶ [Australian Ethical Foundation Report](#)

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Investing for a better world



Who is Australian Ethical?

Australian Ethical was founded on one simple insight: that the power of financial markets could be harnessed to bring about social change.

That was 35 years ago, but it has been our north star ever since.

What our founders knew then – and what people are belatedly realising now – is that a society that allocates resources purely to generate short-term profit is untenable. And so, in 1986 they planted a stake in the ground to help divert capital towards long-term returns through ethical investing.

This was a novel concept at the time. Until then, investors fell into two distinct categories – those trying to make as much money as possible and those trying to make the world a better place.

But our founders could see that it wasn't a lack of capital that was standing in the way of a sustainable economy, but how this capital was being deployed. They created our Ethical Charter to guide their investment decisions, seeking to allocate investors' capital to companies doing good and avoiding companies doing harm. Like a compass, the Ethical Charter directed them to the exact point where making money and making the world a better place overlapped.

It's an approach we've been refining ever since. Today, we're world leaders in ethical investing and creating a virtuous cycle where profit and purpose combine to deliver significant financial returns while changing the world for the better.

Of course, a lot has changed since our founders laid out their vision of investing. Where once our approach to transparency, sustainability and equality broke new ground, we're now no longer alone as other providers begin to offer sustainable options.

But few, if any, can match our ethical pedigree and decades of experience.

And so, as we look towards the future, we're proud of how far we have come, but we feel that in many ways our journey is just beginning.

Our purpose is to invest for a better world.

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.

The global pandemic and worsening climate crisis have opened many people's eyes to the fact that building a virtuous economic system is not just a utopian ideal but a necessity.

Because alongside stabilising the continuing threats from the pandemic, how can we prevent inequality and ensure that those who are already hardest hit don't suffer more? And how equipped are we to address other threats that loom large such as global warming?

There is hope, however, and a growing desire among many to set out on a different path and make such virtuous instincts a mainstay of our economy rather than the exception. This includes investors and companies, more of whom want to do good and can now see that doing so will ultimately benefit everyone.

Our success as a purpose-driven company proves that a more inclusive and sustainable model is possible. It also shows that it doesn't need a 180-degree turn: companies and investors don't have to stop pursuing profits for shareholders. But until purpose and sustainability are authentically embedded in every business strategy, these efforts will always fall short of challenging business as usual.





Why ethical?

Ethical investing has come a long way. It wasn't long ago that it was still considered to be niche, at times even confused with philanthropy. But with the rapidly growing interest from investors, it has become clear that there is a pressing need to better define the 'why'. Until now, most of the debate has focused on the 'what' and 'how,' but as Simon Sinek said in his **famous TED talk**, successful leaders start with the why.

And so why do we invest ethically? And why should people choose to invest ethically with us?

Our why is our purpose and that is to invest for a better world. And we believe that only ethical investing goes far enough in helping us get there.

Consider the following: there are record amounts of money pouring into 'sustainable' and ESG funds, and so why does capital continue to flow into companies that are harming people, planet and animals?

While considering ESG factors is undoubtedly a step in the right direction, 'no harm done' or 'best-in-class' portfolios that are still invested in legacy economy companies are not enough to deliver the change the world needs.

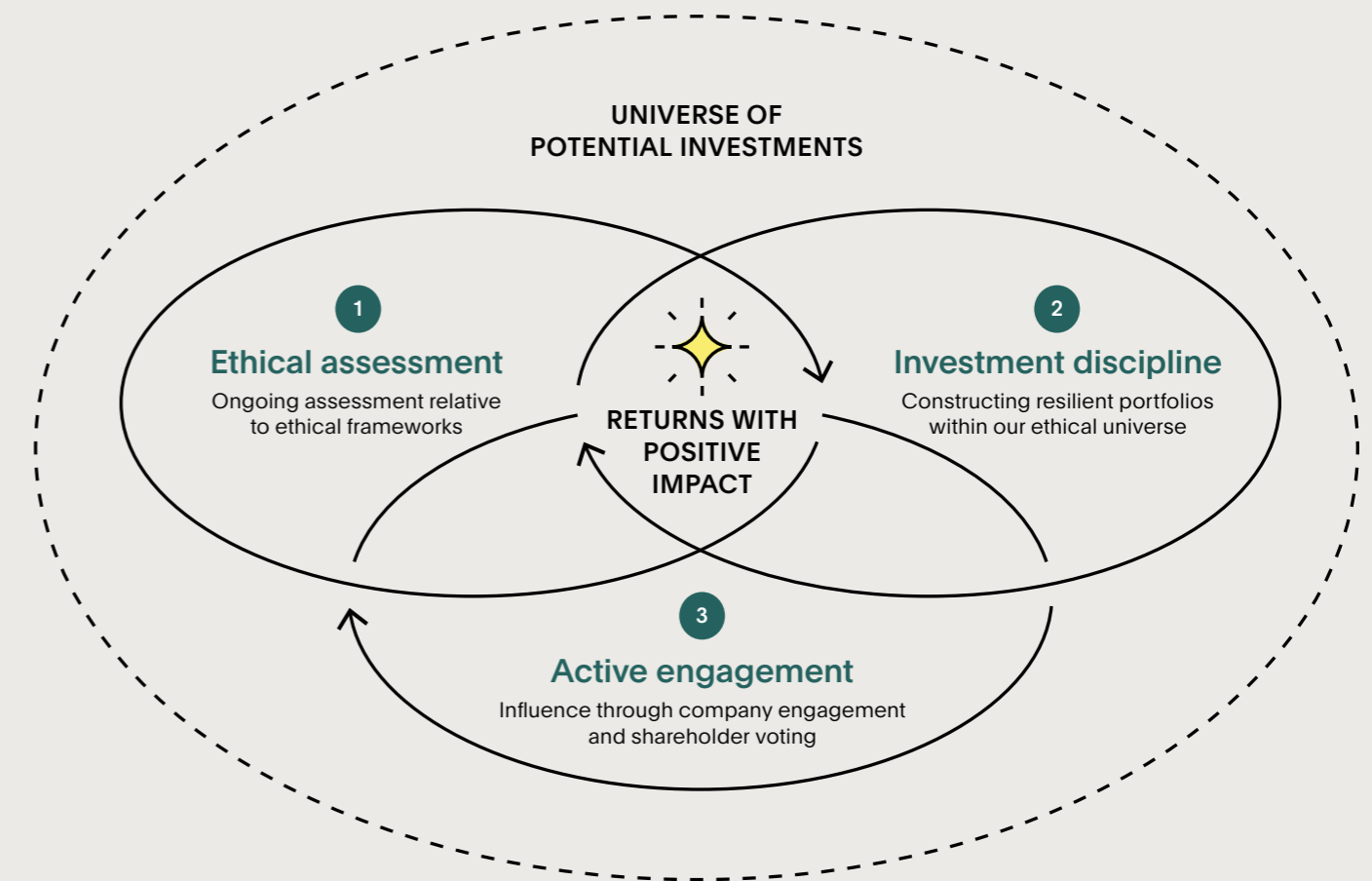
But the movement of social and environmental change cannot afford to exist away from mainstream capital.

Ethical investing creates a virtuous cycle by allocating capital to those companies that generate the greatest societal returns — both in business as usual and in improving the welfare of people, planet and animals.

Our more holistic approach uses all the principles of our Ethical Charter to seek out companies making a positive impact and to avoid those that don't. Once identified, our investment team uses fundamental analysis to determine whether those companies qualify as portfolio candidates for our active strategies, evaluating each company's financial value drivers.

This approach allows us to construct resilient portfolios of well-managed companies that have strong governance structures and are managing the environmental and social footprints of their operations. 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.

It is our belief that ethical investing isn't merely a style or risk factor, it's a philosophy. It consequently doesn't make sense to apply it to one or two asset classes. If the intention is genuine, it should permeate every investment decision and be applied to all asset classes, not just to a 'sustainable option' in the portfolio.



Our 2021 reporting suite

In FY21 we report:

- to the GRI Standards (core option)
- to the Taskforce on Climate-Related Disclosures (TCFD)
- on our progress towards a net zero emission portfolio
- on our alignment to the global Sustainable Development Goals (SDGs)
- on our advocacy and engagement
- on updates to our 2020 Statement on Modern Slavery
- on the activities of The Australian Ethical Foundation

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.

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 again impacted by COVID-19 in FY21. Other than this significant global issue, our business remains fundamentally the same. As such, we believe the materiality outcomes that applied to our business in FY20 remain at the core.

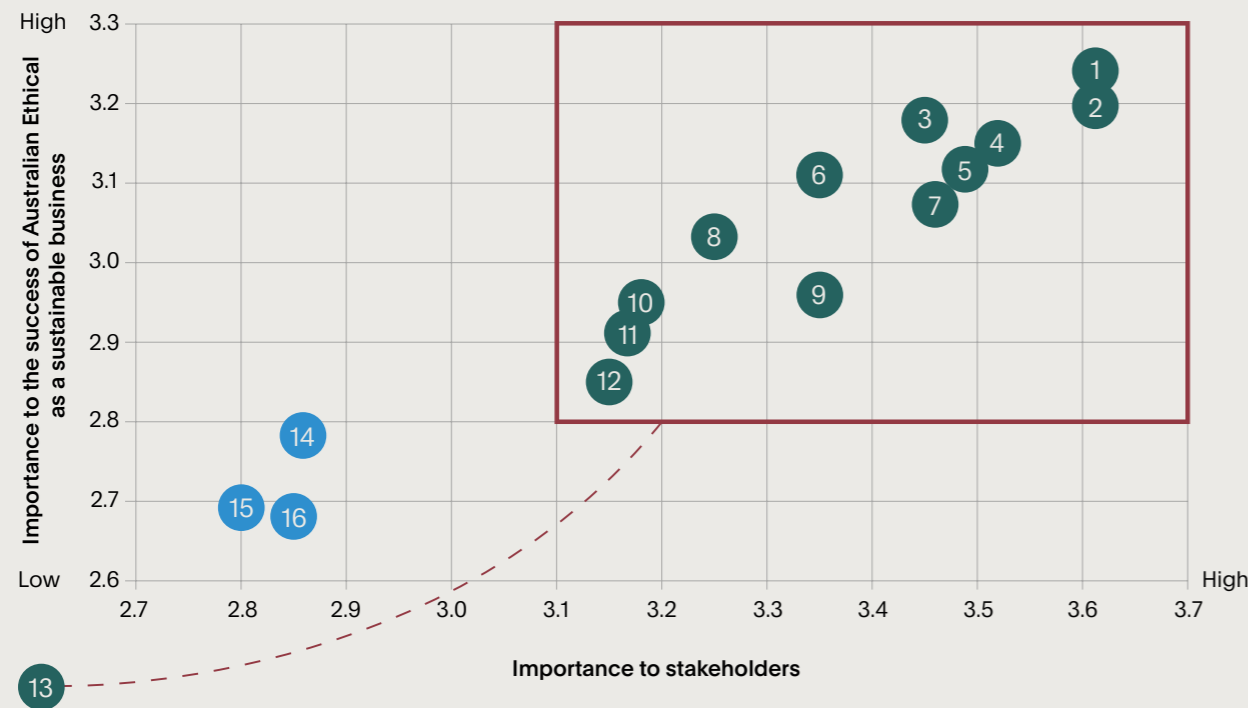
COVID-19 as an outlier

In our FY20 materiality assessment, COVID-19 appeared as an outlier topic. When we conducted our stakeholder surveys in June and July 2020, our external stakeholders did not rank COVID-19 as being of significance for our business. Our management team thought differently and wanted this important topic included in our matrix. The experience of the last 12 months confirms this was the correct decision.

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 report. The GRI Content Index on page 49 can be used to review this information.

Weighted importance to our stakeholders and to our success

□ Most material to our sustainable success



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



2021 – a year of humility and humanity



The COVID-19 pandemic has exposed structural weaknesses in our global economy, but it has also provided a unique opportunity. There is a growing appetite for a ‘global reset’ and now more than ever, there is the chance to define the kind of future we want.

John McMurdo, Chief Executive Officer & Managing Director

Our leaders and policy makers are often managing short-term pressures against medium and long-term uncertainties. Right now, they are doing so with unparalleled support for resetting national economies and managing global commons, as people realise that humans and nature are not divisible. Before COVID-19, the idea that we are separate from nature is a story so well-known that few people questioned it. But the pandemic proved otherwise, as impacts rippled around the world showing with acute clarity that we are truly interconnected.

We’re not the only organisation to recognise this change. We’re witnessing a noticeable shift in corporate behaviour with a proliferation of net-zero emissions pledges and an increasing focus on the E and S in ESG as companies seek to demonstrate they are about more than just profit.

Until recently, the response to climate change has been unfolding as a political tragedy because scientific knowledge and economic power have been pointing in different directions. But the most recent report from the Intergovernmental Panel on Climate Change (IPCC) looks set to push sustainability up the agenda even further. The report, dubbed a “code red for humanity” by the United Nations, provides a stark warning about the huge price of failing to address the climate crisis. Recent climate pledges and commitments must now be accelerated, but how can investors respond?

Radical changes in global government policies, business behaviour and personal choices over the past 18 months demonstrate that previously unthinkable actions can be undertaken. And with the investment industry forecast to become larger than the whole global economy, our influence could be a game-changer. But what was once an option to invest responsibly must now become an obligation if we are to avoid deepening irreversible changes to our world.

Faced with the scale of the challenge ahead, we’re convinced that there is a clear role for us as a leading ethical investor to massively grow the influence and impact of what we do as part of the urgent transition to a low-carbon economy.

Our strategy

In 2020 we laid out our medium-term strategy to support our purpose of investing for a better world. Our ambition was to remain Australia’s leading responsible investor as we move towards a low-carbon world.

We identified the four strategic pillars we would invest in to strengthen our business for impact and leadership.

These were:

1. Principled investment leadership
2. Advocates for a better world
3. Compelling client experience
4. Impactful business

We said our success would depend on turning our ideas and ambition into tangible solutions that generate financial returns and a sustainable future. We set ourselves some ambitious goals with challenging deadlines.

The pandemic has accelerated our business strategy and the extraordinary momentum we’re seeing gives us confidence in our vision, confirming that now is the time to extend our market leadership.

Humanity stands at a critical juncture – the path we choose from here will determine the legacy we leave for future generations. And with business and planetary needs so intertwined, our problem-solving approach should be too, which is why we’re using our purpose, these four strategic pillars, supported by our foundation of Leadership & Innovation as the structure for this year’s sustainability report.



Our strategic pillars

Purpose: Investing for a better world

01

Principled investment leadership

- Deliver leading products with long term competitive returns & portfolio resilience for investors.
- Be a powerful proof-point for ethical investing.

02

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 brand and purpose resonance.

03

Compelling client experience

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

04

Impactful business

- Build scale and scalability through 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



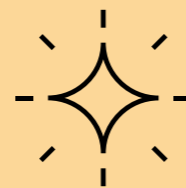
35 years of investing for a better world

- In 1986 a group of friends in Sydney formed a company called Directed Financial Management Ltd.
- They created the Australian Ethical Charter, consisting of 23 principles to guide their investment decisions.
- In 1995 Australian Ethical Investment Limited was born.
- In 1998 the Australian Ethical Super fund was launched.
- In 1999 Australian Ethical was a founding member of the Responsible Investment Association of Australasia (RIAA).
- In 2000 the community grants program was launched, setting aside 10% of profits to grant to not-for-profit organisations.
- In 2002 Australia Ethical listed on the stock exchange.
- In 2005 we were the first fund manager to be accredited as SRI by the Ethical Investment Association.
- In 2006 we were one of Australia's first signatories to the UN PRI.
- In 2011 we led the industry with our divestment from the unconventional gas sector
- In 2014 we committed to a target of net zero portfolio emissions by 2050 and signed up to the **UNEPFI Portfolio Decarbonisation Coalition**.
- In 2014 we were the first ASX-listed company to achieve B Corps status in Australia.
- KPMG named us the **fastest growing super fund** in Australia in 2016 by both members and funds under management
- In 2017 and 2019, the **French Government** recognised us for our climate reporting leadership. And we were the only Australian institution to make it onto the ICAN Hall of Fame list.
- In 2018 we joined 1% for the Planet
- 2020 MorningStar names up as **one of six global leaders** for ESG Commitment
- 2021 – **RIAA Responsible Investment Leader**



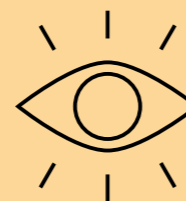
Our purpose

Investing for a better world



Our values

Wisdom
Authenticity
Action
Empathy



Our vision

A world where money is a force for good

Our ethical DNA

The Australian Ethical Charter is our DNA. Created by our founders in 1986 it remains unchanged and for 35 years it has been the compass we use to navigate the ethical complexities of our investment and business decisions. It requires us to examine the far-reaching consequences of the investment we make and to consider issues on their merits from many angles. It governs the companies or industries we avoid and steers us towards those that do good for the planet, people and animals.

The Australian Ethical Charter since 1986

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

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

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

- pollute land, air or water
- destroy or waste non-recurring resources
- extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
- market, promote or advertise, products or services in a misleading or deceitful manner
- create markets by the promotion or advertising of unwanted products or services
- acquire land or commodities primarily for the purpose of speculative gain
- create, encourage or perpetuate militarism or engage in the manufacture of armaments
- entice people into financial over-commitment
- exploit people through the payment of low wages or the provision of poor working conditions
- discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- contribute to the inhibition of human rights generally



Highlights



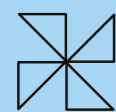
77% less CO₂ produced by the companies we invest in, compared to Benchmark¹



Nil investment in fossil fuel companies, nuclear, tobacco, gambling companies²



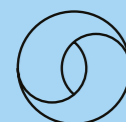
2.5 times more impact towards the sustainable development goals than Benchmark³



13 x more investment in renewable power generation than Benchmark⁴



\$1.8 million allocated for impact initiatives in FY21⁵



We engaged with 500+ companies to understand & influence their positive & negative impact, supporting shareholder resolutions & voting for the changes we want to see⁶

¹ Carbon intensity (tonnes CO₂e per \$ revenue) of Australia Ethical share investments compared to Benchmark. ^ Shareholdings as at 30 June 2021. More information on page 18.

² We don't invest in companies whose main business is fossil fuels or gambling, or in diversified companies that earn some fossil fuel or gambling 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). 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/

³ Based on the 'sustainable impact' revenue earned by companies whose shares we invest in, compared to Benchmark. ^ Shareholdings as at 30 June 2021. More information on page 45.

⁴ Proportion of our share investments in renewable power generation compared to Benchmark. ^ Shareholdings as at 30 June 2021. More information on page 18.

⁵ Allocated through the Australian Ethical Foundation impact initiatives in FY21.

⁶ 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 FY21 activity. More information on page 21.

^ 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).



Multiple **Investment Excellence Awards**^{7*}

Best for the World for Customer & Governance by B Corp⁸

No.1 for customer advocacy & **No.2** for industry NPS (super)⁹

82% employee engagement¹⁰

\$6.07 billion in funds under management

56% increase in net flows

\$58.7 million operating revenue

\$11.3 million profit after tax¹¹

Emerging companies fund returned 50.3% (After retail fees) for the 12 months to 30 June 2021^{12*}

Australian Shares super option No.1 over 1, 3, 5, 7 & 10 years in the SuperRatings fund crediting rate survey, 30 June 2021^{13*}

MySuper Balanced (accumulation option) **No.1** over 3 years in the SuperRatings SR50 MySuper Index as at 30 June 2021^{14*}

23% growth in funded customers¹⁵

No.1 fastest growing Super fund in Australia over 5 years by members & AUM¹⁶

⁷ See page 29 of this report

⁸ B Corp 'Best for the World Honouree 2021' Customer and Governance. The Best for the World are B Corps whose score in the top 5% of all 3,500+ B Corps worldwide. This relates to the Australian Ethical entity, not the investment portfolio.

⁹ In FY21 we used Investment Trends High Net Worth Investor Report (September 2020) to measure the satisfaction of our Managed Funds Investors. We ranked first out of 27 funds with a Net Promoter Score (NPS) of +32%. We used Investment Trends Superfund Member Engagement Report (May 2021) to measure the satisfaction of our super members. Out of 27 funds we were Number 1 for customer advocacy and Number 2 for industry NPS (super).

¹⁰ Culture Amp Survey, June 2021 (Top quartile Australian employee engagement benchmark is 70%).

¹¹ NPAT attributable to shareholders. Underlying profit pre-performance fees up 30%.

¹² Australian Ethical's Emerging Companies fund returned 50.3% (after retail fees) for the 12 months to 30 June 2021, outperforming its benchmark the S&P/ASX Small Industrials by 17.3 percentage points. Returns for other time periods to 30 June 2021 were: 30.4% p.a. over 2 years; 25.3% p.a. over 3 years and 20.0% p.a. over 5 years.

¹³ Australian Ethical Super's Australian Shares option ranks No.1 out of 50 over 1, 3, 5, 7 and 10 years according to the SuperRatings Fund Crediting Rate Survey – SR50 Australian Shares Index as at 30 June 2021.

¹⁴ Balanced Accumulation Option ranked No.1 out of 50 for returns in the SR50 MySuper Index over 3 years as at 30 June 2021, and achieved top quartile performance over 3, 5 and 7 years ending 30 June 2021 in the SuperRatings Balanced Survey June 2021.

¹⁵ Includes both funded super fund members and managed fund investors

¹⁶ KPMG 2021 Super Insights Report, published May 2021, using statistics from APRA and ATO as at 30 June 2020

* Past performance is not a reliable indicator of future performance.



Three-year scorecard

In FY21 we saw significant growth in all aspects of our business and extremely strong performance in our super and managed fund products. The carbon intensity of our portfolio continues to compare favourably with the market, as does our proportional investment in renewable power generation. Due to COVID-related public health orders many of our employees continued to work remotely with the support of upgraded technology. Despite this ongoing challenge, our employee engagement remains top quartile. Our three-year progress is summarised in this scorecard, the detail can be found in the body of this report.

How we measure our progress

- Growth in good money measured by funds under management and growth in super members
- Good governance of our business measured by sustainable profit and total shareholder return
- Progress towards a net zero emissions investment portfolio measured by our CO₂ emissions versus Benchmark^{17^} and our proportional investing in renewables to support the transition to net zero
- Alignment of our sustainability impact to the global Sustainable Development Goals¹⁸
- 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		FY19	FY20	FY21
Growth in good money	Total FUM	\$3.42bn (+21%)	\$4.05bn (+19%)	\$6.07bn (+50%)
	Super members (funded)	40,530 (+11%)	48,819 (+20%)	59,480 (+22%)
Good governance	Profit after tax (NPAT) ¹⁹	\$6.5m	\$9.5m	11.3m
	Share price at 30 June	\$1.77 (\$177) ²⁰	\$6.66	\$8.44
	B Corps 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 ²¹	1.6	6.9 ²²	4.4
	Scope 1, 2 and 3 operational emissions ²¹	104.9	449.5 ²²	349.8
	Offsetting of reported operational Scope 1, 2 & 3 emissions	100%	100%	100%
	Carbon intensity of share investments compared to Benchmark ^{23^}	70% less	75% less	77% less
	Proportion of our share investments in renewable power generation comparison ¹⁷	6 x	5 x	13 x
Sustainability impact	Alignment of share investments to the global SDGs compared to Benchmark ^{17^}	3.1 x Benchmark	3.5 x Benchmark	2.5 x Benchmark
Engaging for good	Companies engaged with through advocacy ²⁴	More than 250	More than 400	More than 500
	\$ provisioned for impact through the Australian Ethical Foundation	\$937,000	\$1.3 million	\$1.8 million
	Social media community	127,500+	134,000+	138,000+
Stakeholder engagement	Managed fund NPS ²⁵	+54	+58	+32% (No.1)
	Super NPS ²⁵	+62	+63	+49% (No.2)
	Employee Engagement ²⁶	71%	86%	82%

¹⁷ FY19 and FY20 comparison was to the global sharemarket. This year the 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), which has resulted in a higher multiple. More information on page 18 and in our TCFD Report.

¹⁸ Based on the 'sustainable impact' revenue earned by companies whose shares we invest in, compared to Benchmark[^]. Shareholdings as at 30 June 2021. More information on page 45.

¹⁹ Attributable to shareholders.

²⁰ A share split of 1:100 occurred in FY19.

²¹ Units are tonnes of CO₂ emissions per annum (tCO₂-e p.a.).

²² In FY20 we expanded the scope of our operational emissions footprinting for more information see our TCFD Report.

²³ Carbon intensity (tonnes CO₂e per \$ revenue) of Australia Ethical share investments compared to Benchmark[^] Shareholdings as at 30 June 2021. More information on page 18.

²⁴ 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 FY21 activity. More information on page 21.

²⁵ From FY21 we use the **Investment Trends High Net Worth Investor Report** (September 2020) to measure the satisfaction of our Managed Funds Investors. We ranked first out of 27 funds with a Net Promoter Score (NPS) of +32%. From FY21 we use the **Investment Trends Superfund Member Engagement Report (May 2021) for super member satisfaction**. This comprehensive report explores the attitudes, behaviours and preferences of super fund members, including satisfaction levels across multiple service elements. We achieved +49% NPS (ranking 2nd from 27 funds), and as 72% of our surveyed members had already recommended us, we ranked 1st out of the same funds for advocacy.

²⁶ Culture Amp Survey, June 2020 (Top quartile Australian employee engagement benchmark is 70%).

[^] 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).



Principled investment leadership



A year of exceptional performance^{#*}



David Macri, CFA
Chief Investment Officer

The 2021 financial year will go down as one of the better periods for equity markets globally in recent years. Despite the challenges of COVID-19, the Australian equity market reached new highs during the 12 months breaking through 7,000 points early in 2021. The final quarter of the financial year saw the Australian market continue its upward march, returning 8.5% and 28.5% over the 12 months (as measured by the S&P/ASX 300 Accumulation index).

International equities also performed extremely strongly, with the MSCI World Index generating a return of 28.1% in Australian dollars and 37.5% in local currencies. The difference reflects the strength of the Aussie dollar through FY21, starting the year at 0.69 USD per AUD and ending at 0.75.

We saw another year of exceptional investment performance for our customers with all but five of our 21 Managed Funds/Super options exceeding their benchmark.

Standout results for our managed fund investors were our Australian Shares Fund which returned 41.9% (after retail fees) outperforming its benchmark by 13.4 percentage points, and our Emerging Companies Fund which returned 50.3% (after retail fees) outperforming its benchmark by 17.3 percentage points. Strong stock selection again drove the outperformance of these funds.

For our super members, our Balanced (accumulation) Option (MySuper) delivered a 17.5% return (after fees), and our Australian Shares (accumulation) Option delivered a 38.8% return (after fees) for the financial year placing it 3rd out of 104 in the *SuperRatings Fund Crediting Rate Survey for Australian Shares Options*. Over the longer term, the Option ranked first over 3, 5, 7 and 10 years. We are extremely proud of these results and is testament to our process and team.



Performance highlights

Australian Shares Fund which returned **41.9%** (after retail fees) outperforming its benchmark by **13.4** percentage points, and our Emerging Companies Fund which returned **50.3%** (after retail fees) outperforming its benchmark by **17.3** percentage points.^{#*}

*Past performance is not a reliable indicator of future performance.

#Returns are for the 12 months to 30 June 2021.



- + 50.3%** Emerging Companies Fund returned **50.3%** (after retail fees)
- + 41.9%** Australian Shares Fund returned **41.9%** (after retail fees)
- + 17.5%** Balanced Accumulation Option (MySuper) returned **17.5%** (after fees)
- + 38.8%** Australian Shares (accumulation) Option returned **38.8%** (after fees)



Top-performing stocks in FY21*

In FY21 the healthcare and information technology sectors made significant contributions to the outperformance of our funds.

Neuroscience technology company Cogstate was the Emerging Companies Fund's strongest performer appreciating 278% on a recovering contract research business and the approval of a new Alzheimer's drug in America. Other strong healthcare performers in our portfolio were Immutep, an emerging biotech in immunotherapy and diagnostics, and healthcare services provider Healius.

Online education assessment company Janison Education was also a strong contributor to the Emerging Companies Fund's performance with COVID-19 accelerating the transition of examinations from pen and paper to online digital delivery. Janison announced an exclusive partnership with the OECD to become the sole provider of PISA for Schools in Australia. PISA is the OECD's Programme for International Student Assessment and evaluates standards of reading, mathematics and science.

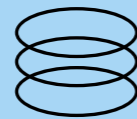
Other key contributors in the IT sector included Nitro (a PDF and e-signature business), Bigtinca (software as-a-service sales enablement) and Empired (technology services).

Within our multi-asset funds and superannuation options, our unlisted property portfolio outperformed, particularly our investment in healthcare property demonstrating resilience through the COVID-19 pandemic, attracting increased institutional investor interest.

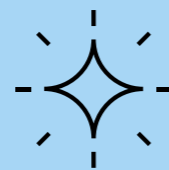
Within the Materials sector, Pilbara Minerals and Orocobre were stand-out performers returning 523% and 180% respectively. Our portfolios are underweight in the Materials sectors due to the application of our **Ethical Charter**. See more information below on why we hold these stocks in our portfolio.

In FY21 both Pilbara and Orocobre benefited from a recovery in the price of lithium. Sentiment has also been highly positive as investors anticipate strong demand to come from the growing electric vehicle market. A strong balance sheet enabled Pilbara to navigate through a period of weak market conditions and emerge as one of the biggest spodumene (a source of lithium) producers in the market after acquiring the assets of neighbouring Altura Mining during the downturn.

*Past performance is not a reliable indicator of future performance.



Emerging Companies Fund's strongest performer Cogstate appreciated **278%**



Pilbara Minerals and Orocobre were stand-out performers returning **523%** and **180%** respectively



Our investment in healthcare property demonstrated resilience through the COVID-19 pandemic

Future proofing our ethical investment leadership

During the past financial year, we took significant steps to shore up our ethical investing leadership by investing in technology, cutting-edge portfolio and risk management practices, and expanding our talented investment team.

In 2020 we appointed Alpha Vista to conduct a review of our investment governance and to help us develop a truly world class, innovative approach to asset allocation.

The review is part of our long-term expansion strategy and was led by Dr. Ashby Monk, a research director of the

Stanford Global Projects Centre, who has consulted to some of the world's largest pension plans. The findings from the review will facilitate a single view of all our portfolios and allow us to manage risk more accurately, while also contributing to overall portfolio performance.

Changes to the investment team included the promotion of Mike Murray, CFA to Head of Domestic Equities and the appointment of John Woods, CFA, as Head of Asset Allocation.

Investment team

David Macri, CFA <i>Chief Investment Officer</i>	John Woods, CFA <i>Head of Asset Allocation</i>	Tim Kelly <i>Portfolio Manager</i>	Mark Williams, MBA <i>Equities Analyst</i>	Deana Mitchell, CFA <i>Equities Analyst</i>
<ul style="list-style-type: none"> CIO since 2012 22+ years of investment experience 12 years at EA, previously at Macquarie Securities, Credit Suisse, Mellon, Mercer 	<ul style="list-style-type: none"> 15+ years of investment experience Head of Asset Allocation since March 2021 Previously at MLC, CLSDA and Macquarie 	<ul style="list-style-type: none"> PM since 2011 (Fixed Interest / Income) 15+ years of investment experience 19 years at AE 	<ul style="list-style-type: none"> 15+ years of investment experience 5 years at AE, previously at Morgans, ABN AMRO Analyst Coverage; Infra/Utilities, Media, Telco, Misc Industrials Managing the SMA portfolio since March 2020 	<ul style="list-style-type: none"> 15+ years of investment experience 3 years at AE, previously at Macquarie Securities Analyst Coverage; Diversified Financials, Technology, Education
Michael Murray, CFA <i>Head of Domestic Equities</i>	Andy Gracey <i>Portfolio Manager</i>	Ray Gin <i>Portfolio Manager/Analyst</i>	Jason Huang <i>Quantitative Analyst</i>	Julian Richman, CFA <i>Investment Analyst</i>
<ul style="list-style-type: none"> 20+ years of investment experience 5 years at AE, previously at Integrity, AMP Capital Analyst Coverage – Healthcare, Bio-technology 	<ul style="list-style-type: none"> PM since 2007 (Australian Shares/Emerging Companies) 20+ years of investment experience 16 years at AE, previously worked at ANZFM, Friends Provident 	<ul style="list-style-type: none"> PM since 2017 (Diversified) 30+ years of investment experience 8 years at AE, previously at ING, Deutsche Analyst Coverage; Financials, REITs, Misc Industrials 	<ul style="list-style-type: none"> 10+ years of investment experience 5 years at AE, previously at BBY Ltd 	<ul style="list-style-type: none"> 5 years of financial services experience 5 years at AE assisting in the portfolio management of multi-asset strategies



Our unique ethical investment process

We don't just do single issue screening or ESG risk management. We assess every investment to determine whether it is part of a path to a better future for people, animals and the environment. Each and every one of our products is underpinned by this same, deep ethical approach.

This means we go beyond single-issue screening. Of course, there are those that we would always rule out – such as tobacco companies and coal companies for example – but for every investment we make we undertake a comprehensive and forward-looking ethics assessment. This considers a range of positive and negative impacts. We only invest if we think it is aligned with our Ethical Charter – that is, on balance, it is part of a better future for people, animals and the environment.

How do we do this?

The Ethical Charter sets out high level principles. Our in-house ethics research team develops frameworks which contain a mix of quantitative and qualitative criteria and set out how the Charter principles will apply to any given industry or on a specific issue.

In developing these bespoke frameworks, we conduct deep research and analysis which includes data from multiple providers, civil society, industry association reports, NGOs, CSIRO and science journals. We conduct consultations. We look at international standards. We think about issues from different angles and grapple with contentious issues. For example, how do we respond to excessive consumerism that is harming the planet without being prescriptive about how people should use their discretionary income? With respect to social media, how do 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.

How is this different to ESG investing?

The ESG approach that has emerged over the past few decades is more connected to economic performance because a company's environmental footprint, labour conditions, and board oversight can influence financial results. In other words, it's about taking environmental, social and governance issues into account when evaluating the financial value of a company or when constructing portfolios. At Australian Ethical, the ethics assessment is carried out by our inhouse Ethics Research team. The decision whether it is investable is not based on, for example, whether the particular risk is being priced correctly by the market, but whether the business is assessed as meeting our ethical criteria. We won't invest in any company that does not pass our ethics assessment, even if some see potential for financial upside.

Ethics Research team

<p>Dr Stuart Palmer, LLB BA Mlit PhD Head of Ethics Research</p> <ul style="list-style-type: none"> • Joined AE in 2014 • Stuart has previously worked with St James Ethics Centre and as a banker and lawyer. 	<p>Amanda Richman, LLB (Hons) BPsych Ethical Stewardship Lead</p> <ul style="list-style-type: none"> • Joined AE in February 2018 • Experienced animal law advocate, Director of the Animal Law Institute and former Chair of NSW Young Lawyers Animal Law Committee. 	<p>Olivia Webster, BScIT Senior Impact Analyst</p> <ul style="list-style-type: none"> • Joined AE in March 2020 • Previously Sustainability Analyst at Westpac Group, developing best practice approaches to Sustainability Governance. 	<p>Persephone Fraser, MPolEc, BA Ethics Analyst</p> <ul style="list-style-type: none"> • Joined AE in November 2020 • Previously held research and policy roles at Common Capital, UNSW's Climate Justice Initiative, Reconciliation Australia and for the office of Senator Mehreen Faruqi.
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How does our ethical screening impact portfolio risk/returns?

We believe that incorporating ethics screening into the investment process does not detract from long term performance and in fact can assist in identifying investment risks and opportunities earlier than most other investors because of the unique analysis required to determine if an investment meets our ethical criteria.

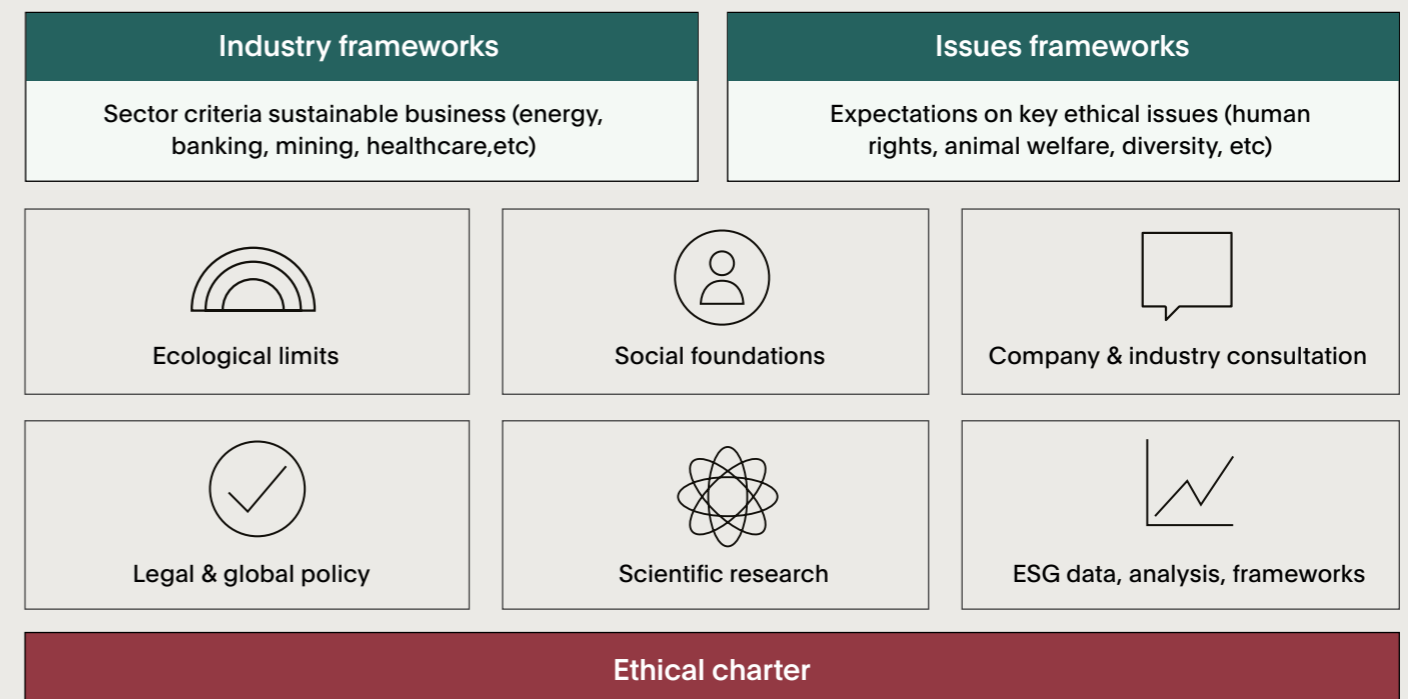
While our Charter has remained unchanged since 1986, the ethical frameworks we use to interpret it are continually updated as the world and our understanding of it changes.

Indeed, we believe the consistent, rigorous application of our Ethical Charter to define a 'sustainable universe' enables us to build a more complete understanding of the prospects of the companies in that universe, which will in turn lead to superior risk-adjusted returns.

Once an investment has met the principles of the Charter, our investment team employs their significant investment expertise to make the best investment decisions for our customers.

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 apply our influence to help the business achieve that goal. On the other hand, if a business is initially assessed as aligned with our Charter, but over time makes a change that moves them out of alignment, we will attempt to influence them back to the right path or divest (see Engagement).

The ethical foundations of our process underpin development of well-diversified portfolios consisting of forward-looking investments that are driving a sustainable economy while delivering returns for our customers.

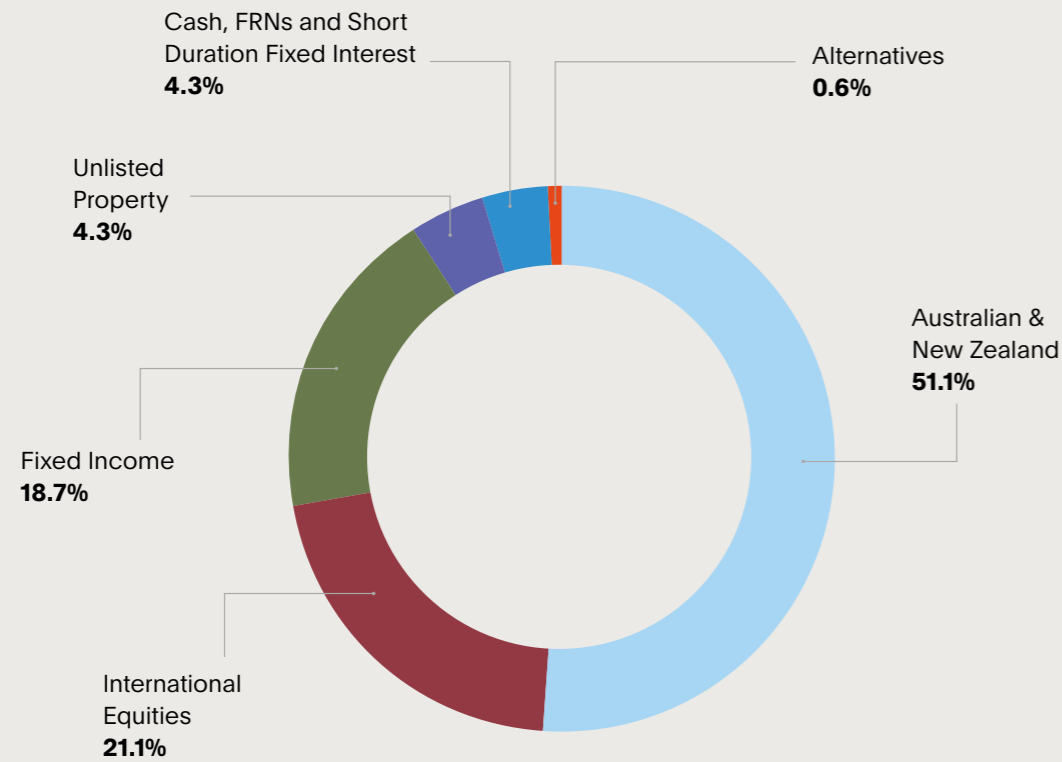


Where do we invest?

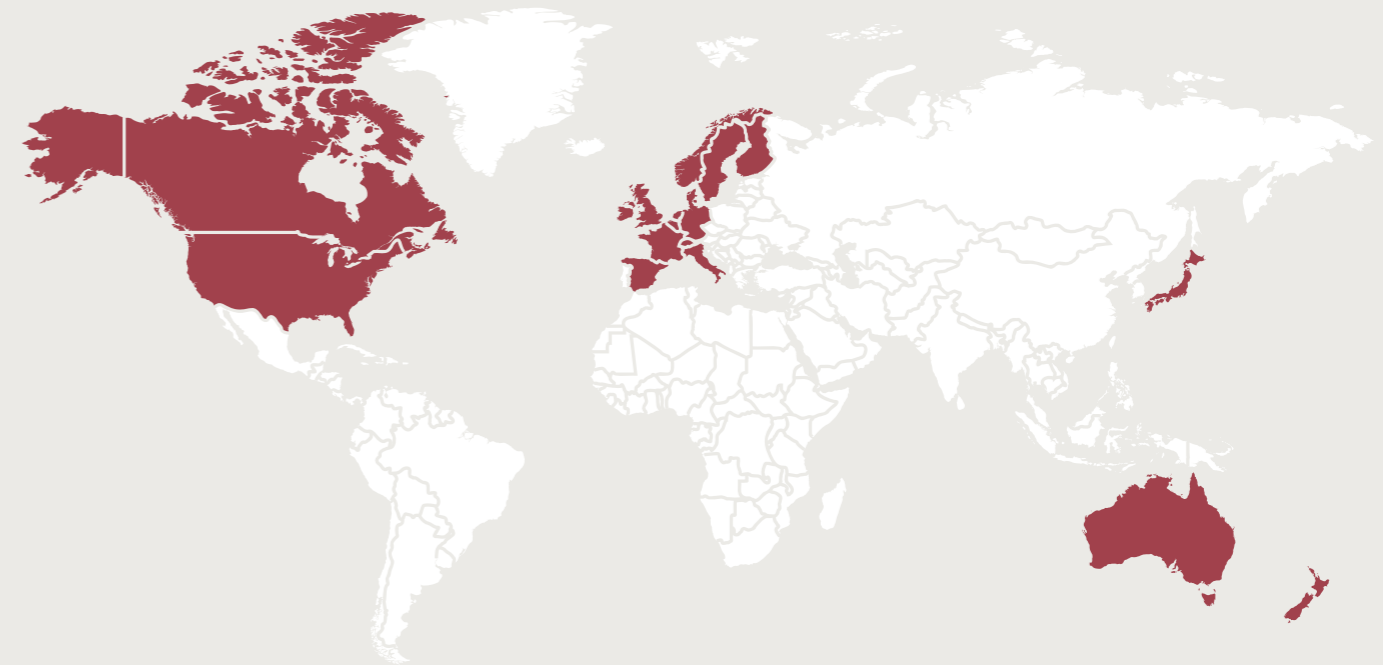


Our investments by asset type

Australian and New Zealand equities comprise 51% of the total funds under management.



Our investments by country



Region/Country	Percentage
North America	14.8%
Canada	0.9%
United States	14%
Western Europe	4.1%
Austria	0.02%
Belgium	0.06%
Denmark	0.1%
Finland	0.1%
France	0.9%
Germany	0.5%
Italy	0.3%
Netherlands	0.2%
Norway	0.1%
Spain	0.1%
Sweden	0.3%
Switzerland	0.6%
United Kingdom	0.7%
Pacific Rim	81.1%
Australia	74.8%
Hong Kong	0.4%
Japan	1.8%
New Zealand	4.1%



Where do we invest?

Ethical investing is about more than investing in renewable energy

And while we are more likely to be invested in renewables than conventional funds, we find opportunities to invest in ethical companies across most sectors. Guided by our Charter, we invest in companies that we believe are of a long-term benefit to society such as education, healthcare and technology. As a result, our portfolios look quite different to the mainstream and consist of diversified, ethical investments that are driving a sustainable economy and equitable future.

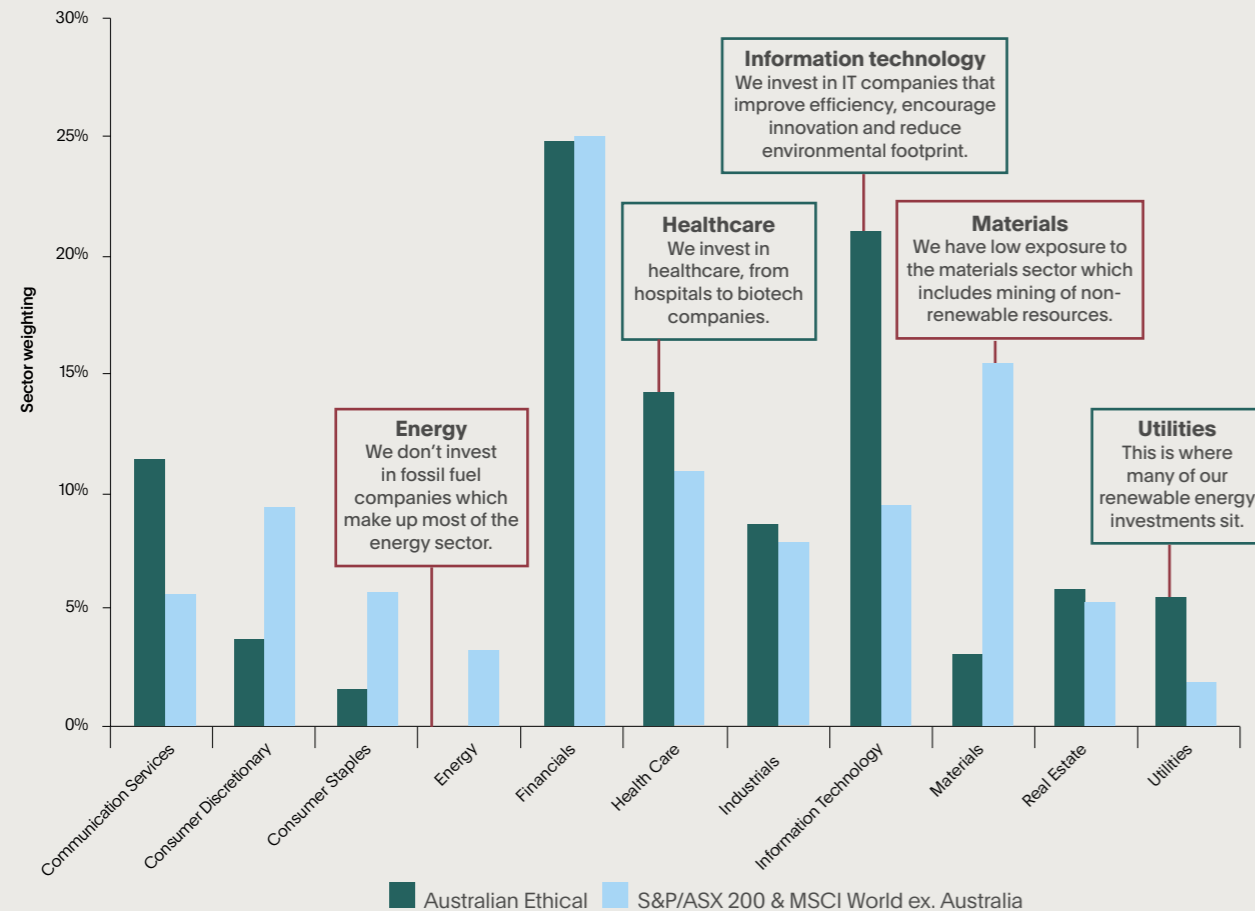
Investing in the transition to renewables

The application of our Ethical Charter means we are significantly underweight the materials sector. We will however, 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 Orocobre.

We don't invest in fossil fuel companies but may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low. Investments like these are critical to enabling the development of a sustainable low-carbon future. By shifting capital from fossil fuels to renewables and clean tech, we are helping bring down the cost of capital for renewable energy companies, provide necessary capital to new clean tech solutions and contribute constructively to a sensible public discussion about energy policy.

The sector allocation of our shares v the market as at 30 June 2021



Some of our ethical exclusions and inclusions this year:

Out (company and concern)

- **Siemens Gamesa Renewable Energy:** Human rights concerns. The company's wind turbines supply energy for the extraction of natural resources by Morocco in the occupied territory of Western Sahara.
- **QIAGEN:** Insufficient evidence that the company applies the '3Rs' when using animals to research and test its healthcare technologies.
- **Regis Healthcare and Japara Healthcare:** We restricted investment in the aged care sector as we review the way companies are responding to the findings of the Aged Care Royal Commission.
- **Guzman y Gomez:** Relies heavily on ingredients which don't meet our climate, health and animal welfare criteria for sustainable food.
- **Pro-pac packaging:** Did not meet our sustainable packaging criteria.
- **ARB Corporation:** Accessories for high footprint 4WDs without helping the transition to lower footprint vehicles.
- **Lifestyle Communities:** Homes failed to meet our environmental sustainability criteria.
- **National Storage REIT:** Self-storage facilities failed to meet our environmental sustainability criteria.

In (company and contribution)

- **CleanSpace:** respirators to protect workers in healthcare, industrial and mining workplaces.
- **Corum Group:** technologies to help pharmacies dispense prescription medicine and run their businesses.
- **Oneview Healthcare:** apps and devices to inform, empower and entertain hospital patients.
- **Aussie Broadband:** internet broadband and home and mobile phone services.
- **NBN Co:** Broadband internet network.
- **Tyro Payments:** payment systems for EFTPOS and eCommerce.
- **OFX:** international money transfer and exchange.
- **Boral:** building materials including lower carbon concrete and lightweight building products.
- **Graincorp:** storage, transport and trading of wheat, barley and canola; produces canola oil.
- **Main Sequence CSIRO Innovation Fund 2:** See case study.

Case Study

Main Sequence CSIRO Innovation Fund 2

Earlier this year we became a strategic investor in Main Sequence's second fund. Founded in Australia in 2017, Main Sequence manages the CSIRO Innovation Fund, founded by the Australian Government and the national science agency to reinvest its historic contributions into the successes of the future. Our new partnership, built around using money as a force for good, aims to help solve some of the greatest challenges in health, food, space, and industrial productivity through the creation, investment and acceleration of deep tech companies. Our investment directly supports startup companies like clean hydrogen power company Endua and animal-free dairy company Eden Brew (via Main Sequence) and can deliver competitive investment.



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We aim to leverage the business tailwinds for responsible investment for our own growth and importantly also to help maintain and grow sustainable investment standards and impact across the investment sector.

Our ambition – net zero emissions by 2040

Australian Ethical is pursuing an aggressive growth strategy to build a bigger, more impactful business. We aim to leverage the business tailwinds for responsible investment for our own growth and importantly also to help maintain and grow sustainable investment standards and impact across the investment sector. In a climate context, our growth will allow us to scale up our contribution to the rapid economic transformation needed to accelerate the reduction of greenhouse gas emissions. With this in mind, we have set a 2040 net zero target for our company and other private sector investments, bringing forward the 2050 target we set in 2015.

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 investors demonstrate leadership, driving technologies down the cost curve. However, these pathways are resisted by some commercial and political actors, including some nation states that lack the vision to drive positive transformation and turn disruption into opportunity. 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. 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.

Impact measurement

The field of impact reporting continues to evolve and companies are providing more robust data about themselves. By aggregating this data we have been able to provide more detailed insights into the impact of our portfolio.

We continue to report our impact based on the listed equity holdings of our portfolio. The listed nature of these assets (companies) means they are more likely to have reliable, accessible and relatively mature impact data. Measuring the impacts of our investments on people, planet and animals – compared to the market – helps us identify the extent to which our approach is succeeding at contributing to above market positive impact. That being said, impact measurement is still a relatively nascent practice for investments. Being able to measure the environmental and social impacts of one company is challenging enough; when you extend this to a portfolio of hundreds of companies it quickly becomes very complex.

Most products, services and activities have both positive and negative effects which vary depending on the situation, so working out what's most material and how to balance good and bad is difficult. As a simple example, food production has many varied effects on people, animals and the environment, and many foods can be healthy or unhealthy depending on the way they are consumed. We will, for example, invest in plant protein, a low carbon food choice, but we have exclusions for animal-based agriculture due to its substantial carbon footprint and significant animal welfare issues.

It's also important to distinguish between the impact of our investment, versus the direct impact of the companies we invest in. We cannot claim direct credit for the good deeds of the companies we invest in; nor can we stop the harm caused by irresponsible companies, simply by not holding their shares. But our investment choices do matter. Demand for shares in more sustainable companies makes it cheaper for these companies to raise new capital for growth. There's also the public 'signalling' and reputational impact when an ethical investor decides to buy or sell shares of the company. These effects are becoming more significant as responsible investing action and voices grow. This can be seen clearly in the fossil fuel divestment movement. Large scale selling of shares in fossil fuel companies sends a strong public signal, makes it harder for those companies to raise new money, and can drive positive change in their behaviour.



77% less CO₂

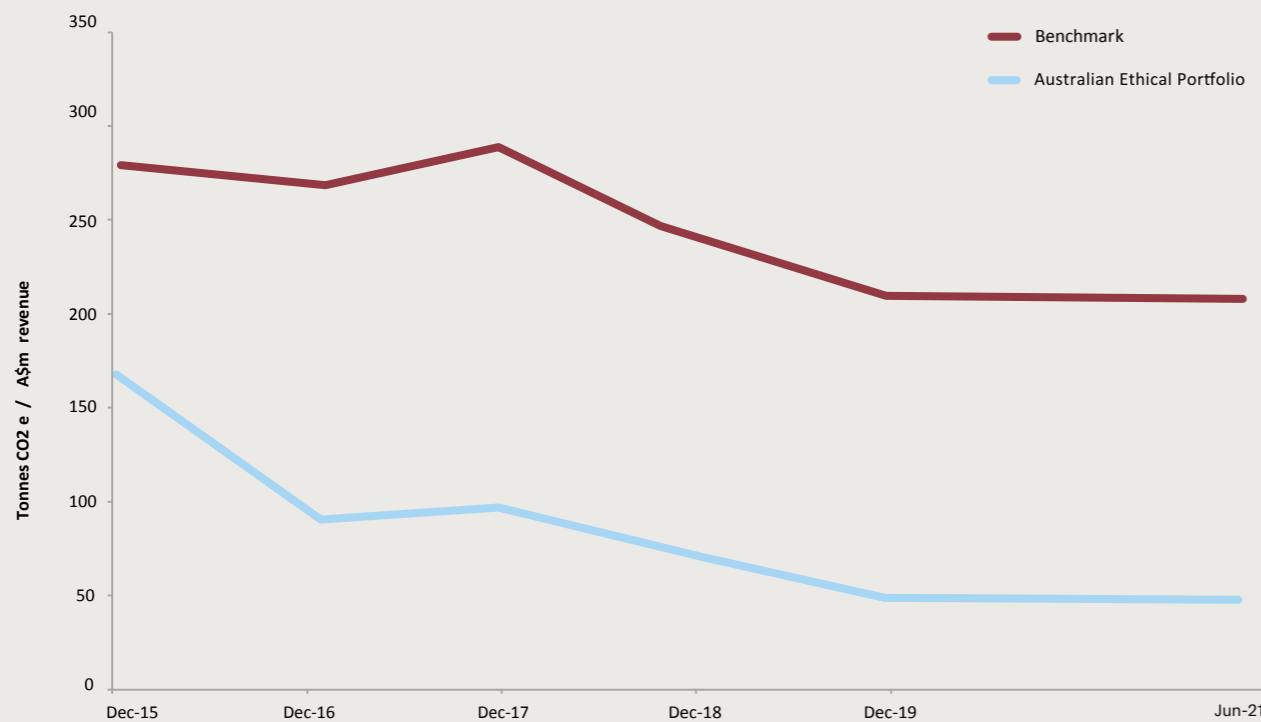
produced by the companies we invest in, compared to Benchmark[^]

Tracking the carbon footprint of our portfolio

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 (tonnes CO₂e per \$ revenue). 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 at around one quarter of, or 77% lower than Benchmark[^]. Over the 18 months²⁶ since our last footprint reporting, the carbon intensity of our share investments and the Benchmark have reduced slightly (by about 2% and 1% respectively), with the historical trends shown in the chart below. More information on page 41.

Carbon intensity of our share investments



²⁶ The period is 18 months because we will now report these carbon metrics as at the end of the financial year, rather than at the end of the calendar year.

[^] The 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).



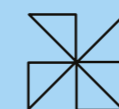
Our renewables investment for a zero emissions world

We monitor our investment in renewable power generation and our contribution to the massive global shift to renewables required to limit warming to 1.5°C. Our analysis this year showed that our share investment in renewable power generation (including solar, wind and hydro) is proportionately about 13 times that of the Benchmark.[^] Our 2021 TCFD Report explains the way we track and calculate this.

Supporting the transition

We also look at how quickly companies are growing their renewables capacity. This is particularly important where renewable energy generators still have some fossil fuel exposure. For example, Contact Energy generates about 80% of its electricity from hydro and geothermal renewables and has been investing in new geothermal to fill gaps when low rainfall reduces hydro-power generation.

Contact’s new 150MW **Tauhara geothermal power station** is expected to be complete and operational in 2023. Contact’s geothermal plants already supply 8% of New Zealand’s electricity and that will increase to 10% once Tauhara is built. Contact considers Tauhara to be New Zealand’s best low-carbon renewable electricity opportunity: “It will operate 24/7, is not reliant on the wind blowing or the sun shining to generate power. Geothermal will play a crucial role in New Zealand’s transition away from fossil fuels.”



13 x more

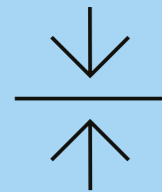
investment in renewable power generation than Benchmark[^]



How much carbon?

This year to help demonstrate the magnitude of carbon impacts, we have introduced a series of more tangible 'equivalencies' at a portfolio and also an investment option level.* We used 'real world' examples such as the carbon emissions of a car trip around the circumference of Australia; and the carbon sequestered by 10 years of the growth of a tree; to illustrate the different carbon intensity and carbon reserves of our portfolio versus the Benchmark^ or of the specified super investment option versus its benchmark shares.²⁷

Carbon footprint of our portfolio v the Benchmark^



The difference between the carbon footprint of Australian Ethical's total investment in shares and an equivalent investment in benchmark shares is equivalent to the carbon emissions of **driving around Australia**

109,000 times*



215 million*

tree seedlings would need to be planted and grown for 10 years in order to offset the potential carbon emissions from burning the fossil fuel reserves invested in by the benchmark, for an investment amount equal to AE's total investment in shares

* For all the detail on how we calculated these equivalencies, go to australianethical.com.au/why-ae/impact/investment-impact/

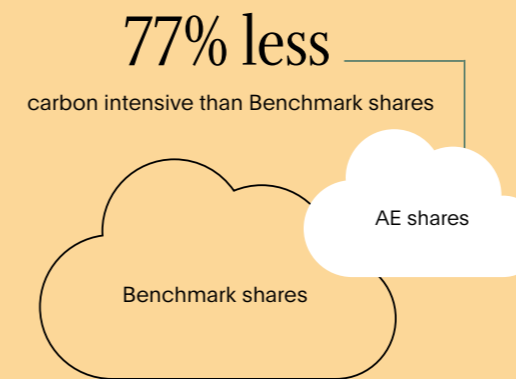
²⁷ Benchmark shares is a basket of companies in a general share market benchmark which also have relevant impact data'. For the comparison we have selected indices which we consider to be an appropriate investment benchmark for the share investments of the super options. We have not selected companies in the Benchmark shares based on their ethical, sustainability or ESG factors. The industry mix and other characteristics of companies comprising the AE Option(s) shares and the indices are different.

Investment impact

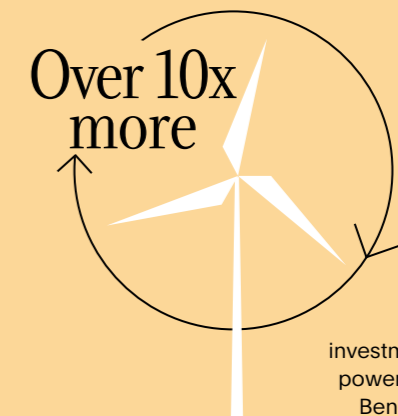
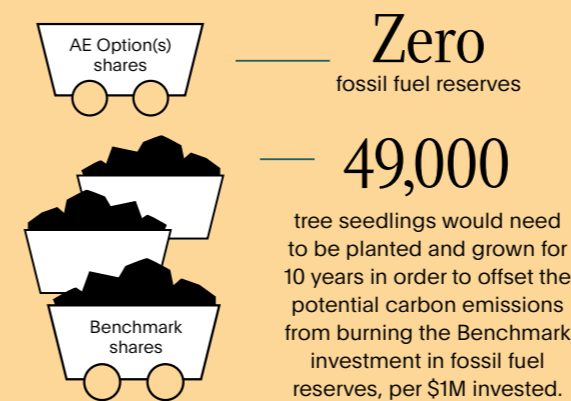
Impacts for super members

This year our members have been able to see, for the first time ever, some impact measures for the share investments of their chosen investment option. Due to the different mix of asset types and investments in each option, the impact profile varies. The impacts of our super and pension options are now published on our [website](#), while our members received customised impact data in their FY21 annual super and pension statements.

The metrics below are for our whole listed equities portfolio for which we have data, but member statements featured the carbon intensity and renewables mix of the share investments of the member's investment options mix compared to the benchmark of that options mix, illustrated by real world comparisons.²⁷



For every \$1M invested, the carbon footprint difference is equivalent to driving around Australia



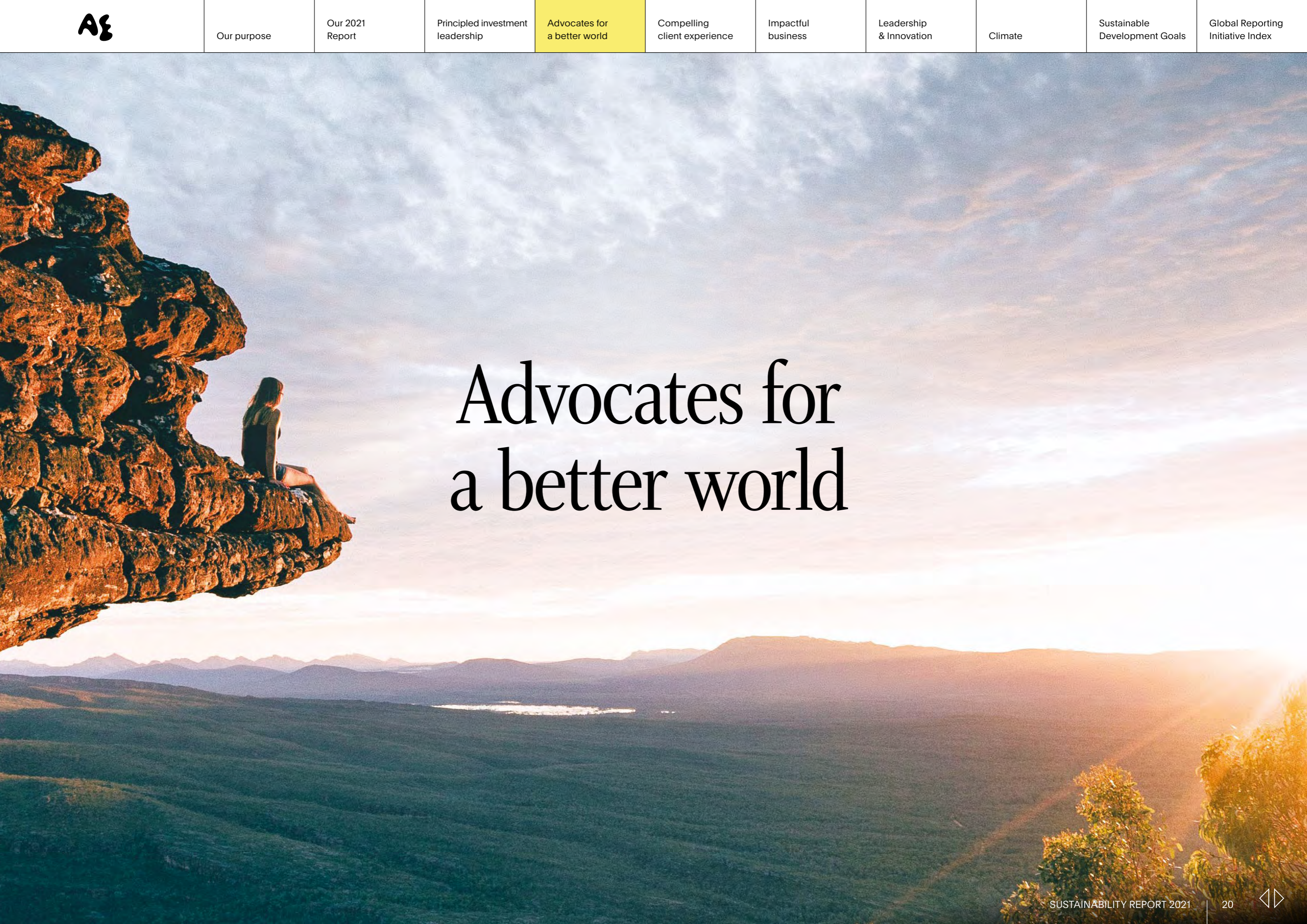
What do these carbon footprint differences really mean?

The additional share of company carbon emissions from \$1 million invested in the benchmark shares over one year versus our share investments, are equivalent to the carbon emissions of driving around Australia 26 times.

49,000 tree seedlings would have to grow for 10 years to offset the potential carbon emissions from burning the benchmark shares' investment in fossil fuel reserves, per \$1 million invested. By contrast Australian Ethical share investments have zero investment in fossil fuel reserves.

The statements also demonstrate how revenue earned by companies in the member's investment option contribute to the Sustainable Development Goals (SDGs). Page 45 of this report has an example showing the strong contribution of investee companies to alternative energy, energy efficiency and pollution prevention.





Advocates for a better world





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We avoid investments not aligned with the global ambition to limit warming to 1.5 degrees.

Advocacy & engagement

We avoid investments not aligned with the global ambition to limit warming to 1.5 degrees. But while unsustainable companies and industries continue operating, releasing emissions at an unsustainable rate, simply avoiding allocating capital to them is not enough. Investors around the world need to leverage the funds entrusted to them to advocate for the seismic economic and social shift necessary to avoid the worst effects of climate change and we are focussing our efforts on the biggest sources of emissions.

Over the next few pages we discuss the work we have been doing to address emissions from the energy, agriculture and building materials sectors.

Energy – influencing finance away from fossil fuels

Climate change is an issue we have researched and engaged for decades. The fossil fuel sector has been a prime target of our investor advocacy. We do not invest in fossil fuel companies but we leverage our investment in the finance sector to campaign against the unsustainable expansion of fossil fuels and encourage the financing of renewables. By influencing the finance sector, we seek to turn off sources of funding that enable unsustainable fossil fuel expansion to continue. Over the page we show the journey we are on.

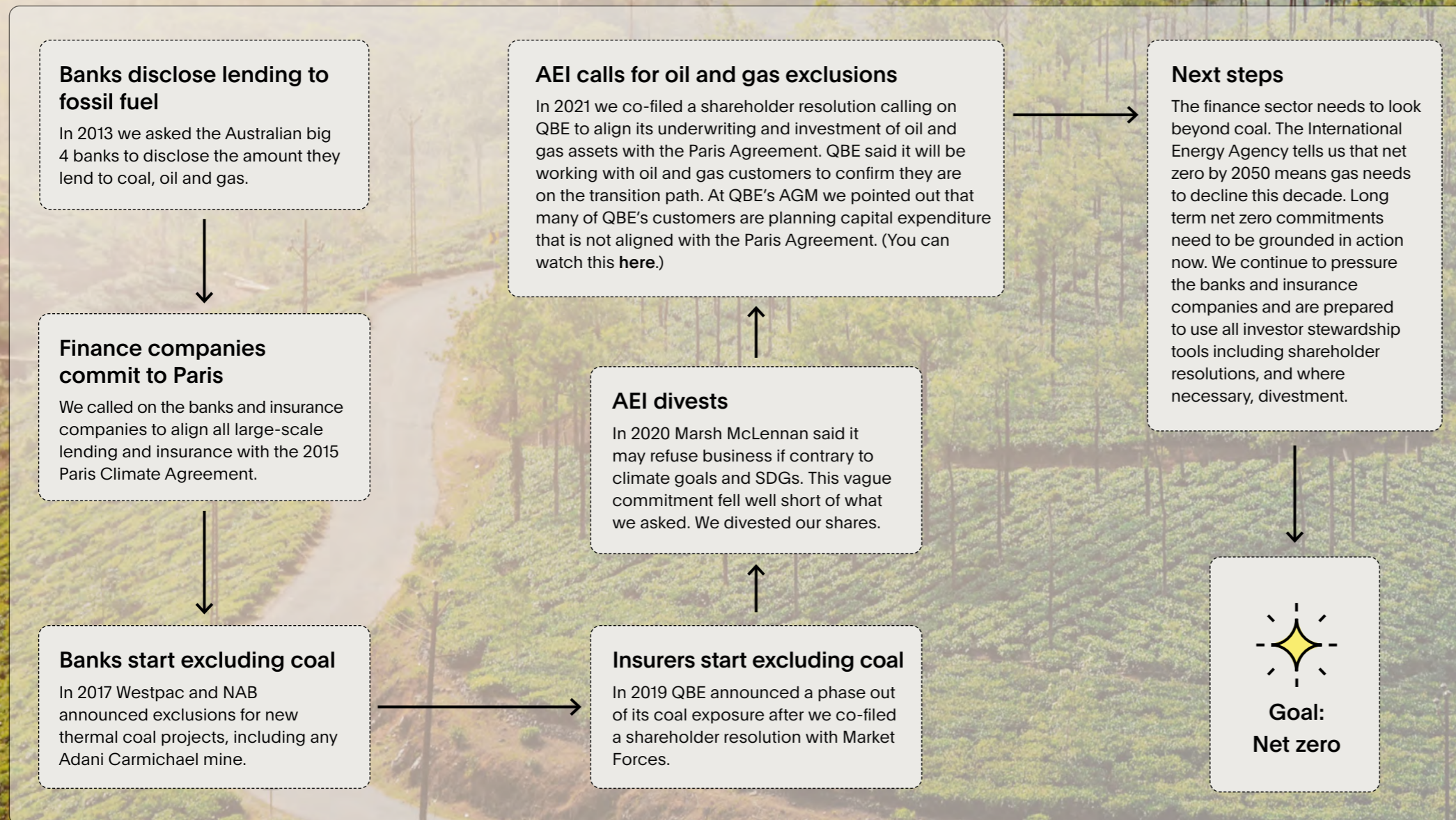
This work is more critical now than ever. Companies with reputations to lose are divesting their fossil fuel activities or restructuring to create separate green and brown companies. This means fossil fuel reserves, mining, and electricity generation are becoming concentrated in companies which likely have no intention of aligning their activities to the Paris Agreement and may be indifferent to direct climate engagement from investors and civil society.

But these companies will still need to access capital and insurance to pursue their harmful fossil fuel activities. That is why it is so important we work to curtail this access.

Large financial institutions must be part of the journey. To achieve net zero by 2050, annual clean energy investment needs to grow to US\$4 trillion by 2030 according to the IEA's 2021 Net Zero Roadmap. Alongside more renewable energy from wind and solar, investment is needed to expand our electricity grid, battery storage and green hydrogen and EV charging infrastructure. Smaller Australian banks don't have the capacity to make loans for large-scale clean energy infrastructure. That is why we leverage our investments in the larger banks to influence more capital to clean energy.



Influencing the finance sector



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By influencing the finance sector, we seek to turn off sources of funding that enable unsustainable fossil fuel expansion to continue.

Change of this magnitude requires coordinated and persistent influence.

We work with Australian and overseas investors, including as part of a multiyear international engagement program which scored bank climate performance (performance rankings are always useful to encourage companies to reflect on areas for improvement). We also worked with Market Forces and the Australian Centre for Corporate Responsibility. All the wins we have had to date are attributable to pressure that has been applied from every direction, including direct consumer action and from civil society.



It's not just about fossil fuels

Turning our focus to the building materials sector

The building materials sector is a huge contributor to global carbon emissions. Cement production is the world's single largest industrial cause of carbon pollution, responsible for around 8% of global carbon emissions. Steel accounts for another 7%.

Historically we had limited investment in the building materials 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. This year we engaged with eight building product companies and two infrastructure companies, to find out:

- which companies meet our investment criteria and were prospective investments, and
- the barriers and opportunities for the sector to transition in line with the Paris Agreement.

As we invest selectively in the building materials sector, we see it as our responsibility to help get it to Paris alignment as quickly as possible. 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. We can contribute an important perspective to new or existing industry groups which bring together producers and purchasers of building products, with the goal of supporting the development, supply and uptake of transformational, low or zero carbon products (such as green steel, low carbon cement and products made from recycled content). This year we started exploring this option as part of our engagement with companies and civil society groups.



Our expectations for the building materials sector

Contributing to transition of core building materials to net zero by 2050



Company status

- 2 companies are meeting our standards on climate performance
- 4 companies asked us for feedback on their climate performance, and we will revisit to see if they've made progress against our expectations
- 4 companies we are continuing to engage

Also climate critical – Australian beef

Animal agriculture has a hugely disproportionate contribution to both the climate and biodiversity crises:

- Recent research suggests the food sector is responsible for up to **a third** of global emissions.
- Meat, aquaculture, eggs, and dairy use around 83% of the world's farmland and contribute 56% to 58% of food's different emissions, despite providing only 37% of our protein and 18% of our calories.
- Beef production is a leading driver of deforestation, both through the conversion of forest to pasture and through demand for soy-based feed products.
- Research suggests moving from current diets to a diet that excludes animal products has transformative potential, reducing food's land use by 76% and food's greenhouse gas emissions by 49%. In addition to the reduction in food's annual greenhouse gas emissions, the land no longer required for food production could remove around 8.1 billion tonnes of CO₂ from the atmosphere each year over 100 years as natural vegetation re-establishes and soil carbon re-accumulates. To put that in context, annual CO₂ emissions in 2020 was around 36 billion tonnes.

As a beef producing country, we are really feeling some of these impacts in Australia. We are the only developed country in the world that has been identified as having a deforestation hotspot. We also have the worst record in the world for mammal extinctions. Land clearing for agriculture is a primary driver of deforestation and biodiversity loss. In Queensland, around 76% of likely koala habitat cleared between 2013 and 2018 was cleared on land with beef listed as its primary land use (another 14% had sheep listed for primary land use).

We do not invest in conventional animal agriculture because of its disproportionately large environmental footprint and because of the animals' suffering. But much like the fossil fuel sector, we can leverage our connections to adjacent industries to influence change. Through the FAIRR initiative (a collective investor initiative that engages with the food sector on their biggest environmental and social impacts) and Climate Action 100+, we have been engaging with the two major supermarkets about how they will address their emissions in their supply chain (i.e. scope 3 emissions, including those from animal agriculture), deforestation in their supply chains, and their role as Australia's major food retailers in helping consumers make more sustainable food choices, like plant based protein over animal protein.



Research suggests the food sector is responsible for up to one third of global emissions.

It is important that Australian farmers do not lose out

Australian farmers work extremely hard to produce food in a harsh environment that throws up constant challenges. Given our land mass, Australia is well placed to provide credible and secure carbon sequestration services the world desperately needs. With appropriate policies and markets, we think our farmers could be direct beneficiaries. We are planning to engage with the supermarkets, banks, insurers, and the livestock sector to understand what incentives need to be in place for land holders to not only stop clearing the land, but to allocate portions of land to carbon sequestration and habitat restoration.



Snapshot of our 2021 advocacy



In FY21 the ethics research team engaged with over 500 companies for people, animals and the planet.

We want to be transparent about what this number means. Company engagements can take many forms with different levels of involvement from us. There has been a surge in collective investor engagement initiatives. Collective investor voices can be very persuasive, and combined efforts can enhance the quality of engagement (e.g. level of research, development of asks, tracking of progress). Over the year, we supported many of these initiatives by signing onto investor statements or company letters. The vast majority of our 500 engagements represent collective engagement initiatives that we supported in this way.

We were actively involved in over 45 engagements

In our active engagement count we include engagements where we: made a policy submission to government, wrote to a company, had a phone

call or meeting (either on our own or with other investors or civil society groups), actively contributed to collective engagements (such as helping draft statements, letters or shareholder resolutions), used a nominal advocacy holding to support shareholder resolutions, or co-filed a resolution.

- In around 30% of these company engagements, the company subsequently changed or committed to doing so.³⁰
- around 60% of these engagements were with companies we invest in. Two of these engagements were with companies for which we hold a nominal advocacy holding. Two were with government. The remainder were with companies in which we had no holding at the time of engagement.
- Three engagements resulted in divestment, others resulted in decisions not to invest in the first place.



45 were active engagements

These covered **19** sectors
and **12** issues

15 companies committed to change

We divested from **3**

In FY21 we engaged across 19 sectors

Aged Care	Infrastructure	Mining	Responsible investment
Building materials	Insurance	Oil and Gas	Security
Education	IT	Property	Telecommunications
Government	Logistics	Retail	Waste Management
Healthcare	Media	Renewable energy	

³⁰ It's difficult to measure the outcomes of any engagement. Firstly it's hard to assess how much real change has occurred. Not only does the ambition of company commitments vary, they can be vague and conditional, and raise doubts about if, when and how they will be implemented. Secondly, it's even harder to assess how much a particular engagement contributed to the change. Notwithstanding these challenges it's crucial that we do measure engagement outcomes in some way, as a guide to what's working and what isn't, and to help us make future engagement more effective. Our approach is to assess whether a company we engaged with made a positive change or commitment to change on the engagement issue. We don't claim credit for all this change, which will often be influenced by the good work of others inside and outside the company or by a changing regulatory or economic environment.





We helped a retailer set strong climate commitments



We engaged with Reece Limited – supplier of bathroom and plumbing products – about their climate performance. Specifically we asked about their emissions reporting, setting emissions targets that took into account the emissions intensity of the products they sold (i.e. scope 3 emissions), their sustainable product offering, information they provide to help customers make sustainable choices, and how they promote sustainable choices in their business.

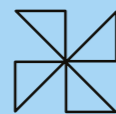
The company has since made commitments, published in its 2021 annual report, in line with what we asked:

“We commit to sharing our sustainability progress annually from 2022; identify, share and be accountable to targets to reduce our impact; work with our suppliers to invest in sustainable product and service design; provide our customers with responsibly sourced and quality products; make it easier for customers to make sustainable product choices through the information we provide; and to identify opportunities with customers to work with the industry to promote sustainable living”.

Of course it is now important that Reece takes concrete action to implement their commitments.



We divested from a renewable energy company over human rights concerns



We engaged with renewable energy company Siemens Gamesa about its contribution to human rights infringement in the occupied territory of Western Sahara (controlled by Morocco). The company is constructing wind turbines which are facilitating the misappropriation of natural resources by Morocco, and entrenching Morocco’s interests in the territory. Investors and NGOs have requested information about these issues over several years. The company’s general attitude was that the political status of the territory was a matter for governments, not business. It engages with Moroccan government authorities in relation to its activities in the Western Sahara and does not seek free, prior and informed consent from the indigenous Saharawi population. The company did say it was considering additional policies and disclosure, but this has not been published. Since our engagement the company has secured additional contracts to manufacture further wind farms for the territory.

This issue meant that the company failed to meet our expectations in relation to human rights. Their response to our engagement failed to demonstrate they were prepared to change. We divested.



Post-engagement, the ICA, IAG and QBE all withdrew support for raising the Warragamba Dam.



In FY20 and 21 we engaged with the insurance sector about the proposal to raise the Warragamba Dam. The proposal is intended to reduce flooding downstream, but it will also mean that large parts of the Blue Mountains World Heritage Area – habitat to endangered species – will be inundated during high rainfall events, as will sites sacred to the Gundungarra people, who already lost so many of their sacred sites when the dam was first built. Raising the dam wall may also encourage more development on flood-prone areas, which may put more people and property at risk and make it more difficult for existing residents to evacuate during a flood.

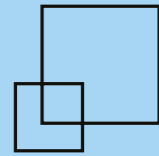
The Insurance Council of Australia (ICA) and some insurance companies that we invest in had expressed support for the project. This was brought to our attention by the Colong Foundation for Wilderness, who have been running an ongoing campaign to stop the raising of the dam walls.

We independently engaged with the insurance companies to find out their position. What we learned was concerning. The insurance companies had been supporting the proposal without taking into account adverse impacts or lower impact alternatives. They were relying on government processes to strike the right balance, despite ongoing reports about the inadequacy of those processes particularly with respect to the rights and interests of the First Nations people.

We told the insurance companies that, if they advocate for a particular proposal, we see them having a responsibility to assess the impacts, benefits and alternatives, ensure the outstanding universal value of World Heritage Sites are not damaged, and ensure free, prior and informed consent is obtained from traditional owners. We also talked with the Colong Foundation for Wilderness about the framing of their shareholder resolutions, and we gave the insurance companies notice that we would be voting for the resolutions at upcoming AGMs, against the companies’ recommendations.

The ICA, IAG and QBE all withdrew support for raising the Warragamba Dam. The powerful campaign by Colong Foundation for Wilderness drove the insurance industry’s change in position. We also saw the value of having an investor voice at the table. The final position taken by the insurance companies closely reflected our perspective on how insurance companies should respond to these types of projects. Collaborative efforts get results.





How we voted

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

At company meetings of shareholders in FY21 we disagreed with the voting recommendations of board and management 442 times (or 9.9% of our total votes):

- 114 related to matters concerning management, executive or board remuneration and incentives
- 111 related to diversity and inclusion concerns
- 69 concerned the independence of board members, committee members, or auditors
- 29 concerned shareholder rights
- 24 related to ESG concerns
- We co-filed one shareholder resolution (this was against QBE – see the climate section above)
- We used nominal advocacy holdings to support shareholder resolutions against Santos and Origin.

Our engagement approach

Our approach to engagement stems from our belief that 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.

We also conduct advocacy at a people level, mobilising our network of customers and social media community to help us create a better future. We refer to this as people power advocacy and it complements the virtuous cycle created by ethical investing by growing public support for relevant issues to result in meaningful change. In other words, it’s about partnering with people on the issues they care about to change the world.



The realisation that our government or big businesses aren’t going to make an effort towards change without pressure from the nation’s citizens.

In a system where money talks and money wins, voting with your wallet is the only way to make a difference without overhauling the system the amount of damage we are doing to the earth.

It is my biggest fear my kids will inherit a planet on which they cannot live.



Open your eyes

In 2021 we launched Open Your Eyes, asking our customers to tell us what it was that opened their eyes to ethical investing. We were blown away by the passion, humour and gravity of the answers they gave us.

We then asked them to help us open more eyes to creating a better future through ethical investing. Over 1,200 like-minded individuals responded to our request knowing that the more people invest ethically, the greater the impact on our planet. And by doing so, they also told us about the issues they’re most passionate about.

Issues people were most passionate about

Climate Change	1099
Renewable Energy	947
Clean Oceans	946
Human Rights	871
Deforestation	738
Pollution Reduction	694
Biodiversity	683
Animal Rights	594
Modern Slavery	560





Compelling Client Experience



Investment solutions for the conscious consumer

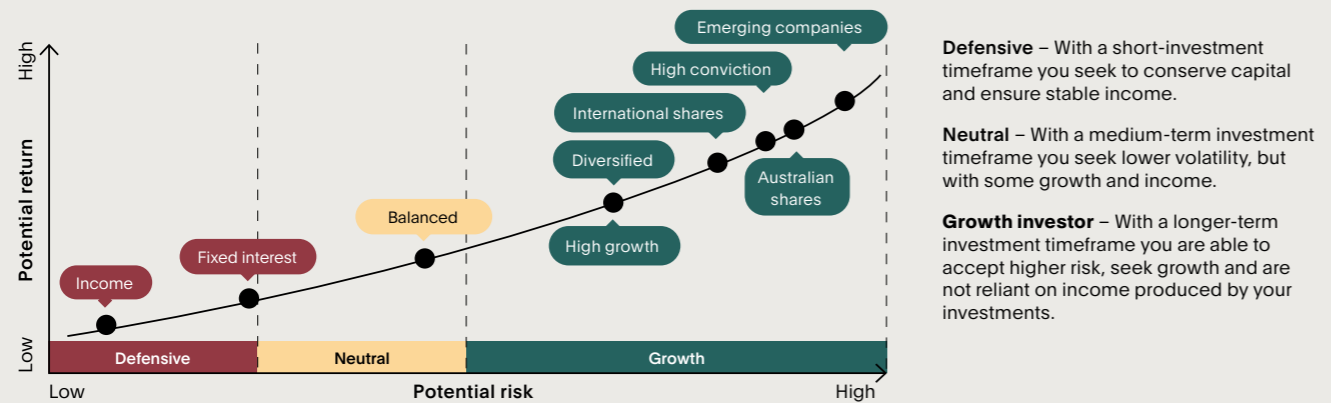
We offer investment solutions for the conscious consumer. Our customers can choose from a suite of eight managed funds, or from seven investment options offered in our super fund and six offered in our account-based pension, safe in the knowledge that all the underlying companies and investments in our portfolio have passed our comprehensive ethical screening process.

Unlike many of our competitors who may offer one or two sustainable options, each one of our products is underpinned by the same, robust ethical conviction.

All our super and managed funds options are underpinned by our ethical investment process

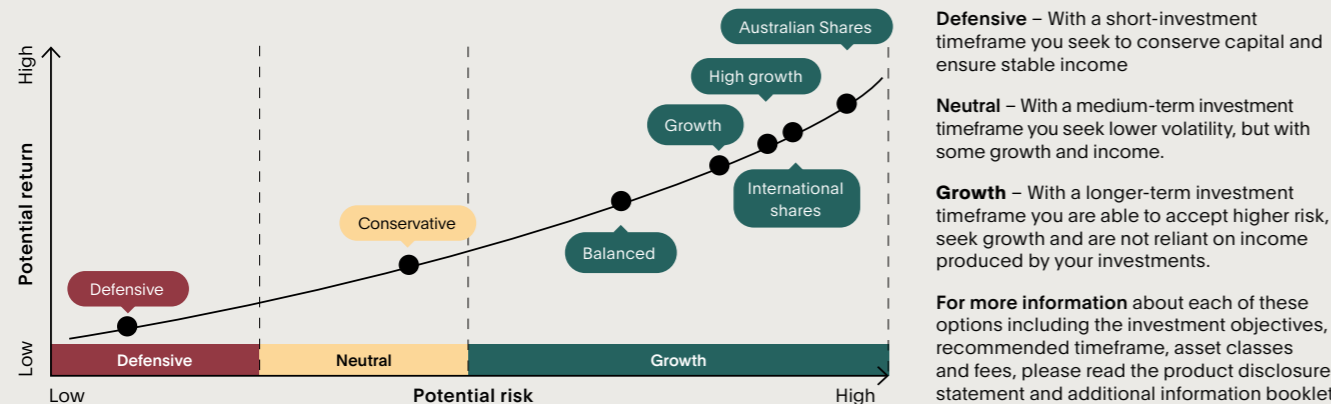
Managed funds

Our managed funds options are available as retail or wholesale and cover the full range of risk and return.#



Super and pension options

Each option has a different risk profile catering to a range of financial objectives, risk tolerance and personal financial situations.#



Super & Pension	Managed funds
<p>Investment Choice</p> <p>7 single-sector and diversified ethical investment options for super and 6 for pension.</p> <p>AUSTRALIAN EQUITIES Australian Shares</p> <p>INTERNATIONAL EQUITIES International Shares</p> <p>MULTI-ASSET/DIVERSIFIED High Growth^ Balanced (accumulation)^ Balanced (pension) Conservative</p> <p>FIXED INTEREST Defensive</p> <p>^ Not available in the pension division</p>	<p>Investment Choice</p> <p>9 ethical multi-asset and single sector funds for investors.</p> <p>AUSTRALIAN EQUITIES High Conviction Fund Australian Shares Fund Emerging Companies Fund</p> <p>INTERNATIONAL EQUITIES International Shares Fund</p> <p>MULTI-ASSET/DIVERSIFIED Balanced Fund High Growth Fund Diversified Shares Fund</p> <p>FIXED INCOME Income Fund, Fixed Interest Fund</p>
<p>Features</p> <p>Simple online join</p> <p>Super offers above benchmark insurance offering¹.</p> <p>Pension products offer flexible payment options and comprehensive beneficiary options</p>	<p>Features</p> <p>Simple online join</p> <p>Entry at \$1,000 or \$500 with regular investment plan</p> <p>Distributions every six months either paid as cash or reinvested</p> <p>SMA Strategy via Praemium and HUB24</p> <p>Six managed funds options available on the ASX mFunds Settlement Service</p>

You should obtain financial advice to help explain investment risk, assess your risk tolerance and select the investment most suited to suit your personal circumstances.











Awards & accolades

In FY21 we were recognised by Morningstar as one of just six global leaders for our commitment to ESG.³¹ The UN PRI also recognised us in their global Leaders' Group for 2020 for climate reporting³² and B Corp recognised us in their Best for the World category for both Customer and Governance.³³

Our managed funds received awards from Money Magazine, Financial Standard and Money Management for ESG and Responsible Investing excellence. While Canstar gave their coveted 5-star rating to our Diversified Shares and Emerging Companies Funds.³⁴

Our super fund was named Green Super Fund of the year by Finder.com and consumer comparison site Mozo named us 'most recommended' for superannuation. In terms of performance, our MySuper product (Balanced accumulation option) was the only option from a retail fund to make the top-10 list for 10-year performance³⁵ and our Australian Shares Option remains first over 1, 3, 5, 7 and 10 years.³⁶

“
One of just six global leaders for our commitment to ESG

Managed funds	Super
<p>Financial Standard Leadership Awards</p>  <p>Australian Ethical Australian Shares Fund</p> <p>Winner ESG Australian Equities 2021</p>	<p>Mozo People's Choice 2021</p>  <p>Most Recommended – Superannuation</p>
<p>Money Management Fund Manager of the Year 2021</p>  <p>Australian Ethical Australian Shares Fund</p> <p>Winner Responsible Investments</p>	<p>Finder</p>  <p>Green Superannuation Fund of the Year 2021</p>
<p>Organisation</p> <p>UN PRI Leaders Group for Climate Reporting</p>  <p>'PRI Leaders Group 2020' for excellence and advanced efforts in climate reporting. Only 1% of PRI investment managers qualified.</p>	<p>Money Magazine Best of the Best 2021</p>  <p>Best ESG Trailblazer</p>
<p>B Corp Best for the World – Customers³</p> <p>B Corp Best for the World – Governance³</p> 	<p>SuperRatings GOLD</p>  <p>For MySuper, MyChoice and Pension</p> <p>SuperRatings Best performing SR50</p> <p>Australian Shares option first over 5 years 2016-2021⁶</p>

³¹ In November 2020, Morningstar named Australian Ethical as one of just six global leaders, out of 40 asset managers assessed for ESG commitment. Australian Ethical was the only Australian asset manager to achieve this rating. Based on the second assessment (May 2021), one further asset manager was added as a "leader", who was an Australian asset manager. Inaugural ESG assessment: **The Morningstar ESG Commitment Level: Our first assessment of 100-plus strategies and 40 asset managers**, second assessment: **The Morningstar ESG Commitment Level: Our second assessment of 140 strategies and 31 asset managers**

³² UnPRI, <https://www.unpri.org/showcasing-leadership/leaders-group-2020/6524> article

³³ B Corp 'Best for the World Honouree 2021 Governance'. The Best for the World are B Corps whose score in the top 5% of all 3,500+ B Corps worldwide. This relates to the Australian Ethical entity, not the investment portfolio.

³⁴ Canstar Managed Funds Star Rating Report, February 2021

³⁵ Only one for-profit fund – Australian Ethical Super Balanced – made the top-10 list when performance was compared over the past decade. Australian Financial Review, 19 July 2021

³⁶ Australian Ethical Super's Australian Shares option ranks No.1 out of 50 over 1, 3, 5, 7 and 10 years according to the SuperRatings Fund Crediting Rate Survey – SR50 Australian Shares Index as at 30 June 2021.

⁺⁺ SuperRatings does not issue, sell, guarantee or underwrite this product. See the website for details of its ratings criteria. SuperRatings performance figure is net of percentage-based administration and investment fees. It does not include the \$97 annual fee.



Our commitment to our customers

As Australia's leading ethical investor, we occupy a unique place in the financial services landscape. We strive to provide great customer experience along with ethical investment solutions that deliver financial returns with real world outcomes. Combining our product and purpose means we have a deeper connection with our customers and create long-term relationships.

Maintaining and growing our leadership depends in large part on nurturing this special relationship we have with our customers, which is why we continue to invest to enhance their experience.

Customer experience does not live in a void or bolted onto the side of our business. Compelling customer experience is not just delivering a great product, website or call centre interaction. Though these are important. It's the expression of an internal culture that permeates from the inside out. As such, great people who love their job and believe in the purpose of their organisation, deliver a great customer experience. Happy customers stay with you and recommend you to others.

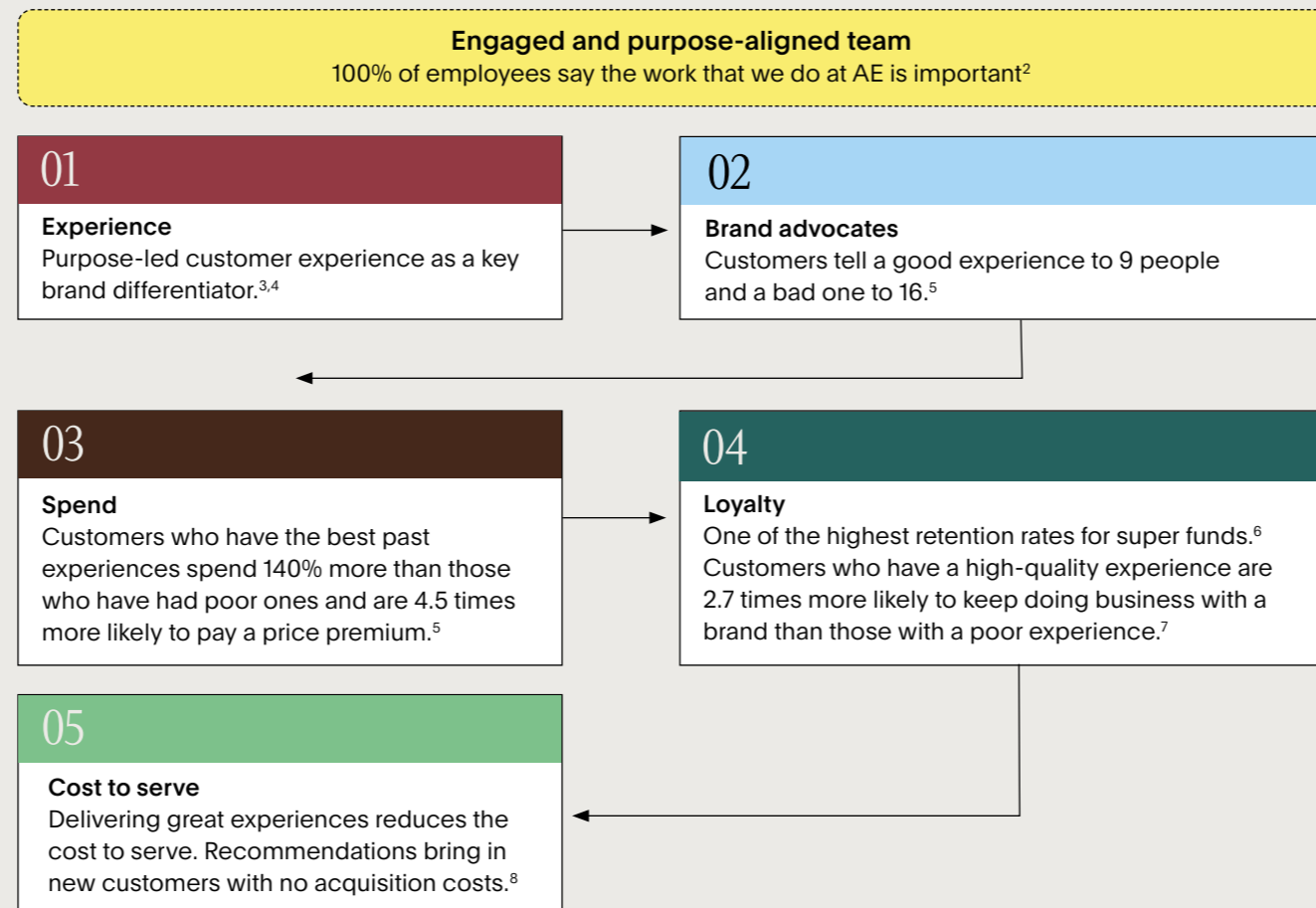
The adage that employees are a company's most valuable asset has never been truer than it is today. Our people are the creators of, consumers of, and advocates for investing for a better world and have a huge influence on the compelling customer experience we strive to deliver.

Over the past financial year, we have made significant progress against our operational objectives to support our great people and improve the customer experience for both our current and future customers. Completed customer projects include redesigning our super insurance offer to remove cross subsidies, implementing a new customer relationship management system and insourcing the customer contact centre to have more control over the customer journey. We believe the success of these objectives can be measured by our high customer advocacy and retention metrics.^{37,38}

We have more work to do in creating a seamless digital experience for customers. Key to this is ensuring our business infrastructure does not get in the way of delivering on our purpose.

The pandemic has only accelerated these plans as we design for the future. As people have become more accustomed to working, doing business, and investing through digital channels, they're rightly expecting a frictionless, omnichannel experience from all their transactions.

Purpose-led customer experience¹



1. Customer experience model based on model in "How the right CX operating model can pave the way to future success, Deloitte Digital
2. Culture Amp Employee Survey, June 2021
3. "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.
4. We are No.1 for Customer advocacy & No.2 for industry NPS (super)
5. "The Value of Customer Experience, Quantified," Harvard Business Review, 2014
6. KPMG Super Insights Report 2021, published May 2021 using statistics from APRA and ATO as at 30 June 2020.
7. "Customer Experience is the Future of Marketing," Forbes, 2015
8. Deloitte Project Experience

³⁷ In FY21 we used Investment Trends High Net Worth Investor Report (September 2020) to measure the advocacy of our Managed Funds Investors. We ranked first out of 27 funds with a Net Promoter Score (NPS) of +32%. We used Investment Trends Superfund Member Engagement Report (May 2021) to measure the advocacy of our super members. Out of 27 funds we were Number 1 for customer advocacy and Number 2 for industry NPS (super).

³⁸ Third lowest Net Outflow Ratio of 83 funds – KPMG 2021 Super Insights Report, published May 2021, using statistics from APRA and ATO as at 30 June 2020.

Future-proofing our brand

As a purpose-led company, what we stand for is wrapped up in our brand. Our brand is the essence of our success, it reflects our commitment to doing good and it helps us deliver value with values. Put simply, our brand is one of our greatest assets and we treat it as such. And so, it's important that it evolves with us.

Our addressable market has exploded bringing more intense competition and while our brand remains tangible to our existing stakeholders, in FY21 we decided to refocus our brand positioning in order to be more salient and gain traction within this broader market. As part of this work we established a new brand identity which is a visual reflection of our ambition to build a bigger, more impactful business. A fresher, bolder and stronger voice to reflect the uniqueness of our organisation.

We're proud of our updated look and feel which celebrates our ethical pedigree, investment professionalism and our progressive approach stemming from our visionary roots. These have been combined to create a visual identity quite unlike any other financial services company in Australia.

The evolution of our brand since 1986



Impactful Business





Growing our impact

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.

The opportunity for Australian ethical to serve as a force for good is extraordinary and we are committed to growing the impact of our business. Becoming a more impactful business is an important strategic pillar knowing that as we grow as a business our positive impact grows in tandem. As such we are investing to broaden the reach of ethical investing by expanding our distribution team and exploring additional audiences who are looking to align their investments with their values.

Indeed, the growing number of our investors, super members and shareholders, along with substantial inflows year on year and an increasing share price, are testament to our success in delivering value to our key stakeholder groups.

The financial success of our business enables us to maximise the impact of our purpose. 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.

For our people
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.

For society
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.

For our customers
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

With purpose and ethics at its core, our business model delivers benefits for a broad range of stakeholders who we know are integral to the long-term sustainability of our business.

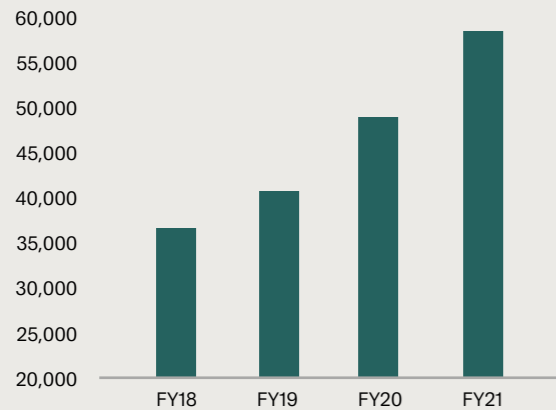
For our suppliers and partners
We recognise that our success depends on managing a complex ecosystem of suppliers and partners who we work with on a regular basis. Through our ethical business practices and rigorous supply chain assessment, we foster excellent long-term working relationships with our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

For regulators
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.

For our shareholders
Our shareholders support the ethical, long-term approach we take to investing for a better future¹. Through our investment excellence and continuing growth, we generate shareholder returns underpinned by clear and transparent information about the health of our company.



Super Members



The benefits of scale

Our ambition to make ethical investing as accessible and competitive as possible includes making strategic fee reductions as we pass the benefits of our growing scale onto our customers. Since 2014, our pricing has more than halved, with FUM increasing six-fold over the same period.³⁹

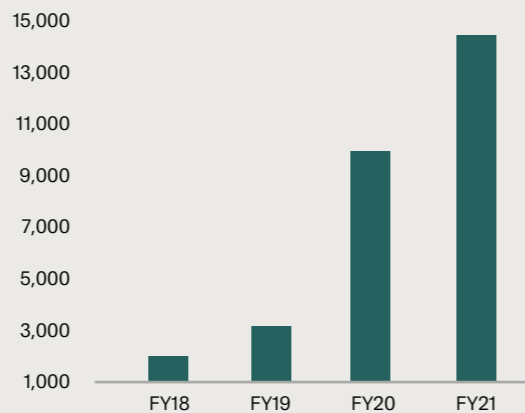
In October 2020, we reduced the fee on the Defensive super and pension option, and the Income and Fixed Interest funds, and reduced the minimum investment amount for the Balanced wholesale fund. In June 2021, we reduced the fee on the Australian Shares and International super options and the Balanced, International, Diversified, Advocacy, Australian Shares and Emerging Companies retail funds, and the Balanced and International wholesale funds.

Growth in shareholders

In 2018 the Australian Ethical Share price had increased to more than \$100. As this trading price was significantly greater than that of comparable companies, it was feared that investors may think that the shares did not represent good value for money. It was hoped a lower share price would be more accessible to a wider range of shareholders and increase liquidity. A share capital split of 1:100 was proposed and approved at the AGM in October 2018 and the share split took effect in December 2018.

Over the last three year Australian Ethical has significantly grown its shareholder base. The share price closed at \$8.44 on 30 June 2021.

Shareholders



How employees share in our growth

Employees also 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.

³⁹ Since 2014 revenue margin has reduced from 2.26% to 1.04% whilst FUM has increased from \$0.9bn to \$6.07bn.

10%
Yearly profits donated to the Australian Ethical Foundation*

\$6 million+
donated since 2000 in FY21

\$1.8 million
provisioned by the Foundation for climate impact

30+ charities
fighting climate change supported

\$500,000
funded through new Visionary Grants⁴⁰

Leading research
funded to unearth Australia's most effective climate charities

* after tax and before bonuses

⁴⁰ Visionary Grants part of \$1.8 million

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.

Every year, Australian Ethical donates 10% of profits (after tax and before bonus) to the Australian Ethical Foundation to unearth and fund the most effective charities and solutions addressing climate change. This year, The Foundation provisioned \$1.8 million for impact initiatives, driving positive outcomes for people, animals and the planet in Australia and overseas.

A planet with warming above 1.5 degrees will undermine the systems we depend on for healthy people, animals and the environment. As such, we focus our philanthropy to drive real change at a systems and grassroots level to help fight climate change. We utilise our funding to:

- support innovative climate solutions;
- scale effective and proven climate mitigating activities and;
- inspire a new vision for a sustainable and climate safe world

Our private funding round, Strategic Grants invest in three key themes, which we believe to be the most effective levers to limit climate change:

- stopping sources of carbon pollution,
- supporting carbon sinks, and
- educating and empowering women and girls.

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

▶ See The Australian Ethical Foundation Report for more.



Governance

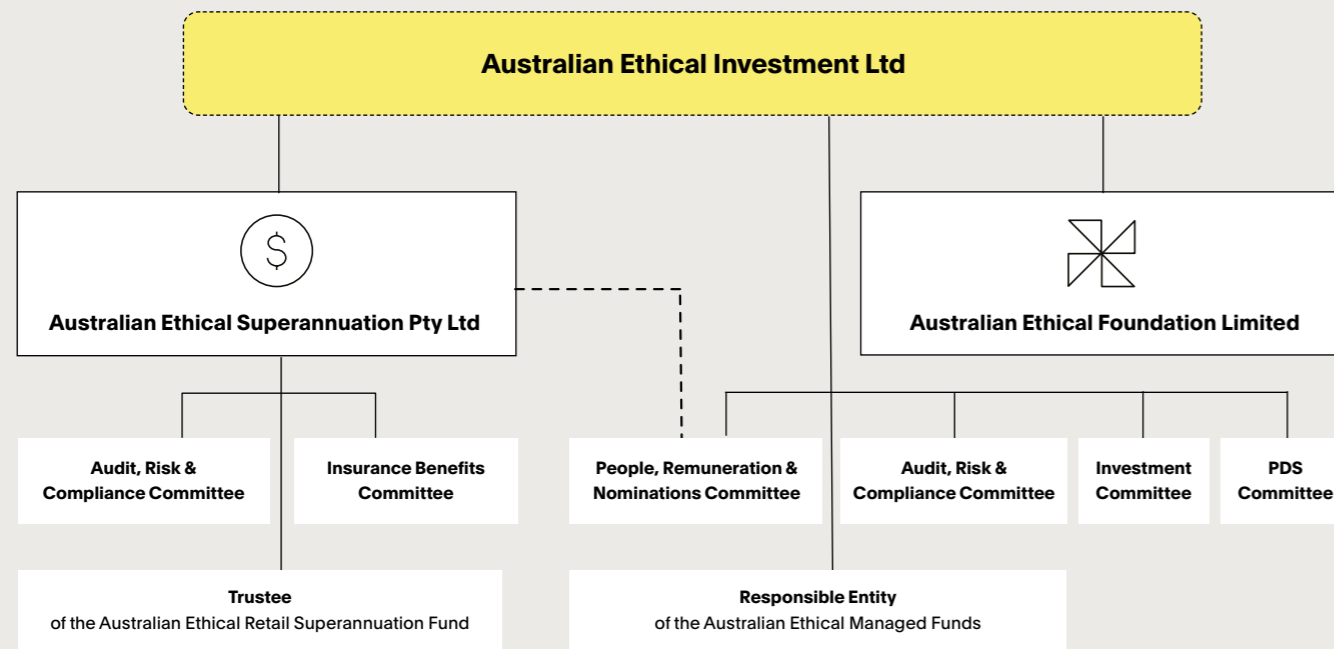
We have always believed that high standards of corporate governance benefit all our stakeholders including our customers, employees, suppliers, regulators, shareholders, and the communities in which we operate. We expect our Directors and employees to always act ethically and responsibly because this, 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.

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.



Balancing risk with purpose

All our decisions are underpinned by our robust and award-winning 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.



'Best for the World' Governance + Customer

Our approach to governance has helped contribute to our long-term competitiveness while also enabling us to address some of society's biggest challenges through the way we do business. As testament to our best practice governance, we have been named as a B Corp 'Best For The World - Governance' Honouree every year since we were first accredited in 2014.

To earn this accolade, we must score in the top 10% of B Corps globally in the rigorous Governance section of the B Impact Assessment. This section evaluates a company's overall mission, ethics, accountability and transparency. It measures whether the company has adopted a social or environmental mission, and how it engages its employees, board members and the community to achieve that mission. The Governance portion also assesses employee access to financial information, customers' opportunities to provide feedback and the diversity of the company's governing bodies.

Our good governance is also reflected in us making the 'Top 100 Most Trusted Brands' in Australia and fourth in the 'Key Non-Bank Financial Services' lists compiled by Roy Morgan as part of their annual Risk Monitor (April 2020 - March 2021. Base: Australians 4+ n=21,833.) This is a significant achievement given the small size of our organisation compared to others identified in the survey.



Modern Slavery Statement update

As well as fulfilling the requirements of our 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** sets out the groundwork we have completed in mitigating modern slavery risks in our value chain, including identifying areas of high risk, actions taken in our procurement, investments and The Foundation, and aspirations going forward.

Below is an update on our Modern Slavery Statement. Neither the nature of our operations nor our identified risks have changed.

AE's areas of influence	Actions taken in FY21 relating to human rights and modern slavery	Going forward	Indicators used in FY21
Investments	<p>Incorporated external ESG research data into our updated human rights framework.</p> <p>Undertook extensive testing on our updated human rights framework and screen.</p> <p>Completed improvements to tracking of assessments and engagement.</p>	<p>Finalise the updated human rights framework</p> <p>Continue to screen all companies against our human rights criteria</p>	<p>Progress towards 100% of companies assessed under updated human rights screen.</p> <p>See the Our Advocacy row for engagement statistics.</p>
Procurement	<p>Launched our internal Ethical Procurement guidelines in January 2021 across the business.</p> <p>Educated employees about modern slavery and how to use the guidelines at a company-wide briefing session.</p> <p>Set up and continually improved internal processes to monitor the application of the guidelines.</p>	<p>Continually improve the ethical procurement process</p>	<p>16 suppliers were assessed against the guidelines since their launch, equating to about 85% of new suppliers.</p>
Our Foundation	<p>Focused on supporting women and girls (who account for 71% of modern slavery victims⁴¹) across healthcare, employment, education and access to services. Improvements in these areas can help at-risk women and girls avoid falling into modern slavery.⁴²</p> <p>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.</p> <p>More on the Foundation's work here.</p>	<p>Continue funding leading charities addressing human rights and advancing the rights of women and girls around the world.</p>	<p>100% of funded charities committed to ensuring no modern slavery occurs in their supply chains.</p> <p>\$360,000 donated to initiatives supporting women and girls as an advancement of human rights relevant to modern slavery⁴³.</p>
Our Advocacy	<p>Supported shareholder resolutions for additional human rights reporting and independent director nominees with human or civil rights experience.</p> <p>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.</p>	<p>Continue to leverage our influence as investors to advocate for people, animals and the planet</p>	<p>100% of identified shareholder resolutions relating to human rights were supported (5 relevant proposals identified).</p> <p>Engaged with over 300 companies on human rights, including modern slavery. This includes where we lent our voice to support others' initiatives, as well as where we engaged with companies directly (on our own or with others).</p>

An ethical supply chain

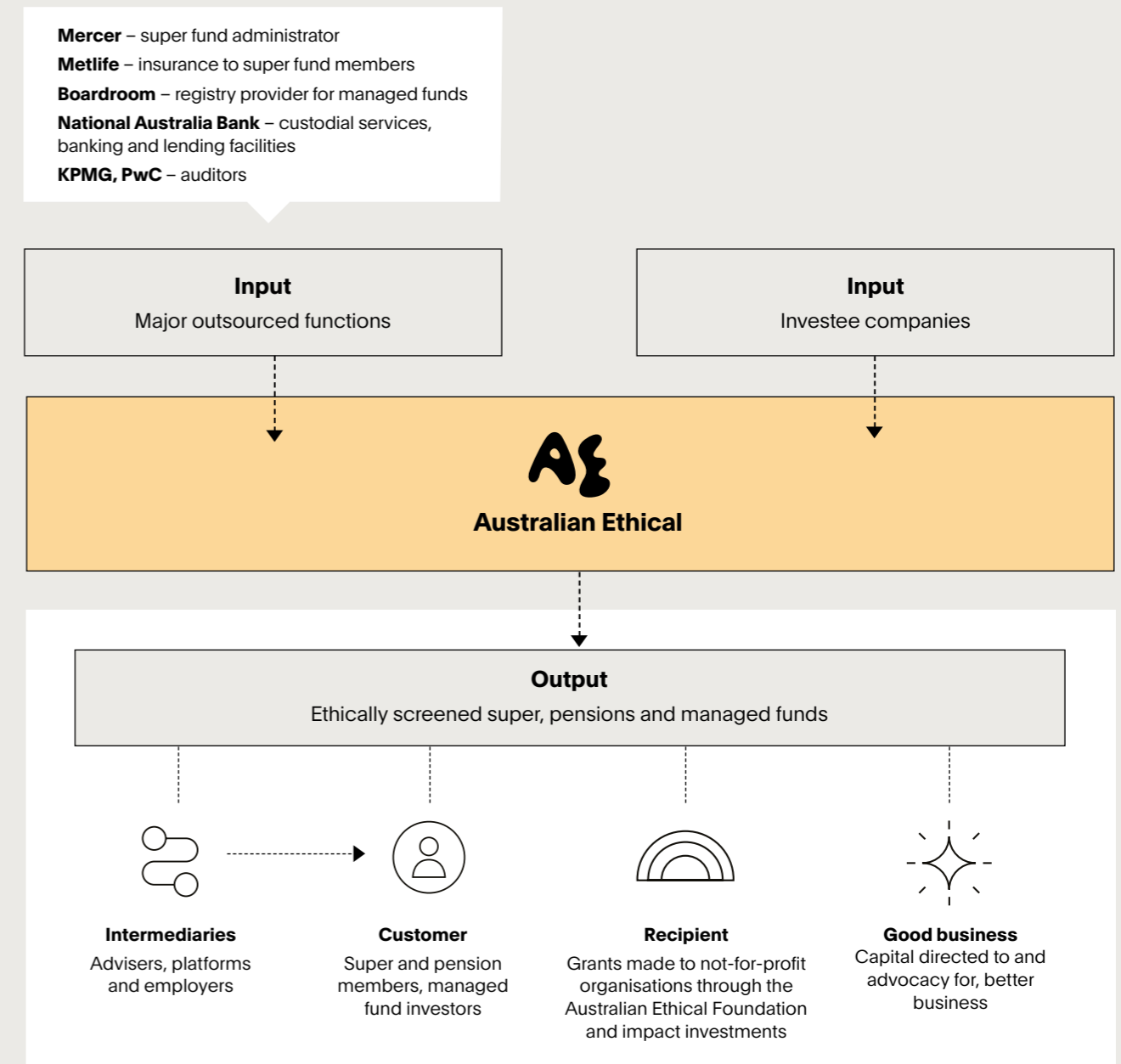
We invest and manage our business, conscious of our impact on the world around us. The key inputs to our supply chain are:

- 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 companies with large supply chains in countries with a poor record on human rights or worker protection. We focus on 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 several clothing and electronics companies because of human rights concerns.

We have recently introduced new Ethical Procurement Guidelines which encourage consideration of environmental and social impacts for **all** procurement decisions, not just material service providers.



⁴¹ ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf Accessed 8th September 2021

⁴² See pages 50 and 51 of the 2017 ILO report

⁴³ Breakdown:

- \$150,000 to health (Living Goods, Fistula Foundation, Population Services International)
- \$140,000 to employment (Pollinate Group, Karrkad Kanjdji Trust (KKT), Love Mercy Foundation, YGAP (YHER))
- \$70,000 to education and access (Human Rights Watch, One Girl)





Leadership & Innovation



Our people drive our purpose

For us, purpose is not just some words on a wall, or a website or in speeches. We believe it is defined by how employees – the people who know our business best – perceive the meaning and impact of their work.

Which is why we're committed to investing in an employee experience that is inclusive, rewarding, and purposeful and a culture where everyone feels seen, heard, and valued. Indeed, in our recent Pulse survey⁴⁴, 99% of our employees agreed with the statement, "I can be my authentic self at work" and 93% said they "would recommend Australian Ethical as a great place to work" and 81% said they "are motivated to go beyond what they would in a similar role elsewhere."

Employee experience is not just about feeling good at work. Our view is that when you strategically invest in employees, you attract and keep all the best candidates, and you also build a strong work culture unafraid of innovation, change, failure and success. Employee development also forces our company and leaders to grow and look to the future, which has never been so important given the many challenges the world faces.

How do you create an employee base that is always willing to be entrepreneurial and challenging?

Creating an environment where people are encouraged to think creatively in an open and transparent way without career risk is essential. It's equally important to have systems that facilitate innovation. That's why this year we formalised a new high performance recognition framework to encourage more innovation and experimentation in our workplace. The framework is built around values-based behavioural criteria, risk and compliance objectives and critical success factors that support our strategic ambitions to amplify the reach and positive impact of what we do.

Encouraging collaborative leadership

In the wake of the coronavirus pandemic, we've seen courageous and visionary leaders stepping up in every arena. The same can be said at Australian Ethical, where we learned that normal life isn't guaranteed, and we need to work together to make the world we want to live in. To foster collaborative leadership, we've been investing in leadership training and development for all job levels which included offsite

skill-building opportunities. The end goal was to improve feedback loops, enhance performance and strengthen team dynamics, better enabling us to drive a high performing team culture to deliver ambitious strategic goals.

Fostering more world views

Complex problems – like those the world faces – need a diversity of ideas. That's because complex problems look different from different perspectives – no one person can see the full picture. To have the best chance of creating a more equitable and sustainable future, it is important to proactively embrace different perspectives, experiences and ways of seeing the world.

That's why we're particularly proud of our diverse culture, which we know our employees value too. Ninety-four per cent of our employees think people from all backgrounds have equal opportunities to succeed at Australian Ethical, a 2% increase on last year. Our gender-balanced Board is **one of only 25 in the ASX300**, 44% of our Senior Leadership Team is female, while 57.5% of employees identify as female.

A significant step we took this year to promote inclusivity was to enable more conversations about gender pronouns by giving employees the option to add their gender pronouns to their company email signatures. Starting the conversation at an organisational level about understanding and using people's correct gender pronouns helps foster an inclusive culture where all voices are heard equally.

We also took part in key diversity events such as International Women's Day, International Day against Homophobia, Biphobia, Interphobia & Transphobia and Wear it Purple in support of the LGBTIQ community. We celebrated Mardi Gras with rainbow doughnuts and personal stories from employees with a presentation on unconscious and affinity bias from Mariam Veiszadeh on Diversity & Inclusion Day. And while Wear it Purple was celebrated virtually because of COVID restrictions, it was no less colourful.

⁴⁴ Culture Amp, June 2021

Our people⁴⁴

+99% can be authentic self at AE

+93% would recommend AE as a place to work

+81% motivated to go above and beyond

2017	2018	2019	2020	2021
55%	78%	71%	86%	82%



Staying connected

Thanks to our existing flexible working policy and robust crisis management plan, employees have been able to transition seamlessly between COVID-19 lockdown periods. We have made the most of technology such as Teams and Miro to stay connected and introduced a more agile 'hot-desking' arrangement at the office to facilitate project-focused teamwork and better collaboration across the company. During lockdown we have continued with monthly themed catch-ups, online trivia, charitable and sustainability initiatives as well as a strict adherence to our regular, weekly whole-of-business meetings.

Wellbeing

Our personal wellbeing program continued in FY21. This included annual flu vaccinations with COVID-safe procedures, with vouchers for employees to do this outside of work, as well as a generous wellbeing allowance. Nurturing employees' mental health was also a focus. We encouraged everyone to take advantage of our Employee Assistance Program provided by the Indigo project and distributed wellbeing hampers to all employees during lockdown.




Volunteer days

Volunteering is an important part of who we are and how we extend our positive impact. It complements the financial support we offer through our Australian Ethical Foundation and allows our people to experience first-hand the work many of our community partners are doing. Employees are entitled to two volunteering days annually, however achieving this in FY21 was very difficult. Some of our team were however able to participate in two events. Ten of us visited the Sea Bin Project in Sydney in November 2020 to help empty the Seabins, count and sort the rubbish, clean the oil pad, and dispose of all rubbish in the appropriate land bins. While in February 2021, eight of us supported the team at We Care Connect, by folding and organising donated clothes.



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 Responsible Investment by Responsible Investment Association Australasia (RIAA)	
Certified B Corp since 2014. The first company on the ASX to achieve this.	
United Nations Principles of Responsible Investment (PRI) Strategy & Governance A+ Listed Equity – Incorporation A+ Listed Equity – Active Ownership – A Fixed Income SSA – A Fixed Income – Corporate Financial – A	Signatory of: 
Signatories to:	
UN Principles of Responsible Investment	
CFA Institute Asset Manager Code	
FSC Women in Investment Management Charter	
Women's Empowerment Principles	
Investor 30% Club Statement of Intent (for 30% women directors of ASX300).	
Science Based Targets Initiative	
Business Ambition for 1.5°C Pledge	
Investor Group on Climate Change letter to the Australian extractive sector to support Paris-Agreement aligned climate policy	
Global Investor Statement to Governments on Climate Change	
Business Benchmark on Farm Animal Welfare's (BBFAW)	
RIAA Investor Statement on Human Rights	

Memberships, engagement and organisations we support
Founding member of the Responsible Investment Association Australasia (RIAA) <ul style="list-style-type: none"> On the Nature Working Group, Human Rights Working Group and First Nation's Peoples sub-working group
Climate Action 100+ <ul style="list-style-type: none"> Support and co-lead investor
United Nations Principles for Responsible Investment <ul style="list-style-type: none"> Member Sustainable Commodities Practitioners' Group
Member of the Investor Group on Climate Change <ul style="list-style-type: none"> Chair, IGCC Transparency & Thought Leadership Working Group IGCC Policy & Advocacy Working Group
Association of Superannuation Funds of Australia Limited (ASFA)
The Financial Services Council, Fund Management Board, Superannuation Board Committee and ESG Working Group
Global Reporting Initiative (GRI)
United Nations Environment Program Finance Initiative
Australian Chapter of the 30% Club Investor Group
1% for the Planet
ShareAction Investor Decarbonisation Initiative
Climate League 2030
Farm Animal Investment Risk and Return (FAIRR): Investor network member
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

Responsible Investment Leader 2021

According to the RIAA Responsible Benchmark Report Australia 2021, the Australian responsible investment market has continued to soar in popularity to \$1.2 trillion in 2020, with responsible investment assets growing at 15 times the rate that overall Australian professionally managed investments have grown.

However, while most of the investment market claims to be responsibly invested, only a quarter of investment managers have been recognised as leaders by RIAA. Australian Ethical is again among this year's leaders as the gap continues between investment managers that claim to be practising responsible investing and those that can actually demonstrate that they are.



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.



Climate



Climate 2021 – Code red for humanity

Our response to the growing climate threat has been a consistent feature of our reporting, including since 2019 in our **TCFD Report**. The context for this year’s report was crystallised by the UN declaring a Code red for humanity in response to the **latest report by the IPCC**. There have been stirrings of stronger responses to that threat; but still too many stubbornly refuse to take, or even commit to take, the action needed.

As we have done for 35 years, we apply our Ethical Charter to allocate capital, engage and advocate for an ethical climate response across business, government and society. And this year, as warming and the urgency for action continues to grow, we are ramping up our climate ambition by:

- Setting a new **net zero by 2040** target for our investments
- growing focus on important and harder-to-transition industries like **building materials**
- **advocating** for comprehensive Commonwealth climate legislation for a fair and efficient economic transition to reduce climate risk and unlock climate opportunity.
- Every year we try to evolve the level of reporting we produce, to be as transparent as the current data and technology will allow, so we can truly understand our carbon footprint and then tread as lightly on the planet as possible.

Our ambition

Australian Ethical is pursuing an aggressive growth strategy to build a bigger, more impactful business. We aim to leverage the business tailwinds for responsible investment for our own growth and importantly also to help maintain and grow sustainable investment standards and impact across the investment sector. In a climate context, our growth will allow us to scale up our contribution to the rapid economic transformation needed to accelerate the reduction of greenhouse gas emissions. With this in mind, we have set a 2040 net zero target for our company and other private sector investments, bringing forward the 2050 target we set in 2015.

Why 2040?

For global emissions to reach net zero by 2050, the world will need diverse successful zero emissions businesses operating across the economy by 2040. These 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 investors high performing, zero emissions portfolios. Setting a net zero 2040 target helps drive capacity and innovation to make this a reality.

We believe this target is ambitious but achievable. 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 net zero target is for our investment in the private sector, not 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 by those.

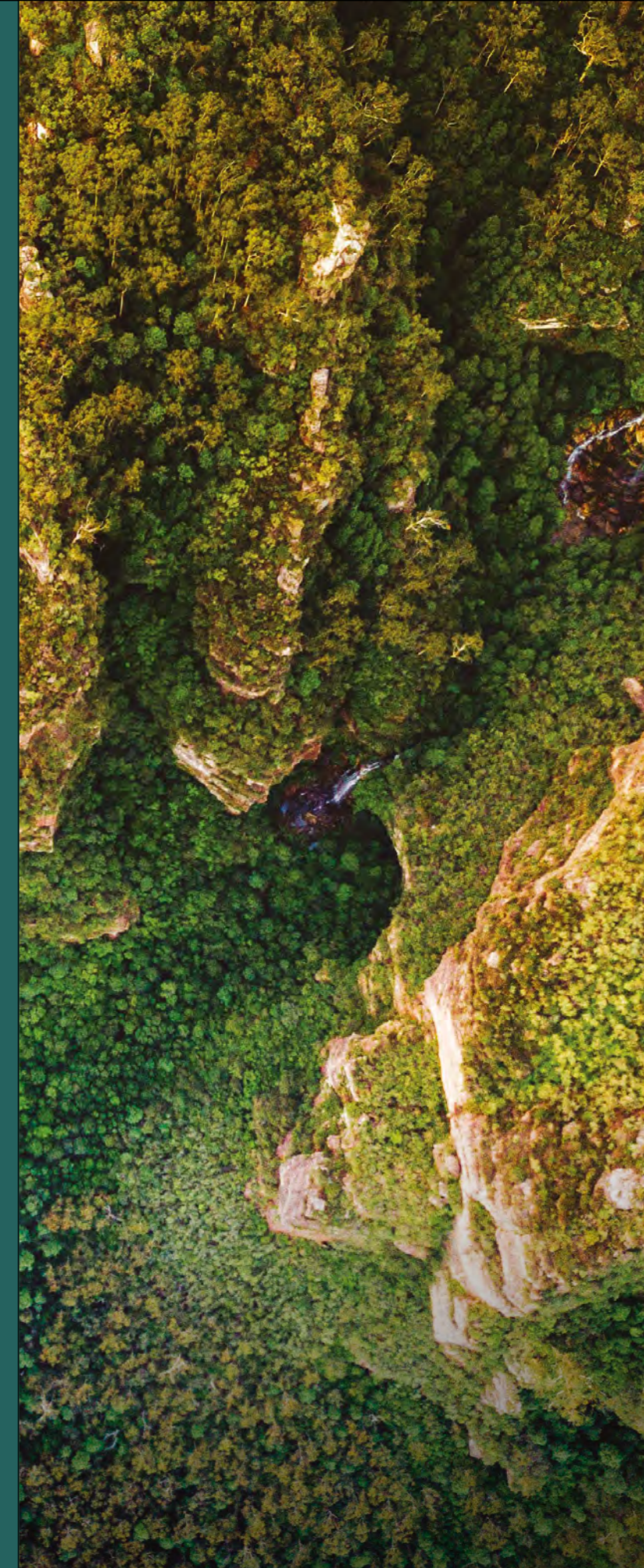


A public voice on climate

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.

We strongly supported the private members Climate Change Bill introduced into parliament by Zali Steggall in November 2020. We made a **submission** to the parliamentary inquiry considering the Bill and spoke in support in the media. The Climate Change Bill would provide a much needed national, long-term framework for climate change mitigation and adaption.

We called for the Australian government to design economic stimulus which promotes both public and private sector action to address climate change and support resilient and sustainable infrastructure and technologies.





Tracking our progress

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. 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.

This year we report an additional two carbon footprint measures for our share investments, ‘carbon emissions’ and ‘carbon exposure’.

Over the 18 months³² since our last footprint reporting, the carbon intensity of our share investments and the benchmark have reduced slightly (see page 18). The new carbon footprint measures for our share investments are also well below benchmark, though not to the same extent. Our **TCFD Report** includes more information about this.

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:	48	23	87
Benchmark³³:	208	86	135
	t CO ₂ e per \$m revenue	t CO ₂ e per \$m invested	t CO ₂ e per \$m revenue
AE % below Benchmark	77%	73%	36%

³² The period is 18 months because we will now report these carbon metrics as at the end of the financial year, rather than at the end of the calendar year.

³³ 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).

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) 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.

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.

	Fossil fuel reserves per A\$1,000,000 invested	
	Our share investments	Share market benchmark
Thermal coal reserves	Zero	1,320 tonnes
Gas reserves	Zero	950 barrels of oil equiv.
Oil reserves	Zero	520 barrels of oil equiv.
Potential emissions from fossil fuel reserves	Zero	2,960 tonnes CO ₂ equiv.
From thermal coal, oil sands, shale oil and shale gas	Zero	2,550 tonnes CO ₂ equiv.





Our operational carbon footprint

Reducing emissions

Our operational emissions have continued to be impacted by COVID-19, with increases in remote working practices decreasing our operational footprint. We note however the impact of additional domestic emissions from working at home, and acknowledge these individual impacts are difficult for us to track. Beyond plans to continue to incorporate remote work in a post-pandemic world, we also reduce our emissions through purchasing renewable electricity for our directly metered office power. We also consider climate performance when we select suppliers of products and services. While we are looking to reduce our operational footprint, we want to ensure we are accurately measuring and reporting on the full scope of our emissions. This year we worked with Net Zero Media to better measure and understand the emissions resulting from our marketing spend, both traditional and digital (as we were unable to include digital marketing in our scope in FY20). Despite this increase in scope as well as an increase in employee count, our FY21 operational emissions reduced by more than 20%.

100% offset

We have offset 100% of our identified Scope 1 & 2 and 3 operational emissions since 2016. In FY21, emissions have been offset primarily by credits from the West Arnhem Land Fire Abatement (WALFA) project run by an Aboriginal-owned, not-for-profit carbon farming business. The WALFA project supports Traditional Owners in utilising customary fire knowledge to accomplish largescale fire management on Country. Our Foundation provides funding to the Mimal Land Management Aboriginal Corporation (Mimal) women's program via the Karrkad Kanjdji Trust. We are proud to further support Mimal's work through the procurement of their carbon abatement services. Ranger programs and the income they generate from offsetting programs have such wide reaching benefits, not just for the climate but for all communities and people involved, as well as preserving the climate, species, land and culture.

Breakdown of our operational carbon footprint

Category	FY18	FY19	FY20*	FY21
Scope 1 & 2 emissions (tonnes of CO ₂ emissions pa)	50.11	50.23	0	0
Operational Scope 3(tonnes of CO ₂ emissions pa)	36.5	54.69	449.5	349.8
Full scope emissions per full time equivalent employee	1.5	1.6	6.9	4.4
Full scope emissions intensity (total per AUD million revenue)	2.4	2.6	9.0	5.9
Full scope emissions per AUD billion funds under management	31	31	111	58
Offsetting of reported operational emissions	100%	100%	100%	100%

+ Figures prior to FY20 are not directly comparable with FY20 and after because in FY20 we expanded the categories of emissions reported. Previous years' emissions were limited to directly metered electricity and business travel. Also we incorrectly reported our purchase of renewable electricity under Scope 2 emissions, whereas in FY20 and after our Scope 2 (and Scope 1) emissions are correctly reported as zero.





Sustainable Development Goals





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 and advocacy is directly linked to the delivery of nearly every one of the 17 SDGs.



The Australian Ethical Charter since 1986

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 shall seek out investments which provide for and support:

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

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

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



How do 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 used the MSCI Sustainable Impact Metrics framework to review the companies we invest in for their sustainable impact compared to the impact of the Benchmark*. 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.

Our support for climate change action can be seen in our significant weighting towards Energy Efficiency, Alternative Energy and Green Buildings (SDGs 7, 12 and 13).

The following graph shows the revenue of 'sustainable impact' products and services produced annually by Australian and international companies that we invest in. Overall, we estimate this as 2.5 times the sustainable impact of an equivalent investment in the Benchmark*.

We have asked KPMG to provide limited assurance over key sustainability disclosures in our reporting (see page 55).

Member statements

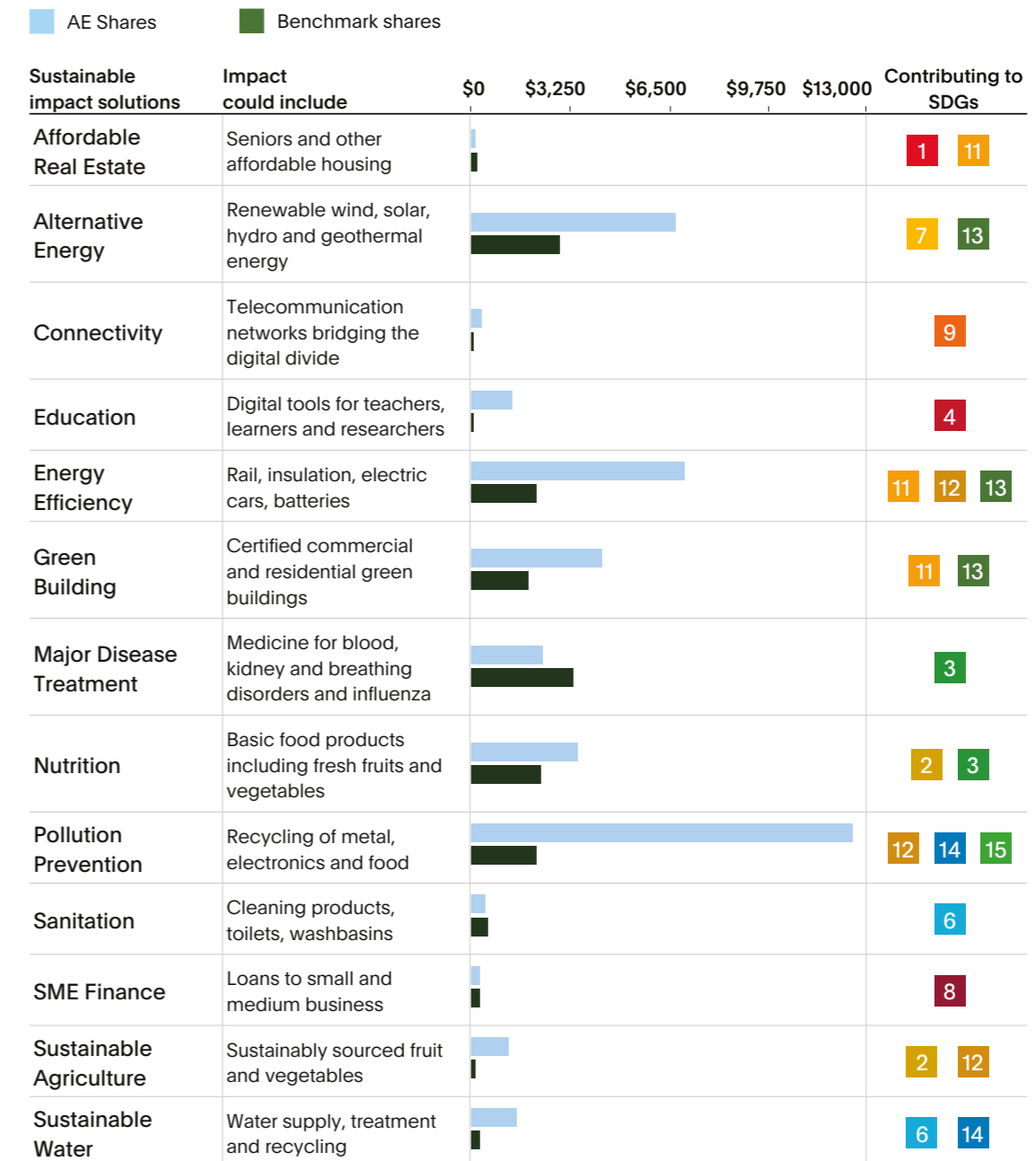
The FY21 superannuation member statements also demonstrate how revenue earned by companies in the member's investment options contribute to the Sustainable Development Goals (SDGs). Members can check their statement for personalised data based on their investment option mix, and this information is also available online at <https://www.australianethical.com.au/why-ae/impact/investment-impact/>.



Annual revenue of sustainable impact by companies in the AE portfolio is **2.5 x Benchmark***



SUSTAINABLE IMPACT REVENUE



For the information on these pages we have used our portfolio holdings as at 30 June 2021 and sustainable impact revenue data and analysis tools provided by MSCI ESG Research LLC accessed 14 July 2021. The comparison is based on listed shares in those companies for which MSCI provide the applicable data (80% of the companies we invest in); and using links we have determined between external categories of sustainable impact solutions and selected 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 57.

*For the comparison we have selected indices which we consider to be an appropriate investment benchmark for listed shares which Australian Ethical invests: S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). The indices are based on the composition of relevant share markets and companies, without selection of companies based on ethical, sustainability or ESG factors. The industry mix and other characteristics of companies Australian Ethical invests in and the indices are different.



Case studies

Pollution prevention

5.7x market

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 \$2,000 for an equivalent investment in the overall share market. 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 (\$8,300 per million invested) 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 is typically more than the value of recycled materials.

The company's contribution to impact in our portfolio has reduced to roughly a quarter of last year, mainly for the following reasons:

- We sold some shares (for financial investment reasons) so own less of the company, and it now makes up less of our portfolio (roughly two-thirds of what it was last year).
- The company's overall revenue has dropped, similar to a lot of companies experiencing a dip during COVID-19. This means they generated less sustainable impact revenue for the year, in line with a lower level of overall revenue for the year.

TARGETS

TARGET 12.2 By 2030, achieve the sustainable management and efficient use of natural resources

TARGET 12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses

TARGET 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse



Connectivity

8.1x market

Connectivity is a new category introduced in 2020 by MSCI, our sustainable impact data supplier. Added under the theme of 'Empowerment', companies that generate revenue from products and services relating to connectivity help bridge the digital divide and support equitable access to communication and information in Least Developed Countries (LDCs), as defined by the United Nations.

Example

Telenor Group (\$133 per million invested) is a Norwegian telecommunications company with operations focused in Scandinavia and Asia, including LDCs such as Bangladesh and Myanmar. By providing internet infrastructure to underserved communities and countries, Telenor is able to connect those who might not otherwise have access to the internet and the opportunities it can bring.

We note that the company's operations in Myanmar have been called into question in the face of the country's recent military upheaval. The company announced in July 2021 its intention to sell its mobile operations in Myanmar to M1 group, meaning it will no longer have exposure to Myanmar. From an ethical perspective, decisions by companies to sell off the problematic arms of their business are difficult to judge. On one hand, no company wants exposure to high risk human rights jurisdictions. On the other hand, an ethical argument can be made for companies with high standards of business conduct and transparency to try to manage issues in an effort to improve the situation, rather than selling the problem business off, potentially to a company with lower standards that may not manage ESG issues as well as the exiting company.

TARGETS

TARGET 9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries

Indicator 9.c.1 Proportion of population covered by a mobile network, by technology

Although the following targets were designed with countries in mind, as a business we think we can still do our part to progress towards them.

TARGET 17.6 Enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation and enhance knowledge sharing on mutually agreed terms, including through improved coordination among existing mechanisms, in particular at the United Nations level, and through a global technology facilitation mechanism

Indicator 17.6.2 Fixed Internet broadband subscriptions per 100 inhabitants, by speed

TARGET 17.8 Fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology

Indicator 17.8.1 Proportion of individuals using the Internet



Sanitation

0.9x market

Revenue derived from sanitation in our portfolio's overall sustainable impact revenue per million dollars invested lagged a little behind the market benchmark, at roughly \$550 compared to roughly \$600. While we support and invest in companies that assist in sanitation under Charter element h (activities which contribute to human happiness, dignity and education), we may screen out sanitation companies if they are not adequately managing their environmental and social impacts. We want to ensure the companies we invest in are appropriately managing the labour used in their supply chain, and the sustainability of the materials going into their products (as well as their products' end-of-life treatment).

Example

Fortune Brands Home & Security (\$230 per million invested) is a home and security products company based in the United States. In its most recent financial year it derived an estimated one fifth of its revenues from basic sanitary products such as water-efficient faucets and showers. The company reports on how it conserves water and reduces its waste and has an internally developed environmental management system. It also discloses its human rights policy and supplier code of conduct as well as how it audits its suppliers to identify and mitigate environmental and human rights risks.

TARGETS

- TARGET 6.1** By 2030, achieve universal and equitable access to safe and affordable drinking water for all
- TARGET 6.4** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity



Major disease treatment

0.7x market

Our revenue from major disease treatment is slightly smaller than that of the benchmark at roughly \$2,500 compared to \$3,500. 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.

Example

CSL Limited (\$490 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 (\$450 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.

Chugai Pharmaceutical Co (\$190 per million invested) sells products for the treatment of non-small cell lung cancer and influenza, as well as orphan drugs used to treat breast cancer and haemophilia.

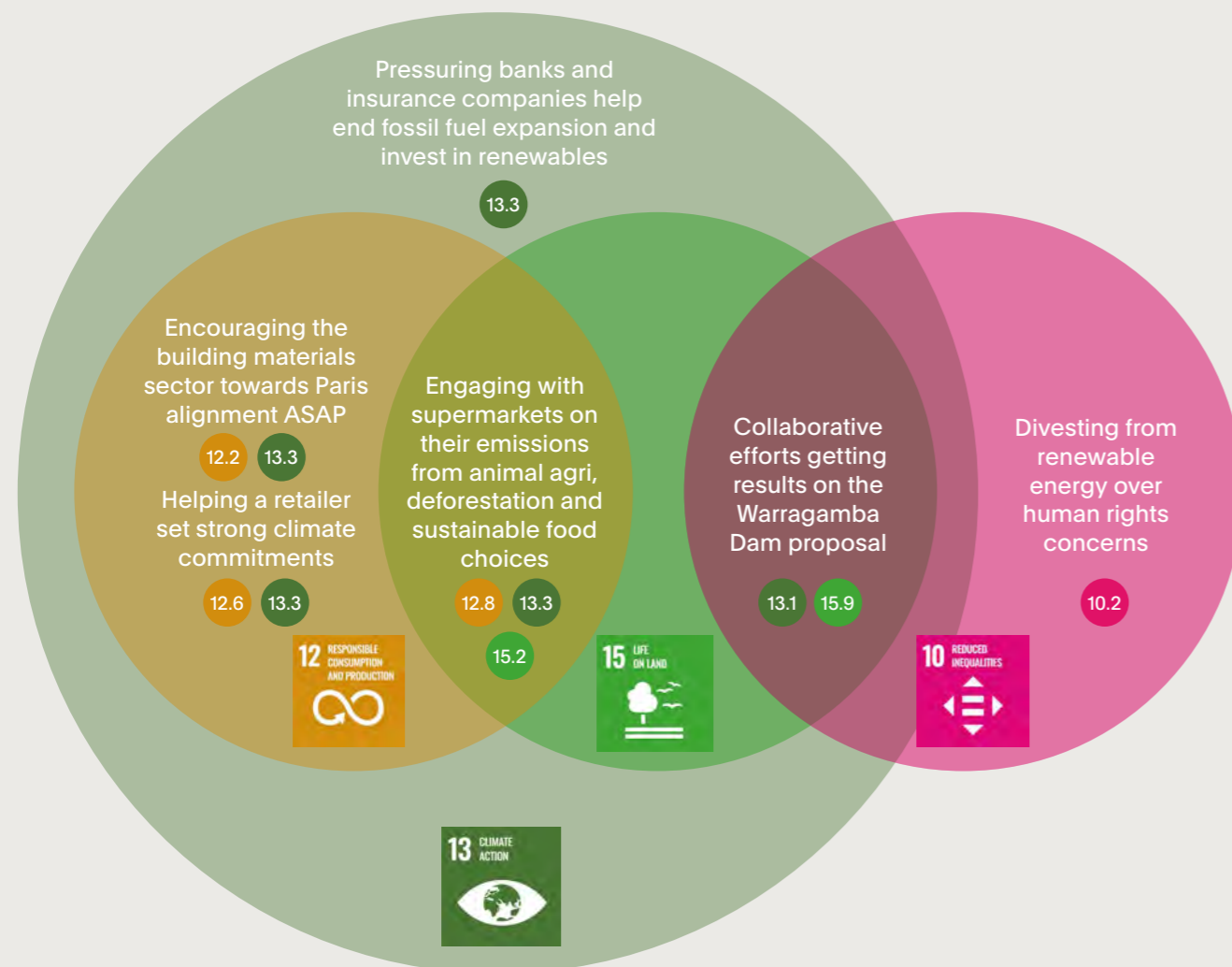
TARGETS

- 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



Supporting key SDGs with our advocacy

This page showcases how we are advocating to further progress towards the SDGs and their underlying targets. You can read all about each engagement on pages 20 to 26.



Focus SDG targets

- 10.2** By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
- 12.2** By 2030, achieve the sustainable management and efficient use of natural resources
- 12.6** Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
- 12.8** By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature
- 13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
- 13.3** Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
- 15.2** By 2020*, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
- 15.9** By 2020*, integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts

* We note the year for these targets has passed, which makes it all the more important we advocate for immediate action.



GRI Index



Disclosure	Description	Reference																																	
Organisational profile																																			
102-1	Name of the organisation	Front cover																																	
102-2	Activities, brands, products and services	Pages 28, 29 Annual Report pages 23 Additional information is available at australianethical.com.au																																	
102-3	Location of headquarters	Sydney, Australia																																	
102-4	Location of operations	Our office is located in Sydney, Australia																																	
102-5	Ownership and legal form	Annual Report Inside front cover Page 34																																	
102-6	Markets served	<table border="1"> <thead> <tr> <th>State</th> <th>Managed funds clients</th> <th>Super members (funded)</th> </tr> </thead> <tbody> <tr> <td>ACT</td> <td>677</td> <td>1,833</td> </tr> <tr> <td>NSW</td> <td>4,003</td> <td>19,900</td> </tr> <tr> <td>NT</td> <td>100</td> <td>882</td> </tr> <tr> <td>QLD</td> <td>1,431</td> <td>7,236</td> </tr> <tr> <td>SA</td> <td>628</td> <td>2,703</td> </tr> <tr> <td>TAS</td> <td>461</td> <td>2,449</td> </tr> <tr> <td>VIC</td> <td>3,577</td> <td>18,936</td> </tr> <tr> <td>WA</td> <td>740</td> <td>4,947</td> </tr> <tr> <td>Other</td> <td>176</td> <td>594</td> </tr> <tr> <td></td> <td>11,793</td> <td>59,480</td> </tr> </tbody> </table>	State	Managed funds clients	Super members (funded)	ACT	677	1,833	NSW	4,003	19,900	NT	100	882	QLD	1,431	7,236	SA	628	2,703	TAS	461	2,449	VIC	3,577	18,936	WA	740	4,947	Other	176	594		11,793	59,480
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Other	176	594																																	
	11,793	59,480																																	
102-7	Scale of the organisation	Pages 9, 10, Annual Report pages 2, 6, 7 Total Employees = 80 (including 2.5 contractors) F 45 (57%) : O 1 (1%) : M (42%)																																	
102-8	Information on employees and other workers	Page 37 Employees are usually based at our office in Sydney. Due to the COVID-19 epidemic employees moved to work from home arrangements. Home included interstate locations such as Canberra and Brisbane.																																	
102-9	Supply Chain	Page 35 Modern Slavery Statement 2020																																	
102-10	Significant changes to the organisation and its supply chain	Page 16, 35																																	
102-11	Precautionary Principle or approach	The Australian Ethical Charter is aligned with the Precautionary Principle.																																	
102-12	External initiatives	Pages 5, 6, 7, 8, 9, 10, 14, 17, 18, 21-25, 29, 34-37, 40, 42, 44-48 Annual Report pages 2, 3, 7, 20, 21, 25, 27, 28 The 2021 TCFD Report Modern Slavery Statement 2020 The Australian Ethical Foundation Impact Report 2021																																	
102-13	Memberships of associations	Pages 38																																	

Disclosure	Description	Reference
Strategy		
102-14	Statement from senior decision-maker	Page 7 Annual Report pages 2, 4, 19, 20, 23-31
102-15	Key impacts, risks and opportunities	Pages 7, 10, 11, 21-24, 30, 32, 33, 40-47 Annual Report 2, 19, 20, 26-31
Ethics & integrity		
102-16	Values, principles, standards and norms of behaviour	Pages 7, 8, 17, 30, 32, 44 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 FY21, 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 34 Annual Report Pages 17-19, 52
102-19	Delegating authority	Corporate Governance Statement, Principle 7
102-20	Executive level responsibility for economic, environmental and social topics	Page 5, 8 Annual Report page 14 Ethical Investment Policy
102-21	Consulting stakeholders on economic, environmental, and social topics	Pages 21-26, 32, Appendix 1
102-22	Composition of the highest governance body and its committees	Page 34 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, 18
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 28, 34, 35, 37, 40 Annual report page 82 TCFD Report 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	Page 14 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 36-53
102-36	Process for determining remuneration.	Remuneration Report (as part of the Annual Report), pages 36-53
102-37	Stakeholders' involvement in remuneration	Remuneration Report (as part of the Annual Report), page 52

Disclosure	Description	Reference
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 3.00:1
102-39	Percentage increase in annual total compensation ratio	The highest paid individual's salary increased by 2% and the median salary increased by 1%.
Stakeholder Engagement		
102-40	List of stakeholder groups	Page 32, Appendix 1 of the GRI Report
102-41	Collective bargaining agreements	No staff are employed on collective bargaining agreements
102-42	Identifying and selecting stakeholders	Page 32
102-43	Approach to stakeholder engagement	Pages 6, 26, 32, 33, Appendix 1 of the GRI Report
102-44	Key topics and concerns raised	Page 6, 21-26
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: <ul style="list-style-type: none"> Our ongoing stakeholder engagement activities described in this report The application of the Australian Ethical Charter through all of our investment and operational decisions that shows a critical understanding of the sustainability challenges that the world around us faces A robust materiality assessment 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 FY21. 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 6
102-48	Restatements of information	No restatements of information in the period.
102-49	Changes in reporting	Nil
102-50	Reporting period	1 July 2020 to 30 June 2021
102-51	Date of the most recent report	28 October 2020
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 6
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 55



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 9, 10, 12, 33 Annual Report pages 6, 7, 8, 9, 10, 11, 20, 21, 22, 24	I (no limitations)
201-2 Financial implications and other risks and opportunities due to climate change		Pages 4,7, 17-19, 22-23, 40-42 Annual Report pages 2, 20, 27, 28, 30 TCFD Report page 15	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.		I
	Code of Conduct		
205-3 Confirmed incidents of corruption and actions taken	There were no incidents of corruption concerning Australian Ethical's business, its employees, or business partners, nor any public legal cases regarding corruption brought against Australian Ethical or its employees		I (no limitations)
Supplier Environmental Assessment 2016			
Management Approach (103-1; 103-2; 103-3)	100% of investment agreements and contracts have been screened against the Australian Ethical Charter which excludes investments that: pollute land, air or water; destroy or waste non-recurring resources; or acquire land or commodities primarily for the purpose of speculative gain		
	<ul style="list-style-type: none"> Australian Ethical will only use external investment services where the provision of those services to Australian Ethical is assessed to be aligned with the Australian Ethical Charter All new suppliers are assessed for alignment with the ethical charter 		
	Page 35		
	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	I (no limitations)

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
Human Rights Assessment 2016			
Management Approach (103-1; 103-2; 103-3)		Australian Ethical Charter	I
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 8, 14, 16, 22, 25, 48	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 Chief Risk Officer and legal team monitor responsible marketing compliance by reviewing all disclosure documents before they are released. The Board approves all new products and associated product disclosure statements prior to their release to the market. Australian Ethical is committed to respecting our clients' right to privacy and protecting our clients' personal information. We are bound by the provisions of the Privacy Act (1988) (Cth) which regulates how we collect, use, disclose and keep personal information secure.	
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 5, 14, 16 Ethical Investment Policy	I
FS6	Percentage of the portfolio for business lines by specific region, size and by sector	Pages 15, 16, 28 Annual Report pages 6, 10, 11, 20, 21, 23, 24	I (no limitations)
Active Ownership			
G4-Disclosure on Management Approach		Pages 21 - 26 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 2021	
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 21 Ethical Investment Policy	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)

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
Australian Ethical Specific Material Topics			
Credibility of Investment Team			
Management Approach (103-1; 103-2; 103-3)		Page 12 - 13 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 4, 5, 7, 8, 32, 37 Annual Report pages 2, 4, 19, 24, 25, 26	I
COVID-19			
Management Approach (103-1; 103-2; 103-3)		Pages 6, 7, 10, 12, 13, 37, 42, 44 Annual Report pages 4, 10, 28, 32, 33, 35	I
Climate Change Risks and Opportunities			
Management Approach (103-1; 103-2; 103-3)		Pages 4, 6, 40, 41 Annual Report pages 4, 5, 22, 29, 30, 32 TCFD Report	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 vote for Community Grants recipients, invitation to participate in the "Open your eyes" Campaign see page 26.
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	Adviser updates via email, invitation to vote for Community Grants recipients and face-to-face engagement at professional development days and site visits (pre-COVID-19). We delivered a number of interactive webinar and virtual speaking spots for advisers covering Ethical Investing.
Employers	Due to COVID-19 there were no onsite visits, instead we presented virtual education sessions with existing and new employers and virtual pitches for new business. We launched an Induction kit for new employees utilising the online Money 101 financial education modules. We introduced the new employer portal and clearing house for employee super payments.
Shareholders	Annual and Sustainability Report, dividend notices, Annual General Meeting, ASX notices, shareholder self-serve online portal and invitation to vote for Community Grants recipients.
Investee companies	Proxy voting, meetings with management teams, advocacy engagements.
Community	We engaged daily with our social media community of more than 138,000 followers, sharing news on the company, how we invest and the companies we invest in, news on our Community Grant recipients and climate actions they can take. We invited our community to join us at the Climate Strike in May 2021 and invited them to participate in our "Open your eyes campaign" see page 26. We collaborated with other organisations and businesses to amplify environmental and social justice campaigns.





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 2021.

Information Subject to Assurance

The Assured Sustainability Information as at 30 June 2021, as presented in the 2021 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)	48
Carbon footprint of the blended S&P ASX200 Index and MSCI World ex Australia Index benchmark (tCO2e per AUD \$ million revenue)	208
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)	2.5
Affordable Real Estate sustainable impact revenue in \$ per \$1 million invested (\$USD)	225
Affordable Real Estate sustainable impact revenue per \$1 million invested relative to the market (times market)	1.0
Alternative Energy sustainable impact revenue in \$ per \$1 million invested (\$USD)	6,806
Alternative Energy sustainable impact revenue per \$1 million invested relative to the market (times market)	2.3
Connectivity sustainable impact revenue in \$ per \$1 million invested (\$USD)	390
Connectivity sustainable impact revenue per \$1 million invested relative to the market (times market)	8.1
Education sustainable impact revenue in \$ per \$1 million invested (\$USD)	1,387
Education sustainable impact revenue per \$1 million invested relative to the market (times market)	11.8
Energy Efficiency sustainable impact revenue in \$ per \$1 million invested (\$USD)	7,062

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Assured Sustainability Information	Value
Energy Efficiency sustainable impact revenue per \$1 million invested relative to the market (times market)	3.2
Green Building sustainable impact revenue in \$ per \$1 million invested (\$USD)	4,356
Green Building sustainable impact revenue per \$1 million invested relative to the market (times market)	2.3
Major Disease Treatment sustainable impact revenue in \$ per \$1 million invested (\$USD)	2,419
Major Disease Treatment sustainable impact revenue per \$1 million invested relative to the market (times market)	0.7
Nutrition sustainable impact revenue in \$ per \$1 million invested (\$USD)	3,563
Nutrition sustainable impact revenue per \$1 million invested relative to the market (times market)	1.5
Pollution Prevention sustainable impact revenue in \$ per \$1 million invested (\$USD)	12,563
Pollution Prevention sustainable impact revenue per \$1 million invested relative to the market (times market)	5.7
Sanitation sustainable impact revenue in \$ per \$1 million invested (\$USD)	549
Sanitation sustainable impact revenue per \$1 million invested relative to the market (times market)	0.9
SME Finance sustainable impact revenue in \$ per \$1 million invested (\$USD)	322
SME Finance sustainable impact revenue per \$1 million invested relative to the market (times market)	1.0
Sustainable Agriculture sustainable impact revenue in \$ per \$1 million invested (\$USD)	1,254
Sustainable Agriculture sustainable impact revenue per \$1 million invested relative to the market (times market)	6.3
Sustainable Water sustainable impact revenue in \$ per \$1 million invested (\$USD)	1,544
Sustainable Water sustainable impact revenue per \$1 million invested relative to the market as at 30 June 2021 (times market)	4.8

Criteria Used as the Basis of Reporting

The applicable criteria used as the basis of reporting by Management, developed by AEI ("the criteria"), and 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;
- evaluating the appropriateness of the criteria with respect to the Selected Sustainability Information; and
- reviewed the 2020 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 2020, 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.

KPMG

Sydney
19 November 2021



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Impact data

Investment carbon footprint metrics need to be used with caution. Company carbon 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. 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.

Similar limitations apply to measurement of other types of impact of companies. 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.

This 'impact data' is not the only basis upon which you should make an investment decision and this information should not be taken as a recommendation to buy, sell or hold a particular financial product.

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Our purpose

Our 2021 Report

Principled investment leadership

Advocates for a better world

Compelling client experience

Impactful business

Leadership & Innovation

Climate

Sustainable Development Goals

Global Reporting Initiative Index



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

Find out more

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