



**2020
Sustainability
Report**

About this report

Welcome to the 2020 Australian Ethical Sustainability Report.

Unlike other financial services organisations, we know our impact goes much further than the **strong financial returns** we make for our members and investors. That's why this year we are expanding our reporting to capture how we generate sustainable value for all our diverse stakeholders. This includes a deeper look at our advocacy initiatives, climate action, community support and people and culture highpoints.

We believe our new approach reflects our commitment to operating with integrity and transparency and to delivering positive outcomes for all our stakeholders – from customers to communities, and from shareholders to society.

We have been reporting to the Global Reporting Initiative (GRI) framework since 2002. To make sure we continue to focus on the issues that matter most in a year of exceptional events, we have undertaken a more extensive materiality review, the key insights of which drive the format of our GRI and supplementary reports.

We have asked KPMG to provide limited assurance over key sustainability disclosures in our reporting. KPMG's assurance opinion is available on page 66.

You can read the full sustainability report here or download the section you are interested in from [here](#).

Our other 2020 reports:

[Annual Report](#) | [TCFD Report](#) | [SDG Report](#)

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A vibrant underwater scene featuring a diverse coral reef. In the foreground, there are large, textured brown and orange corals. The middle ground is filled with various types of coral, including branching and brain corals, in shades of pink, orange, and green. Numerous small, colorful fish, including blue tangs and yellow tangs, are swimming throughout the water. The background shows the surface of the water with sunlight filtering through, creating a shimmering effect. The overall atmosphere is bright and healthy.

The name 'Australian Ethical' is not a marketing label or rebrand in response to recent market trends. We have been investing for a better world for more than 30 years.

Who is Australian Ethical?

We are Australia's experts in ethical investing, offering managed funds, super and pensions with a significant difference. We **deliver strong investment performance**, while making sure that the companies we invest in are building a better world and not doing harm to the planet, people or animals.

We are one of the most authentic and comprehensive ethical investment choices on the market. We are not simply 'ticking boxes' but are true to our ethical label because ethical investing isn't just something we do, it's everything we do.

Our investment decisions, the way we recruit, the way we treat our employees and suppliers, the issues we take a stand on and the decisions made when operating our funds are all governed by our Ethical Charter. This means with us, you don't have to compromise your future, or the planet's.

We've been drawing a line between good and bad since 1986. And while some people used to dismiss us as activists or do-gooders, more than a decade of **strong performance has** changed opinions. Now it seems like everyone is jumping on our ethical bandwagon.

But greenwashing won't wash with us. And nor should it with you.

Our success this financial year proves that Australian Ethical gives you choices. Good choices. The more you choose them, the better the outcomes for you, and the better for everyone.

That's because we believe good adds up. Good does better than bad. And good is all we invest in.

Every aspect of our business is guided by our Ethical Charter

Australian Ethical Charter[©]

Ethical investments

- Investment process
- High performance
- New economy
- Low carbon

Ethical business

- The Charter
- Governance
- Transparency
- Credentials

Ethical people

- Ethos
- Recruitment
- Diversity
- Employee benefits

Ethical voice

- Advocacy
- Shareholder voice
- Influencing

Delivering global goals

- Net zero
- The GRI
- The SDGs
- TCFD

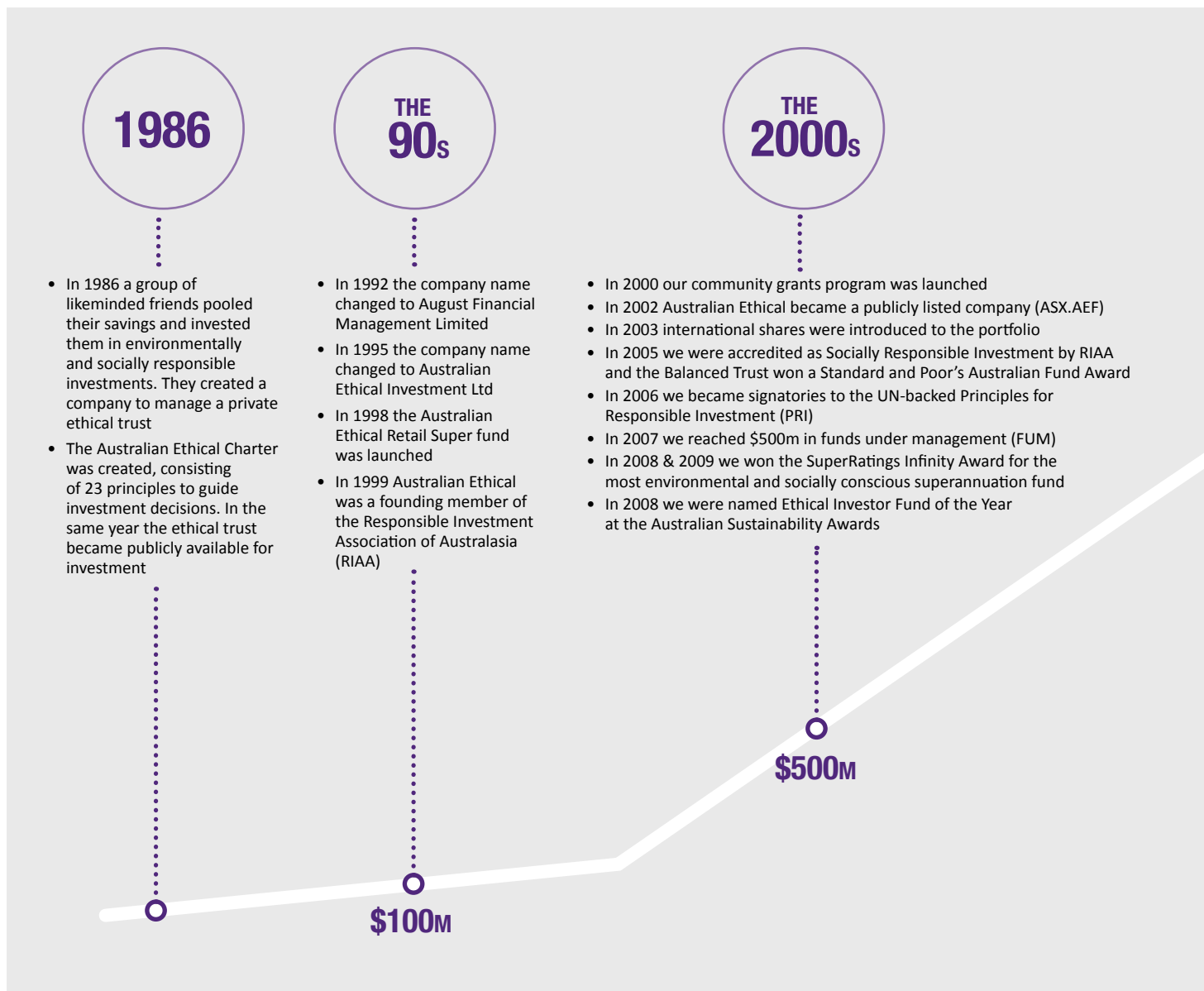
Partners

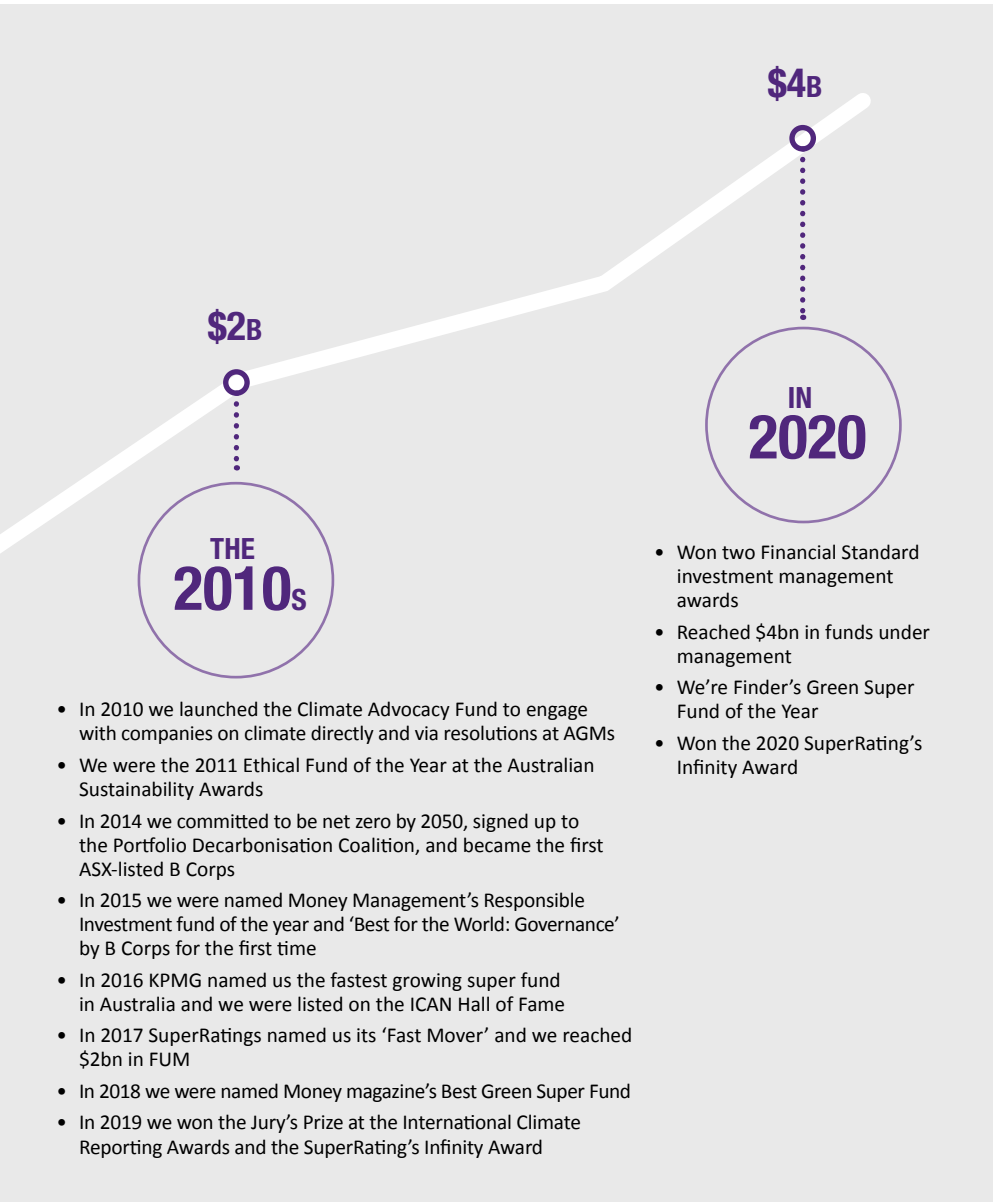
- Strategic partners
- Impact investing
- Community grants

Our history

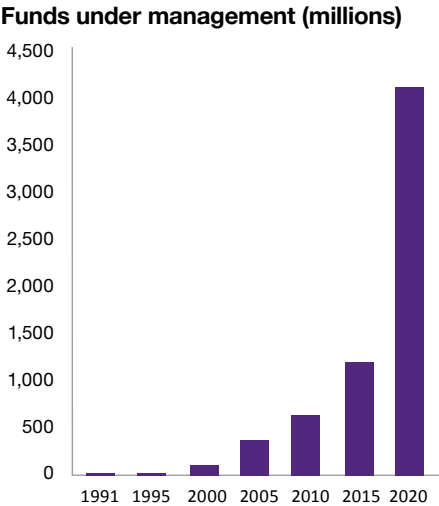
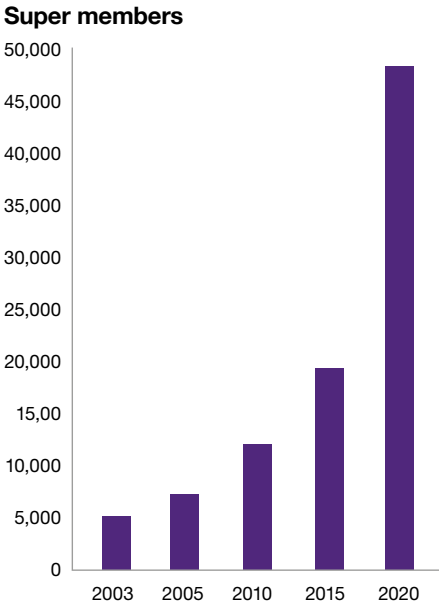
30 years of growing good money

In 1986 a group of likeminded friends pooled their savings and invested them in environmentally and socially responsible investments. They created a company to manage a private ethical trust. The Australian Ethical Charter was created, consisting of 23 principles to guide investment decisions. In the same year the ethical trust became publicly available for investment.





How we have grown



OUR PURPOSE

INVESTING
FOR A
BETTER WORLD

OUR VALUES

WISDOM
AUTHENTICITY
ACTION
EMPATHY

OUR VISION

A WORLD
WHERE MONEY
IS A FORCE FOR
GOOD

In 1986 our founders laid out their vision of the future. By infusing money with morals, they set out to fundamentally change the system so that it worked for the many rather than the few. Their purpose was to invest for a better world.

More than 30 years later and we have not steered far from these original beliefs. We are still committed to investing for a better world at a time when it has never seemed so urgent.

This sole purpose is embedded across our organisation and drives our everyday activities as a business, investor, brand, employer and corporate citizen.

We find that being able to clearly articulate our company's very specific reason for being helps motivate us to do our best not just for our customers but for our three pillars of people, planet and animals. Our purpose ensures that we always look beyond the short-term and keep the future in mind when we make our day-to-day decisions in pursuit of the most sustainable solutions.

Our purpose is brought to life by:

- Embedding ethics into our investment process
- Putting ethics at the heart of how we do business
- Acting as responsible long-term stewards of capital
- Using our influence to advocate for meaningful change
- Donating 10% of our profits¹ to charitable, benevolent and conservation causes

- Exercising transparency and disclosing our activities

And while our business has seen incredible growth, we are still learning and adapting. Ethical investing is evolving, the world is changing quickly, and COVID-19 makes the economic outlook uncertain. But amid such uncertainty, you can be sure that our commitment to our purpose remains unchanged.

Why do we invest ethically?

In 2020, there are few people who still deny the reality of climate change, biodiversity loss and resource scarcity. The devastating impact of these challenges is being felt globally. No sector, or country, will be left unaffected.

The investment decisions we make have a critical role in enhancing rather than damaging the environment and supporting rather than eroding livelihoods.

But more than morals, investing in companies that make a positive impact on the world and avoiding investments that damage the world **can deliver strong financial returns**². That's because companies with good governance, that promote diversity and actively minimise their environmental footprint are **outperforming companies that don't**³.

We believe an ethical investment approach can help all investors as they seek to pursue their long-term financial and non-financial objectives simultaneously.

For too long, people have toiled under the belief that you cannot do well by doing good. That the two are mutually exclusive.

But the past year has seen this logic turned on its head to reveal that doing good is itself a key lever of success. The impact of COVID-19 has shown that companies that do good, do well. Meanwhile, investors who invest for good also do well.

1. After tax and before bonuses

2. [responsibleinvestment.org/resources/benchmark-report/](https://www.responsibleinvestment.org/resources/benchmark-report/)

3. [blackrock.com/corporate/sustainability/committed-to-sustainability](https://www.blackrock.com/corporate/sustainability/committed-to-sustainability)



Australian Ethical in the future

In the wake of the coronavirus, ethical investing has seen its attractiveness surge. Amid a bleak economic outlook, a bright spot has been the growing interest in ethical investing, which in many ways has proved to be pandemic-proof as investors seek positive impact in addition to returns.

One of my key priorities when I took over as chief executive in February 2020 was setting a strategic focus for the business that leveraged our many internal strengths as well as the confluence of external factors that have helped thrust ethical investing into the spotlight.

Unlike many other organisations, Australian Ethical already had a clear understanding of its purpose long before I arrived. From a strategy perspective, the challenge would be how to use this competitive advantage to remain industry leader with others seeking to replicate what we do.

As such, our strategy recognises a need to invest in our business in the short term to grow our impact for the long-term. We have identified four strategic priorities, supported by a set of strategic initiatives, that will act as a roadmap to continuing success.

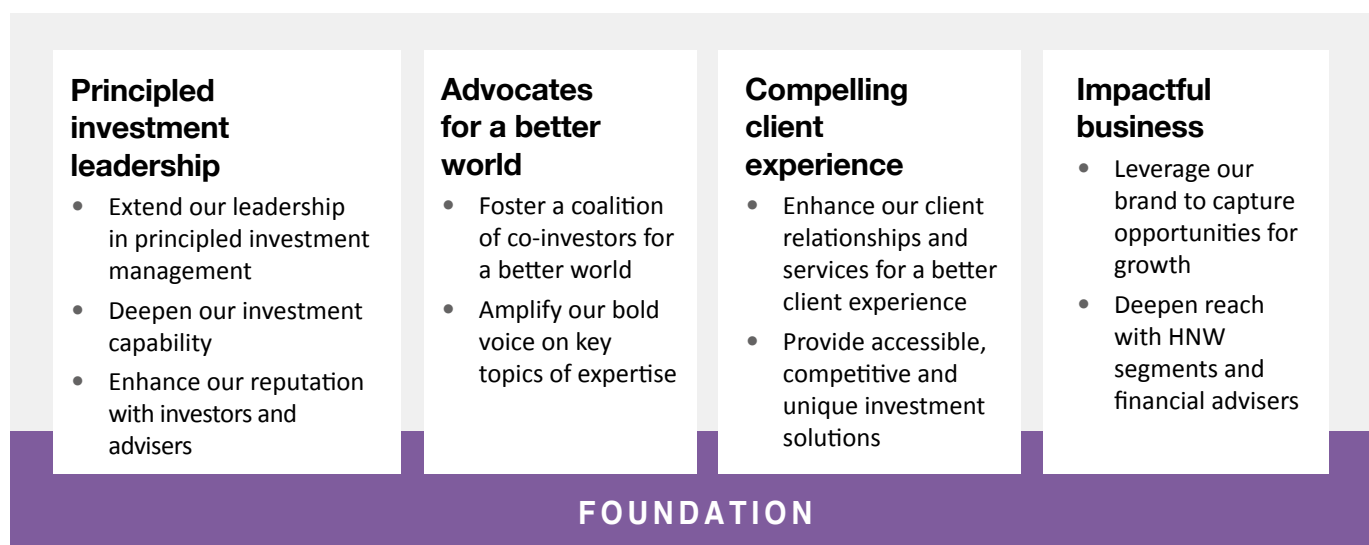


John McMurdo
Chief Executive Officer and Managing Director

In many ways, COVID-19 has been a global reset and today we find ourselves on the starting line. But we have a clear understanding of who we are and a road map to help turn our ideas and ambition into tangible solutions that generate financial returns and a better future.

Strategic priorities

Aligning the business for continuing success



Leadership & Innovation

Further develop our professional, high performing people | Foster creativity and innovation for improved client outcomes

Highlights

\$4.05 billion

IN FUNDS UNDER MANAGEMENT



\$49.9 million
REVENUE



\$9.5 million
NET PROFIT AFTER TAX ¹



ENTERED THE
S&P/ASX 300

EMERGING COMPANIES FUND
outperformed  **BY 20.6%** ²

20%  **GROWTH IN New clients** ³

Top 3 MYSUPER BALANCED OPTION ONE YEAR ^{4, 5}



171%  **INCREASE IN Shareholders**

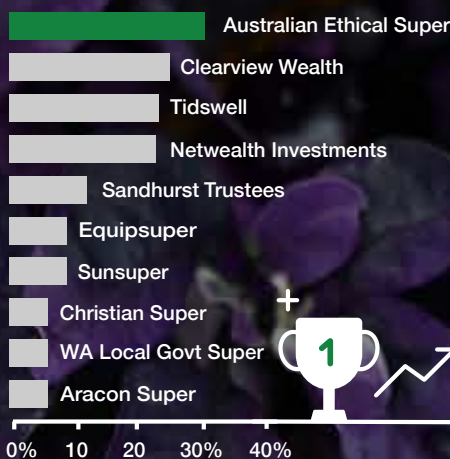
Winner 2
FINANCIAL STANDARD INVESTMENT LEADERSHIP AWARDS ⁶

No.1

FASTEST GROWING SUPER FUND

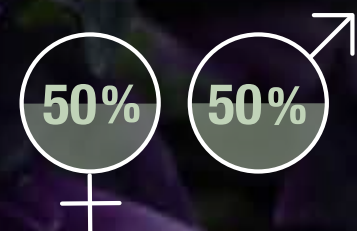
in Australia over the last 5 years by members & assets under management ⁷

AVERAGE ANNUAL MEMBER GROWTH



Gender equality

ON OUR BOARD



SHARE INVESTMENTS PRODUCED

75% less CO₂



THAN BENCHMARK⁸



MAINTAINED NIL INVESTMENT
IN NUCLEAR, TOBACCO, FOSSIL FUEL
AND GAMBLING COMPANIES^{9,10}



3.8 times
THE SDG IMPACT¹¹

5 times more



INVESTMENT IN RENEWABLE POWER
GENERATION THAN THE GLOBAL SHARE MARKET¹²

\$1.3 mil



DONATED TO THE AUSTRALIAN
ETHICAL FOUNDATION¹³



**Best for the
World**

STATUS BY B CORPS¹⁴

+ 63 NPS

FOR OUR SUPER FUND¹⁵

+ 58 NPS

FOR OUR MANAGED FUNDS¹⁵



+ 86%

EMPLOYEE
ENGAGEMENT¹⁶

1. Attributable to shareholders. 2. Australian Ethical's Emerging Companies fund (retail) returned 13.2% for the 12 months to 30 June 2020, outperforming its benchmark the S&P/ASX Small Industrials by 20.6%. 3. Includes both super fund members and managed fund investors. 4. As at 30 June 2020 the Australian Ethical Australian Shares option was second for one-year returns in the Chant West review of Growth funds (MySuper options with 61-80% growth assets). 5. As at 30 June 2020 the Australian Ethical Balanced option was third for one-year returns in the SuperRatings SR50 Balanced (60-76) Index. 6. The Australian Ethical Australian Shares Fund won both the 2020 Financial Standard Australian Equities High Performance award and ESG award. 7. KPMG Super Insights Report 2020, published 18 May 2020, using statistics published by APRA and ATO as at 30 June 2019. 8. Carbon intensity (tonnes CO₂e per \$ revenue) of Australia Ethical share investments compared to blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Shareholdings as at 31 December 2019. Assured by KPMG (see page 66). 9. 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). 10. We have never invested in tobacco and support Tobacco Free Portfolios. 11. Based on the 'sustainable impact' revenue earned by companies whose shares we invest in, compared to the blended benchmark. Shareholdings as at 31 December 2019. Assured by KPMG (see page 66). 12. Proportion of our share investments in renewable power generation compared to global share market. 13. Provisioned for donation to The Australian Ethical Foundation. 14. B Corps 'Best for the World Honouree' Governance 2019. 15. Australian Ethical Brand Research, Pollinate, February 2020. 16. Culture Amp Survey, June 2020 (Top quartile Australian employee engagement benchmark is 70%).

Three-year scorecard

After the significant challenges of FY20, its pleasing to see our three-year scorecard showing a positive trend on nearly all our metrics.

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 by 2050 measured by our CO2 emissions versus the benchmark¹ and our proportional investing in renewables to support the transition to a 1.5 degree scenario²
- Alignment of our sustainability impact to the global Sustainable Development Goals³
- Tracking of companies engaged with and companies changed
- 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

As our scorecard on the next page demonstrates, we are tracking well on growth in good money and on our governance measures. The carbon intensity of our portfolio continues to decrease and is now 75% less than benchmark, while our proportional investment in renewable energy remains five times greater than the global share market.

We track, mitigate and offset our operational Scope 1, 2 and 3 emissions. In FY20 we expanded our operational footprint measurement resulting in a large increase of our reported operational emissions and in our carbon offsetting.

More information on all these metrics is set out in the Our climate actions section of this report (See page 60).



Metric		FY18	FY19	FY20	Trend
Growth in good money	Total FUM	\$2.82 bn (+31%)	\$3.42 bn (+21%)	\$4.05 bn (+19%)	●
	Super members (funded)	36,482 (+13%)	40,530 (+11%)	48,819 (+20%)	●
Good governance	Profit after tax	\$5.0m	\$6.5m	\$9.5m	●
	Share price	\$135.00	\$1.77 (\$177) ⁴	\$6.66	●
	B Corps Best For The World : Governance	Achieved	Achieved	Achieved	●
Net zero emissions by 2050 ⁵	Full scope operational emissions per full time equivalent employee ⁶	0.86	0.77	6.9	●
	Operational Scope 3 emissions ⁶	36.5	54.69	449.5	●
	Offsetting of operational Scope 1, 2 & 3 emissions	100%	100%	100%	●
	Carbon intensity of share investments compared to benchmark ¹	66% less	70% less	75% less	●
	Proportion of our share investments in renewable power generation compared to global share market ²	6 x	6 x	5 x	●
Sustainability impact	Alignment of share investments to the global SDGs ³	3.4 x benchmark ¹	3.1 x benchmark ¹	3.8 x benchmark ¹	●
Engaging for good	Companies engaged with through advocacy	More than 300	More than 250	More than 400	●
	\$ provisioned for community impact	\$710,000	\$937,000	\$1.3 million	●
	Social media community	119,000+	127,500+	134,000+	●
Stakeholder engagement	Managed fund NPS ⁷	+48	+54	+58	●
	Super NPS ⁷	+53	+62	+63	●
	Employee Engagement ⁸	78%	71%	86%	●

1. The Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). See also page 62 for calculation details.

2. The 2015 United Nations Climate Change Conference held in Paris from 30 November to 12 December 2015 set a target to limit global temperature rise to well below two degrees Celsius and to pursue a limit of 1.5 degrees, to avert some of the most severe effects of climate change. In October 2018 the IPCC left us in no doubt about the harm that is coming our way as we move beyond today's 1°C temperature increase. Warming beyond 1.5°C increases the risk of irreversible changes, whereas the changes which keep warming under 1.5°C will deliver a more sustainable and equitable society.

3. Based on the 'sustainable impact' revenue earned by companies whose shares we invest in, compared to the blended benchmark. Shareholdings as at 31 December 2019. Assured by KPMG see page 66.

4. A share split of 1:100 occurred in the period.

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

6. In FY20 we expanded the scope of our operational emissions footprinting for more information see Our climate actions section of this report.

7. Australian Ethical Brand Research, Pollinate, February 2020.

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

Our 2020 reporting suite

In FY20 we have further expanded our sustainability reporting framework to provide a suite of reports covering critical global topics such as climate change and the UN's global Sustainable Development Goals (SDGs). We have chosen these reporting criteria as they align with our commitment to reporting transparently about how we conduct our business. They also allow us to incorporate current, emerging and future sustainability issues into our business model.

In FY20 we report:

- to the GRI Standards (core option)
- to the Taskforce on Climate-Related Disclosures (TCFD)
- on our progress towards a net zero emissions portfolio
- on our alignment to the global Sustainable Development Goals (SDGs)
- on our advocacy and engagement

Listening to our stakeholders

We understand that all our business and financial decisions have an impact on our stakeholders and are committed to actively maintaining a strong connection with the world around us.

That's why in a year where summer bushfires devastated our country and COVID-19 left a trail of emotional, social and economic destruction, we thought it timely to conduct a broader consultation with our stakeholders. We did this through a desktop review of customer feedback over the year, interviews with internal stakeholders and a materiality survey open to investors, members, shareholders, advisers, community grants recipients and those with a professional relationship with Australian Ethical.

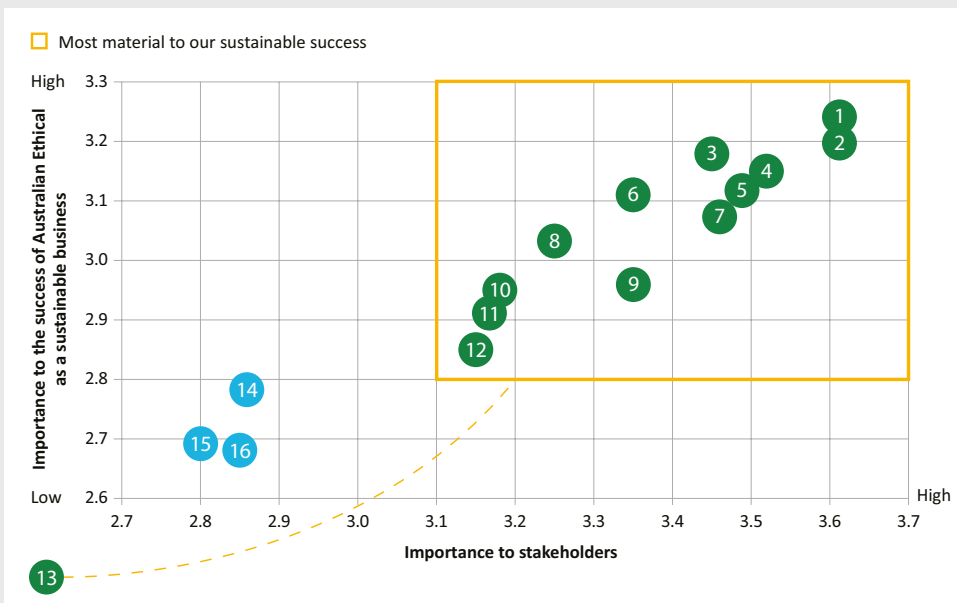
The materiality survey asked stakeholders to rate the importance of the listed topics to them personally and to the success of Australian Ethical as a sustainable business. A total of 455 people responded, including an outstanding response from shareholders (395).

Despite this substantial expansion of perspectives and the unprecedented events of FY20, our material topics remain consistent with previous years with one exception. Our external stakeholders did not rank COVID-19 (topic 13 below) as a material topic, however our senior management team determined that it should be included in our reporting as it did in fact have

a material impact on so many facets of our business and the world in which we operate.

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 70 can be used to navigate this information.

Weighted importance to our stakeholders and to our 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

Ethical investing in 2020

For many investors, 2020 has been a wakeup call as they realised just how interconnected, interdependent and vulnerable the world is to the potential challenges that climate change will bring. As a result, US\$45.6 billion was poured into ESG and responsible funds globally in the first quarter of the year, compared with outflows of US\$384.7 billion for the overall fund universe, according to research by **Morningstar**.

This same trend is being seen closer to home. According to RIAA, responsible investment now represents 37% of Australia's total \$3.2 trillion in professionally managed assets, up 17% from 2018.

In many ways, 2020 has been the year responsible investing reached a critical inflection point.

Indeed, the **United Nations Principles of Responsible Investment**, which launched in 2006 with 100 signatories, now has more than 3,000 supporters and a combined US \$100 trillion of assets under management.

However, with the welcome rise in responsible investing, comes a less welcome rise in greenwashing as many claim to be greener than they actually are.

In fact, of 165 investment managers assessed in the RIAA study, we were among the 27% practising a 'leading approach' to responsible investment.

37% of Australia's total \$3.2 trillion in professionally managed assets, is classified as responsible investment by RIAA.

The responsible investing sector has seen so much growth that it has become a sea of acronyms and technical terms, which is leaving people confused.

And that's what makes Australian Ethical different. Because in a sea of green, what we do is black and white. Ethical investing isn't just something we do, it's all we do.

It's little surprise that there is confusion about ethical and responsible investing. Much of the terminology around the concept can be jargon heavy and as a result most people could be forgiven for not fully understanding or engaging with the opportunities it presents.

Ethical explained

For us at Australian Ethical, ethical investing makes obvious sense. We make investment decisions that positively impact the broader world, while still delivering **market leading** investment returns. They are not at odds with one another and we have proven that it is not only a 'good' way to invest, but a 'smart' way to invest.

Our investment approach is governed by the 23 principles of the Australian Ethical Charter. The Charter was created by our founders back in 1986. Due to their deep thinking and foresight, this Charter is as relevant today as it was in the beginning.

Our accelerating success is proof that the power of money can be harnessed to deliver both long-term value for our customers and positive change for society and the environment.

Our approach – honed over more than 30 years of experience – has built significant credibility at a time when many of our competitors are seeking to replicate what we do. And while we are glad to see other, bigger fund managers follow suit – as people and planet can only benefit from this growing trend – we know that few, if any, can match our ethical pedigree.

What is the Australian Ethical Charter?

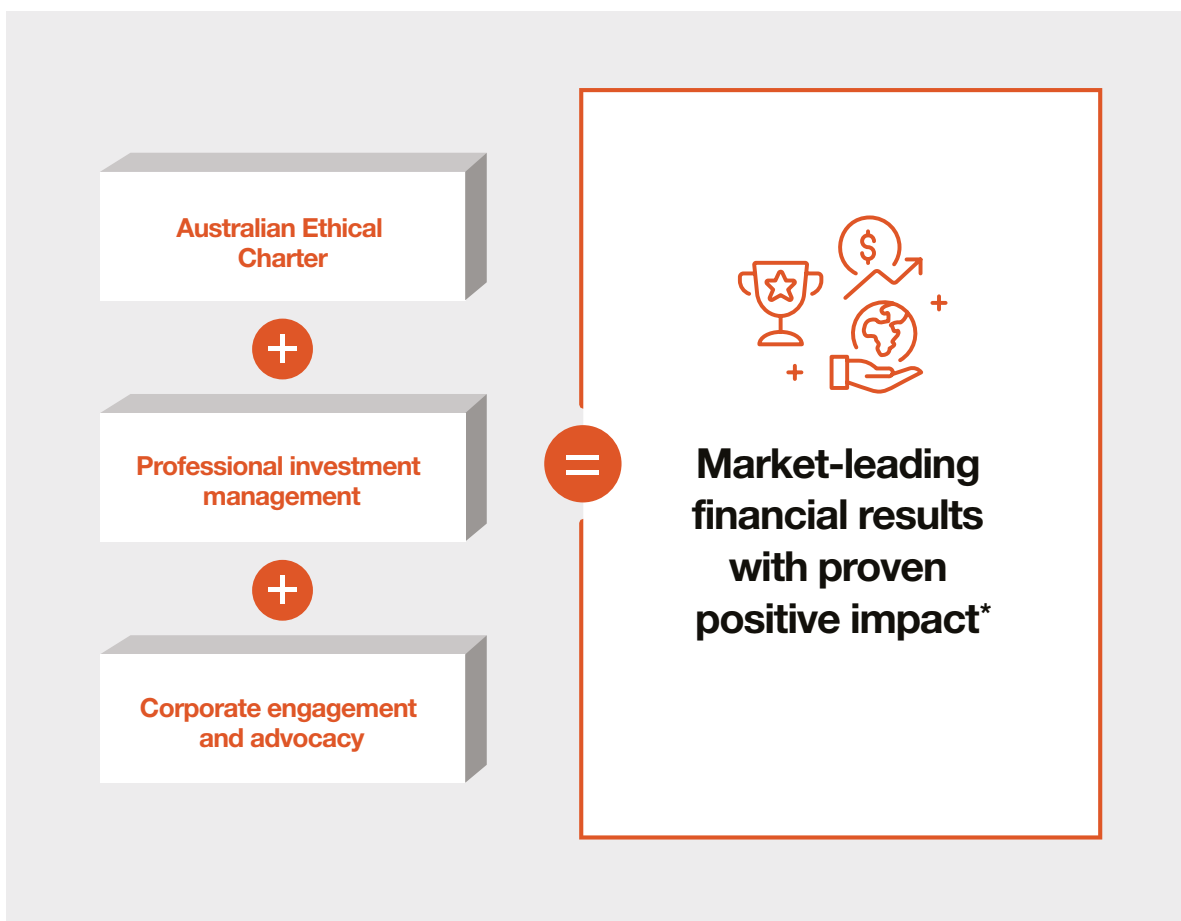
The Australian Ethical Charter is the compass we use to navigate the ethical complexities of our investment and business decisions. It requires us to grapple with the far-reaching consequences of our investment decisions and to examine issues on their merits from many angles. It governs the companies or industries we must avoid and steers us towards those that do good for the planet, people and animals.

While our Charter has remained unchanged since 1986, it is underpinned by ethical frameworks around sectors or issues that are continually updated as the world and our understanding of it changes.



Here's how we do it.

What do we mean by ethical investing?



* <https://www.australianethical.com.au/performance-and-returns/>
Past performance is not a reliable indicator of future performance.

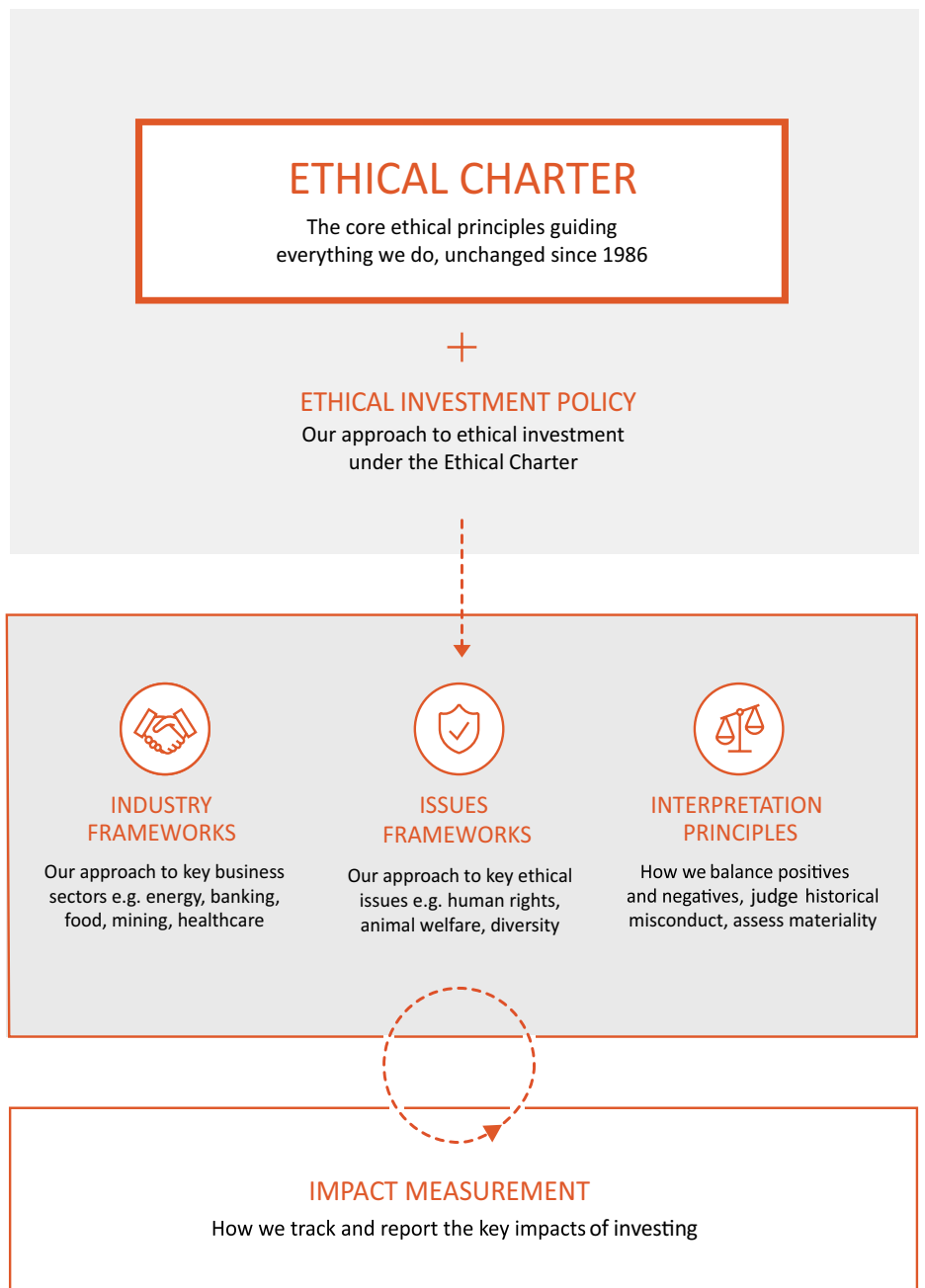
How our Ethical Charter affects our investment process

Investment ideas come from many sources: from our investment analysts scouring the markets for good investment opportunities; our portfolio managers filtering potential investments that match the portfolio criteria; or from our ethics research analysts screening the global equity market for companies that meet our ethical criteria.

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. For our active strategies this includes applying a fundamental investment analysis to the stock to ensure it stacks up from a valuation point of view.

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.

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.





The Australian Ethical Charter since 1986

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

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

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

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

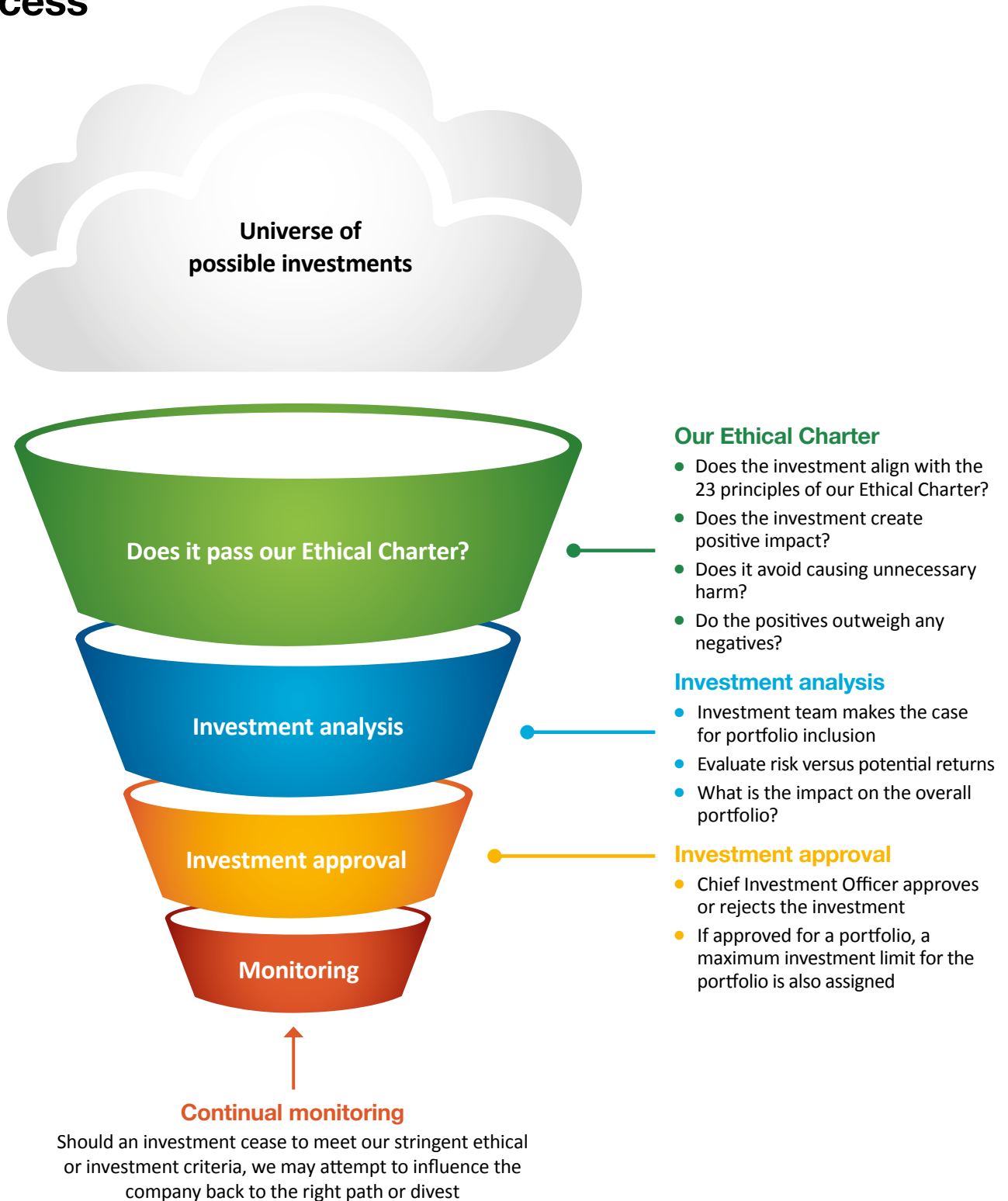
Ongoing evaluation

Our assessment of a possible investment idea against the Charter is neither one-dimensional nor static. If on balance we believe a business is beneficial for the long-term benefit of the planet, people or animals, then we can make the investment.

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 may attempt to influence them back to the right path or simply divest.

The result is a strong yet flexible framework that drives our unique investable universe consisting of 'future-building' investments that are driving a sustainable economy while delivering returns for our customers.

Our investment process





The sectors we invest in

In contrast to common assumptions, 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 all sectors.

Guided by our Charter, we invest in companies that we believe are of a long-term benefit to society such 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.

There are some sectors however that we don't invest in. For example, we have never invested in tobacco or nuclear. Nor will we invest in fossil fuel companies. This means we exclude all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and

are not creating positive impact with their other activities.

We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). Investments like these are critical to enabling the development of a sustainable low-carbon future. By shifting capital from fossil fuels to renewables, we are helping bring down the price of renewable energy, provide necessary capital to new clean tech solutions and contribute constructively to a sensible public discussion about energy policy.



NIL
investments in fossil fuel companies

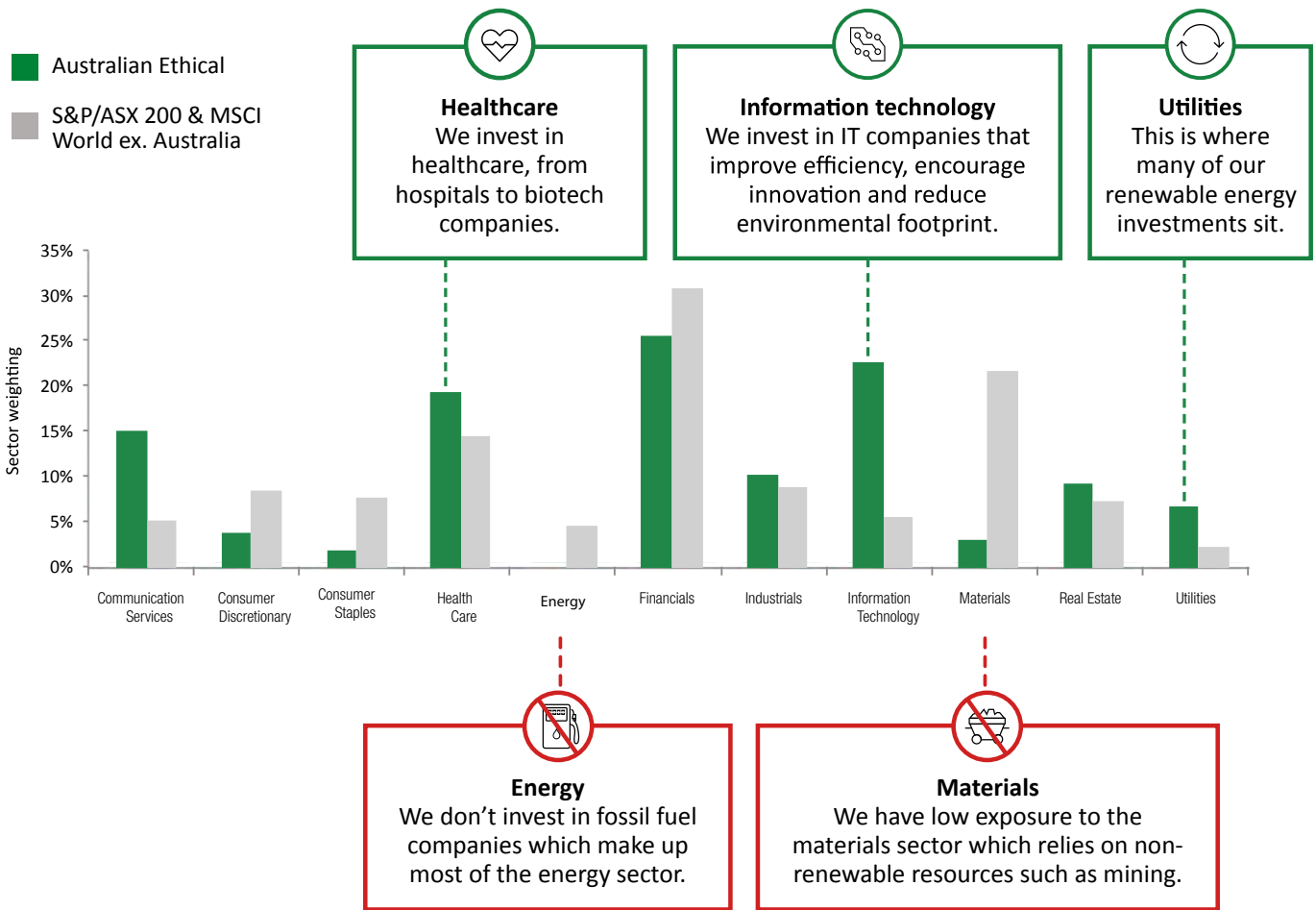


NIL
investments in nuclear



NIL
investments in tobacco

OUR SECTOR ALLOCATION V THE MARKET¹



1. As at 30 June 2020.



We do invest in – some examples

Energy: We seek out investment in clean energy solutions like energy efficiency, renewable energy and energy storage. Current investments include wind, solar, hydro and geothermal energy, battery storage, LED lighting, insulation, and providing venture capital for clean energy technology start-ups.

Banking sector: We expect large banks to align their business lending activities with the objectives of the Paris Climate Agreement.

We use a climate scorecard to assess this alignment which assesses:

- bank lending to the fossil fuel and energy sector, including emissions-related lending restrictions
- bank lending to renewable energy, energy storage and activities which reduce energy usage or store carbon (e.g. green buildings, low-emissions transport and reforestation)
- bank support for green financing by others, for example by arranging the issue of green bonds
- bank support for (or obstruction of) government climate policy aligned with the Paris Agreement

Food sector: We focus on investment in lower emissions plant-based protein and nutrition



We don't invest in – some examples

Energy: We don't invest in oil, gas or coal companies, but we will invest in a transition company like Contact Energy which generates 80% of its electricity from hydro and geothermal (but falls back to gas when low rainfall reduces hydro-power generation). Across sectors: Companies in any sector may be excluded for obstructing the Paris agreement objectives where they are assessed to be obstructing informed climate policy debate or showing general disregard for energy efficiency in their operations where they are involved in production of emissions intensive products and services

Food sector: We avoid investment in current systems of commercial animal agriculture including meat, dairy, eggs and seafood

Mining sector: Minerals will only be assessed as positive under our Ethical Charter if they are '1.5 degrees aligned'. We currently invest in lithium mining. Revenue thresholds apply to the above exclusions.

Retailing sector: We avoid investment in retailers which fail to demonstrate credible action to manage negative impacts on people, animals and the environment in (1) the products they make available (2) their sales and marketing, and (3) their supply chain

Transport sector: We avoid investment in conventional cars and trucks and in air travel because of their high emissions intensity compared to rail, ships and buses and other forms of public transport

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

Some of our ethical exclusions and inclusions this year

Out (company and concern)

Marsh Group: Provided services to the Adani Carmichael mine and didn't clearly rule out support for similar projects in the future.

Darling Ingredients: Support for conventional animal agriculture through its animal feed and food processing business. Misinformation about emissions footprint of meat consumption, including seeking to discredit the 2019 EAT-Lancet report about the warming implications of different diets.

Export Finance Australia: Significant fossil fuel finance and inadequate disclosure about alignment of lending with the objectives of the Paris Climate Agreement.

Beacon Lighting and Hills Limited: Insufficient information about management of supply chain human rights risks.

Retail Zoo and Retail Food Group: Significant revenue from unhealthy foods or food derived from conventional animal agriculture.

In (company and contribution)

Atlassian: Digital tools to help people plan, collaborate, communicate and organise.

Australian Unity Specialist Disability Accommodation Fund: Accessible accommodation for Australians living with a disability.

Orsted: Wind and other renewable energy.

Napier Port: New Zealand port facilitating shipping, a low emissions form of transport.

Limeade, Inc: The 'Limeade Wellbeing' solution helps companies deliver and manage programs designed to improve employee physical, emotional, financial and work wellbeing.

Megaport Limited: Helps businesses connect to cloud computing services and storage.

RightCrowd: Software to help companies manage employee access rights, fatigue and training, as well as visitor access to workplaces.





The importance of focusing on the long-term

The past financial year has seen unprecedented volatility in global share markets. News of record share market falls and 'doom and gloom' headlines can be unsettling for even the most seasoned of investors.

We do not believe superior risk-adjusted investment performance can be

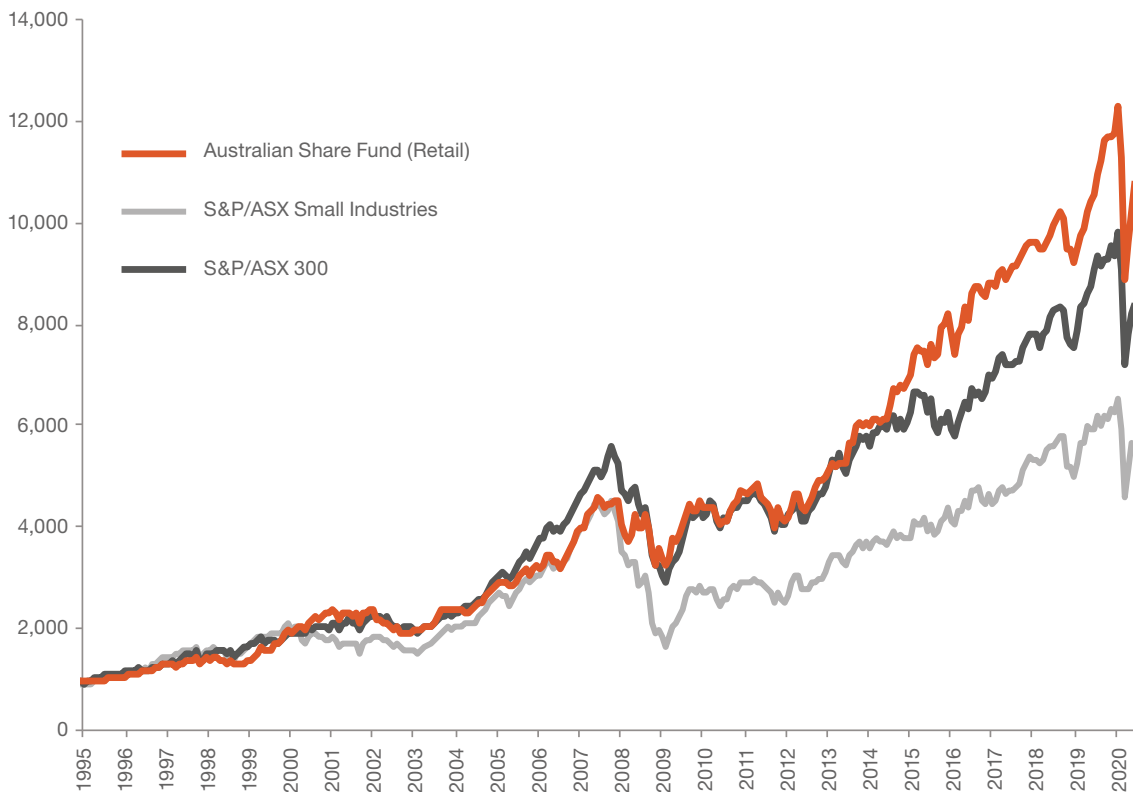
sustainably achieved by attempting to time markets. Instead, we choose to look beyond short-term volatility and maintain a long-term outlook.

And while this approach has been particularly important this financial year, where we were able to retain our composure, block out the noise

and focus on the fundamentals, it is just as important in any other year.

We believe that focusing on the long-term is the best way for investors to ride out market volatility and achieve their investment objectives.

Value of \$1000 invested since inception*



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

Our award-winning investment team

Our award-winning in-house team of investment professionals consists of sector specialists with an average of over 16 years' experience.

Led by David Macri, they have followed a consistent philosophy and style that we have applied here at Australian Ethical for over 20 years, earning our reputation of generating competitive returns on sustainable terms.

For our active strategies, once a stock has passed our ethical screening the investment team will apply their analysis to ensure it meets the investment criteria for the relevant portfolio.



David Macri *Chief Investment Officer*

- CIO since 2012
- 20+ years of investment experience
- 10 years at AEI, previously at Macquarie Securities, Credit Suisse, Mellon and Mercer

Ray Gin *Portfolio Manager / Analyst*

- PM since 2017 (Diversified Shares Fund/International Fund)
- 30+ years of investment experience
- 6 years at AEI, previously at ING, Deutsche
- Analyst Coverage – Banks, REITs, Misc Industrials

Andy Gracey *Portfolio Manager*

- PM since 2007 (Australian Shares Fund/Emerging Companies Fund)
- 20+ years of investment experience
- 14 years at AEI, previously worked at ANZFM, Friends Provident

Jason Huang *Quantitative Analyst*

- 8+ years of investment experience
- 3 years at AEI, previously at APP Securities

Tim Kelly *Portfolio Manager*

- PM since 2011 (Fixed Income Fund)
- 14 years of investment experience
- 17+ years at AEI

Deana Mitchell *Equities Analyst*

- 20+ years of investment experience
- 1 year at AEI, previously at Macquarie Securities
- Analyst Coverage – Diversified Financials, Technology, Education

Michael Murray *Equities Analyst*

- 20+ years of investment experience
- 3 years at AEI, previously at Integrity, AMP Capital
- Analyst Coverage – Healthcare, Bio-technology

Julian Richman *Investment Analyst*

- 3+ years of financial services experience
- 2 years at AEI, recently joined Investment team to assist Balanced Fund and REITs sector

Mark Williams *Equities Analyst*

- 13+ years of investment experience
- 3 years at AEI, previously at Morgans, CIMB
- Analyst Coverage – Transport/Infra/Utilities, Media, Telco, Technology, Misc Industrials



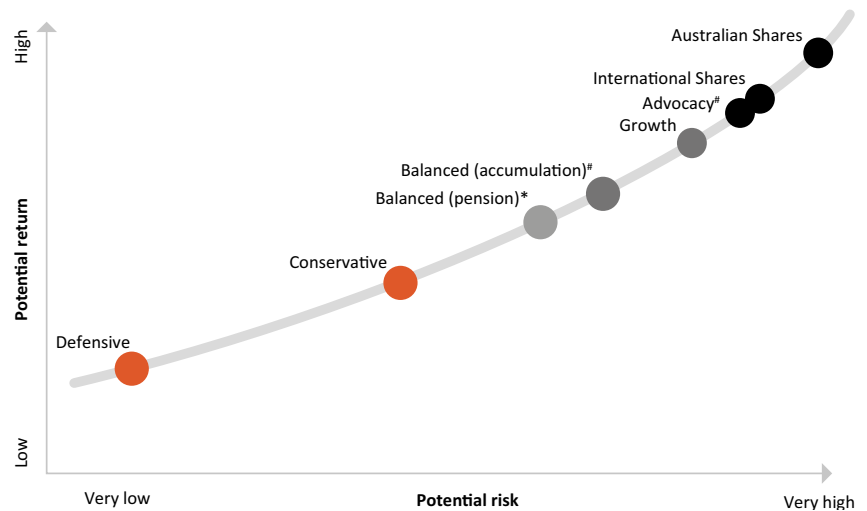
A comprehensive suite of ethical investment options – making ethical easy

Despite our clear vision on ethical investing, we realise that one size does not fit all when it comes to products. That’s why we offer a comprehensive suite of investment solutions that cater to people’s varying investment objectives.

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.

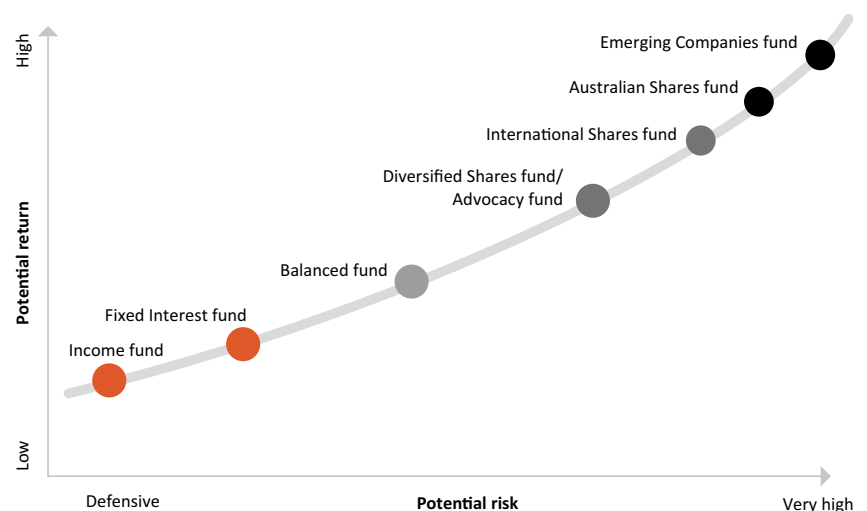
Super options

Australian Ethical Super offers eight investment options: Defensive, Conservative, Balanced (pension), Balanced (accumulation), Growth, Advocacy, International Shares and Australian Shares. The precise mix of options available depends on whether you are saving for retirement or taking a pension. In terms of risk, the options range from very low (Defensive) to very high (Advocacy, International Shares and Australian Shares).



Managed funds

As well as our super options, we also offer eight managed funds where Australian Ethical Investment Ltd is the fund manager and responsible entity. Of these, the Income Fund and the Fixed Interest Fund are most likely to be attractive to defensive investors who have a short investment timeframe and are seeking to conserve capital to ensure a stable income. The Balanced Fund is most likely to be attractive to neutral investors who have a medium-term investment timeframe and want lower volatility with some growth and income. Growth investors with a longer-term investment timeframe who are willing to accept a higher level of risk may be interested in the Diversified Shares Fund, the Advocacy Fund, the International Shares Fund, the Australian Shares Fund and the Emerging Companies Fund.



These options are only available in the accumulation and transition to retirement division

* This option is only available in the pension division

A vibrant blue and yellow bird, possibly a sunbird, is perched on a cluster of red flowers. The bird has a long, curved beak and is looking towards the right. The background is a soft, out-of-focus green and blue. The text "An ethical business" is overlaid on the top left of the image.

An ethical business

Creating sustainable value for all stakeholders

At Australian Ethical, we have always been about more than money. That's what we're known for and that's how we will always be. Generating impact through ethical investing will always be at the heart of our business and is essential if we are to meet global goals on climate action and sustainable development.

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

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.

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 our Foundation, we are driving the transition to a low-carbon economy, limiting environmental damage, protecting human rights and promoting equality.

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, we foster excellent long-term working relationships with our suppliers to generate shared success.

For regulators

We foster positive relationships with our 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.

¹ In our 2020 Materiality Survey, shareholders told us that our management of climate change risk and opportunity was more important to them than our economic performance.



Governance

While each year sees a shift in corporate governance standards as they evolve in keeping with a rapidly changing business landscape and stakeholder priorities, the COVID-19 crisis has exposed why a robust, integrated governance structure is so critical to business success. It has dramatically highlighted the need for businesses to engage proactively and authentically with diverse stakeholders, both internally and externally.

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](#).

Best for the World – Governance

We believe we have a shared responsibility for the resilience and sustainability of the economic, social and environmental systems in which we operate. 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 Corps '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.

Transparency

As consumers, investors and employees demand more clarity on companies' social and environmental performance, transparency has become a corporate necessity. And this demand only looks set to grow, with all companies subject to greater scrutiny in a COVID-19 environment.

In our sector – itself often dogged by allegations of greenwashing – transparency is as important as oxygen. All investors deserve transparency and clarity about what they are buying.


But despite this era of improving openness, many investors still have no idea what their money is funding, or the harm some companies are doing to the planet in the name of profits.

In many ways, this provides a meaningful contrast for measuring our commitment to transparency. We know that our success hinges on our ethical pedigree which is why it's so important that our customers have access to the names of the companies we invest in and our analysis of their performance.

For many years we have published the names of all the **companies we invest in** on our website. We provide **monthly and quarterly** commentary on the performance of individual funds

and have enhanced the way we present online performance and holdings data. This **interactive tool** provides investors with a snapshot of key insights such as our rolling performance against benchmark, our asset breakdown and our top 10 holdings for each of our managed funds and super options at any point in time.

Meanwhile, our **Carbon footprint calculator** allows investors to see what influence their lifestyle and investment choices can have on their personal carbon footprint.

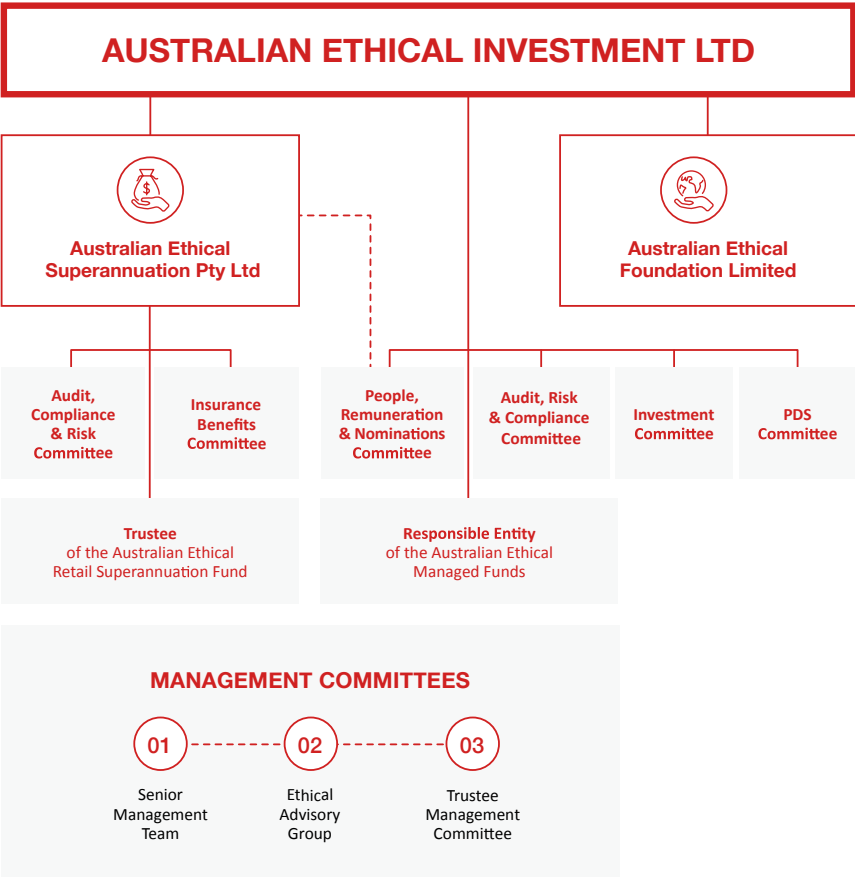
But now more than ever,  transparency is equally as important with internal stakeholders too. Employees are craving authenticity, honesty and regular communications as businesses navigate the uncertainty of the pandemic. **That's why we were so thrilled to receive a 98% positive score from our employees on our response to COVID-19.**

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

A strong risk culture is embedded across our organisation, which 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 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 management 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.

During what has been an unprecedented year, we have continued to evolve and strengthen our risk management framework. Managing through any uncertainties associated with the global pandemic and consequent economic downturn will be a focus, in addition to continuing monitoring of how global events,

economic and trading conditions will impact our approach to investment.

As our business continues to grow, it is vital our business model and processes remain fit for purpose. Going forward, we will continue our focus on managing risk effectively in accordance with our risk appetite and over the long-term for all our stakeholders. Our aim is to maintain an open and transparent working environment, where employees engage positively in risk management to uphold our purpose and deliver on our strategic objectives.

Risk – values in action

VALUE



ACTION



*No change is achieved without action.
We get on and act as a proof point for how business should be, aiming to lead and inspire others.*

BEHAVIOUR




Risk aware

ACTIONS



I think about the risks to the organisation and our customers in every action that I take.
I understand and accept responsibility for managing the risks under my control.
I am open and transparent when issues are identified.



A strong risk culture is embedded across our organisation, which enhances our decision making and upholds our commitment to ethical investing.



Climate change risk

For many years we have been very conscious of the risk posed by climate change to our investment portfolio. The process of identifying, assessing and managing material climate-related investment risk is embedded in our ethical investment process.

For example, our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5 degrees. These companies are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all investment portfolios.

CASE STUDY

The resilience of our real estate and infrastructure investment

Real estate and infrastructure are exposed to a variety of risks associated with the physical impacts of different levels of global warming. Greater extremes of heat and cold raise operating costs and in some cases will threaten operational viability. Increased frequency and severity of wind, fire, storms and flooding mean many assets will suffer significant damage more often, increasing repair costs and the need for additional investment to protect them. In most cases harm to property will be accompanied by higher probability of harm to people and animals, raising the importance of action and investment to safeguard against that harm. Where the likelihood of harm and cost of protection becomes too great,

some buildings and infrastructure will no longer be capable of fulfilling their original function. And some of these will become liabilities rather than assets, with owners required to dismantle or decommission them.

Insurance may provide some short-term protection, but insurance costs will continue to increase. In some cases risks will be so extreme that insurance will become unaffordable, or simply not available at any price.

Property investors face various challenges in assessing the physical climate risks of their portfolios. These risks, and the options for managing them, vary significantly across different types of buildings and infrastructure and the function and location of those assets.

For example, the impact of temperature extremes and weather will differ markedly between residential and industrial property, and between different regions. Even while extreme cold events will reduce in most places, they will increase in some.

It is positive to see some datasets and tools becoming available which use asset-level data to provide insight into risk exposures across multiple properties, regions, climate scenarios and time frames. We intend to investigate these either for our own use or for use by the external managers of our real estate and infrastructure investments. We rely heavily on the management of climate-related risks by these managers and discuss this in our **TCFD Report**.



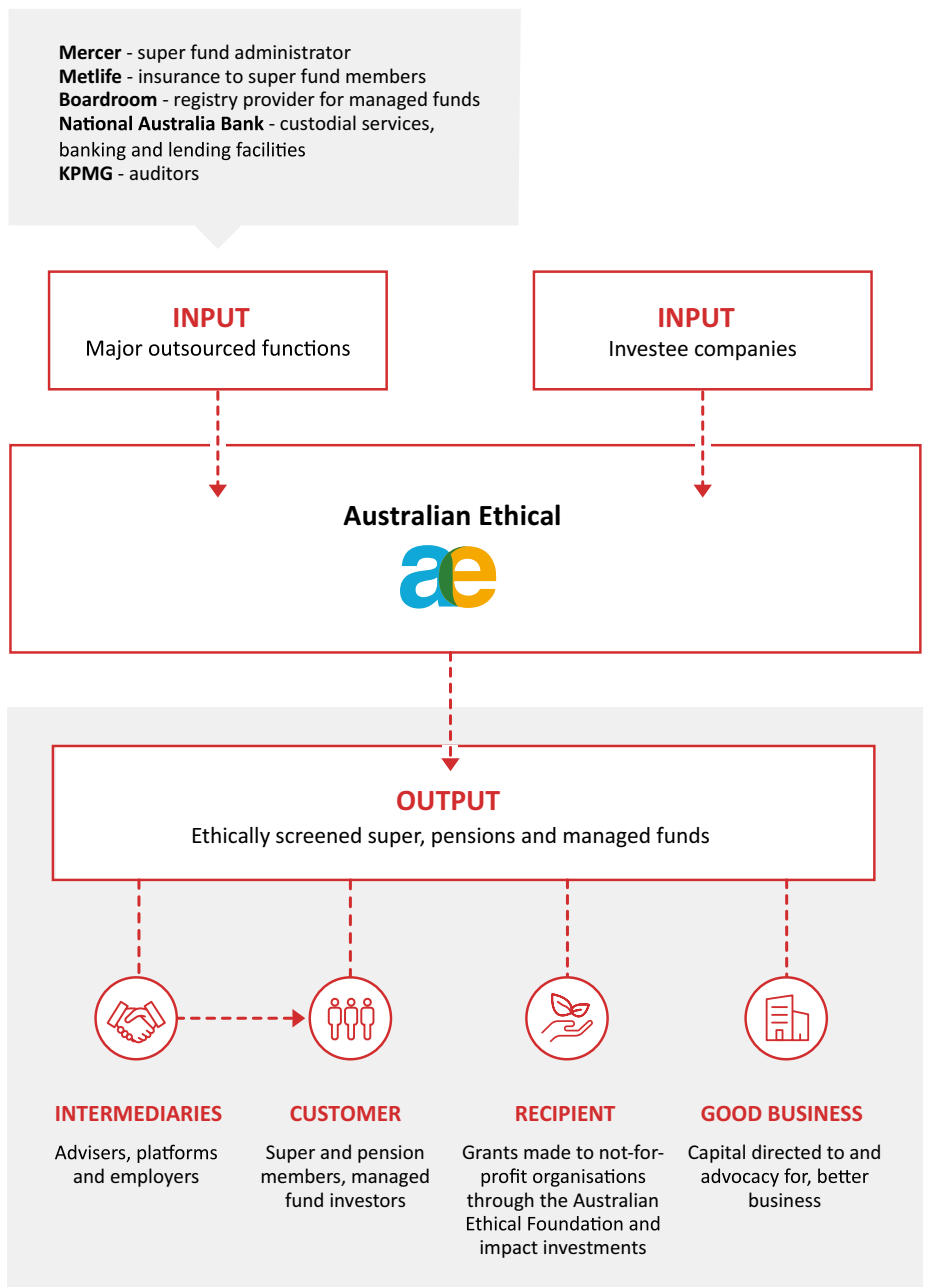
Ethical supply chain

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

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

As part of our tendering process, material service providers to Australian Ethical are screened to determine their alignment with the environmental and social principles of the Australian Ethical Charter. For example, to pass our screen, companies with high human rights risk need to be taking action to avoid contributing to breaches of human rights. We scrutinise 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.

During the reporting year there were no new major outsourced functions, however in our day-to-day operations, we welcomed a number of new B Corps suppliers including e-waste recycler **ANZRP**, **Sendle** courier services, **Honest to Goodness** produce and cleaning equipment from **Flora & Fauna**.





IN FY20

\$1.3 MILLION

PROVISIONED FOR
COMMUNITY IMPACT

10%

YEARLY PROFITS DONATED¹

31 CHARITIES

SUPPORTED

\$5 MILLION+

DONATED SINCE 2000

\$700,000+

TO STRATEGIC MULTI-YEAR PARTNERS

1. Before bonuses and after tax

The Australian Ethical Foundation

We have always been driven by a bigger purpose than just making a profit. When we first began in 1986, it was written into our constitution that we would gift 10% of profits (before bonuses and after tax) to charitable, benevolent and conservation causes.

Today, this is facilitated by the Australian Ethical Foundation¹, which allocates funding to charitable organisations and social impact initiatives aligned with our three pillars of the planet, people and animals.

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. This year, a record \$1.3 million has been provisioned for the Australian Ethical Foundation.

Since the Foundation's inception, we have donated over \$5 million to impact initiatives around Australia and the world. We believe that without a healthy planet free from climate catastrophe, addressing other issues becomes increasingly difficult. As such, the core focus of the Foundation's work is to address climate change as effectively as possible through our pillars of people, planet and animals.

Paul Hawken's '**Project Drawdown**' provides an accumulation of leading global research that highlights the most effective solutions to address climate change. By using this information, along with other research, the Foundation can specifically target initiatives across our pillars that all directly and practically aim to address climate change.

Funding for these initiatives is targeted at both systemic and advocacy efforts, as well as grassroots projects and is distributed through our community grants program, our **strategic multi-year grants** and **impact investments**. In FY20, we also made emergency funding available to bushfire recovery efforts and COVID-19 pandemic community support.

Community grants

In FY20 we donated more than \$400,000 to the 18 winners of our **community grants program**. More than 10,000 customers, shareholders, employees and members of our active social network community voted for the winners. Information about each organisation and their project is on our website. A case study on one of our winners, the Love Mercy Foundation is featured in our **SDG Report**.

1. The Australian Ethical Foundation is a registered charity (Australian Charities and Not-for-profit Commission).

This diagram shows how in FY20 our impact has funded important solutions identified by **Project Drawdown** (red circles), along with emergency and community-based issues (grey circles). The circles are proportional to funding provided.

Impact area breakdown

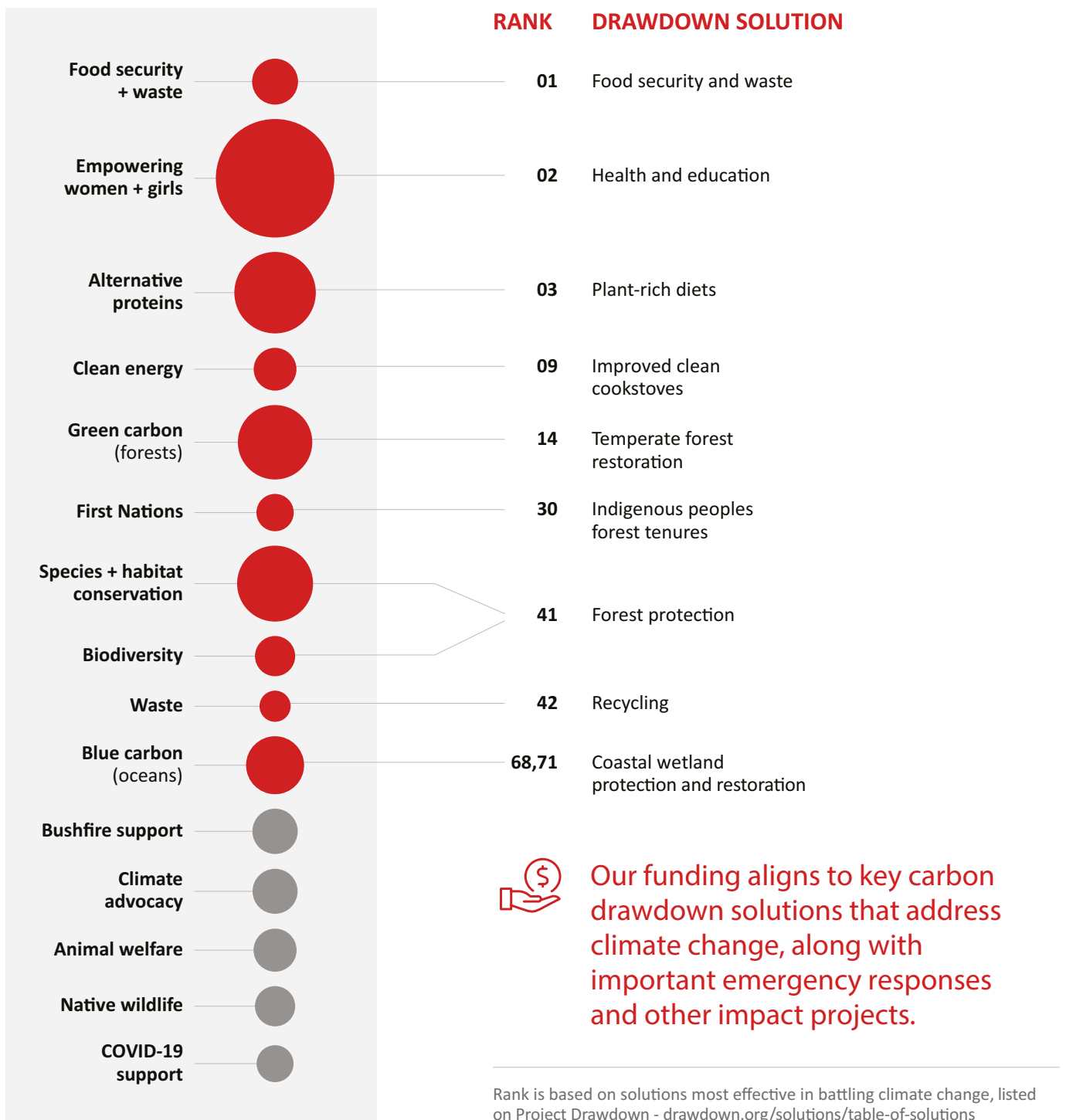




Photo credit: Living Goods

Strategic multi-year grants

In FY20 we provisioned over \$700,000 to be dispersed to strategic multi-year grant partners driving strategic impact initiatives. We continued to refine our strategic impact approach to address the causal drivers of climate change with funding provided to green carbon initiatives (protecting forests), blue carbon initiatives (protecting oceans), educating and empowering women and girls, supporting First Nations peoples to protect and conserve Country, delivering clean energy solutions to the global poor and supporting plant-based protein alternatives.

Charities supported in this way include:

- Food Frontier
- The Wilderness Society
- Human Rights Watch
- Blue Carbon Lab
- YGAP (YHER)
- The Orangutan Project
- The MAWA Trust
- Pollinate Group
- Karrkad Kanjdji Trust
- Living Goods
- One Girl

More information about each organisation and the work it does can be found on our [website](#), while our SDG Report includes case studies on the Pollinate Group and the Karrkad Kanjdji Trust.

2020 emergency funding response

The Australian Ethical Foundation responded quickly and thoughtfully to both emergencies, providing direct funding to charities working on the frontline. In response to the bushfires, the Foundation provided funding to:

- the NSW Rural Fire Service
- the Australian Red Cross
- Looking After Our Kosciuszko Orphans (LAOKO)
- Native Animal Rescue Group (NARG)
- Saving Our Native Animals (SONA)
- Wildcare Queanbeyan
- Wildlife Rescue South Coast Inc
- Wildlife Carers Network Central West Inc

The Foundation took a layered approach to COVID-19 support, providing funding to charities offering frontline care and support,

research and development of COVID-19 treatment options and recovery activities and plans for Australian communities post COVID-19. This was done by increasing funding to two existing strategic multi-year grant partners:

- Living Goods – to roll out COVID-19 safety measures and front-line medical support throughout their network of community health workers
- The MAWA Trust – to research and develop COVID-19 treatment options without the use of animal testing

We also provided funding for Moving Feast, a new charity partner, that provides emergency food relief to disadvantaged Victorians, and is designing a pathway to food security and community recovery post COVID-19.

IMPACT

AUSTRALIAN ETHICAL FUNDING SUPPORTED

**98 POLLINATE
ENTREPRENEURS**

WHOSE WORK DELIVERED

NPR\$3,723,000

REVENUE FOR LOCAL NEPALESE
COMMUNITES AND AVOIDED

88,100 TONNES

OF CO2 EMISSIONS*

* tCO2 representative of
total emissions saved by all
of Pollinate Group's work
across Nepal and India

Photo credit: Pollinate

ENGAGEMENT HIGHLIGHTS

94%

I WOULD RECOMMEND AUSTRALIAN ETHICAL AS A GREAT PLACE TO WORK

85%

AUSTRALIAN ETHICAL MOTIVATES ME TO GO BEYOND WHAT I WOULD IN A SIMILAR ROLE ELSEWHERE

97%

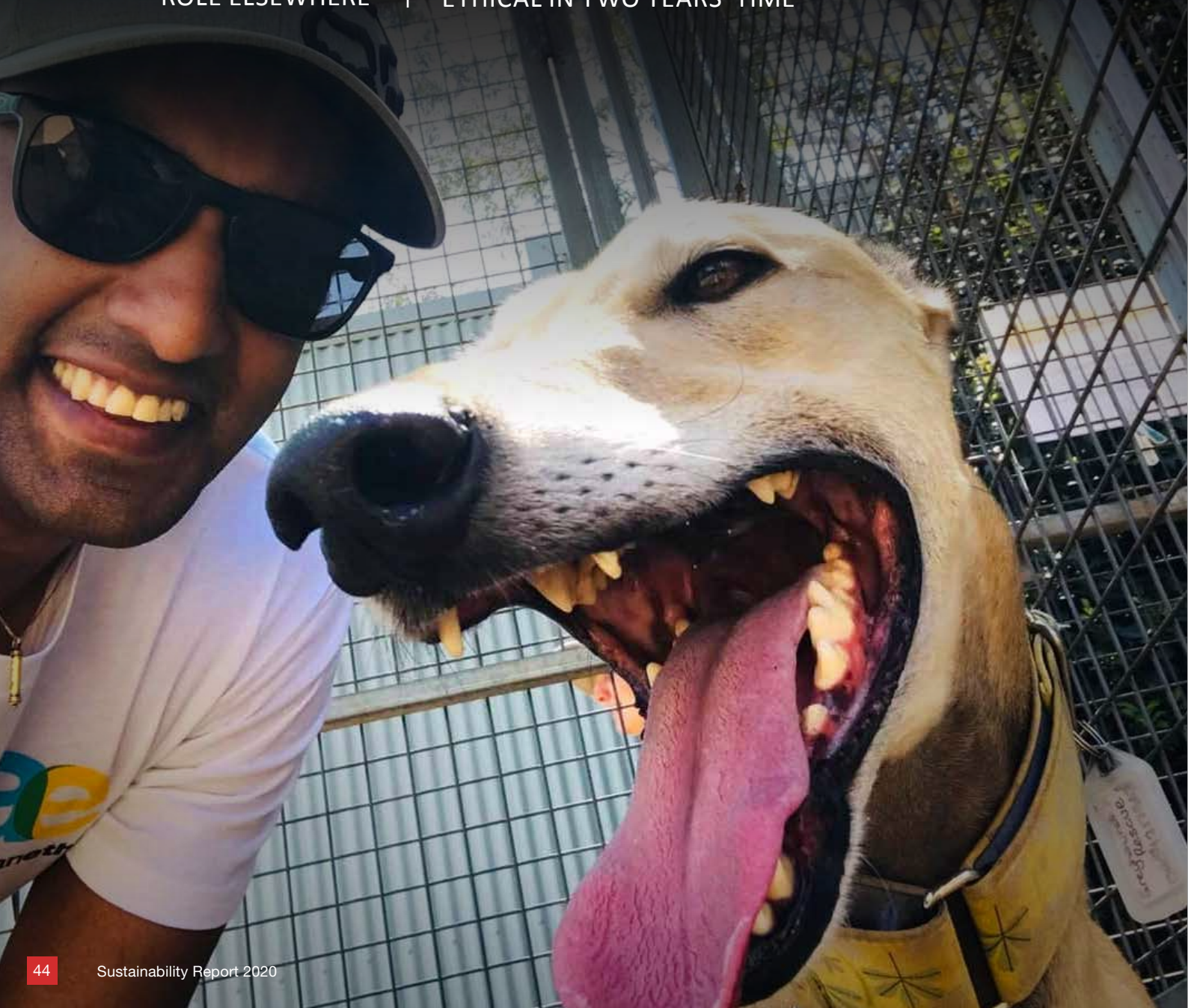
I AM PROUD TO WORK FOR AUSTRALIAN ETHICAL

78%

I RARELY THINK ABOUT LOOKING FOR A JOB AT ANOTHER COMPANY

78%

I SEE MYSELF STILL WORKING AT AUSTRALIAN ETHICAL IN TWO YEARS' TIME



Ethical people

At Australian Ethical, our people are the heartbeat of our business. They're the ones who embrace our purpose every day to generate market-leading returns and positive impacts for our customers. And so, when we say that our people are our greatest asset, we really mean it.

People are drawn to work at Australian Ethical because of our purpose and our vision of doing business better. We are here because we want to be here, because we share the same values and we are motivated to do our best because we believe in what we do.

In many ways, the past 12 months have been particularly challenging for our people. Because of our collective connection to our three pillars of people, planet and animals, the devastating scale of the summer bushfires was felt deeply by all of us.

We had been vocal and active supporters of the global climate strikes in September and ran our own campaign to protect acres of Amazon rainforest from burning, and then had to watch in horror as our own backyard caught fire. Seventeen million hectares of Australian bush reduced to ashes and conservatively one billion native animals gone, together with 33 human lives lost and more than 3,000 homes.¹

This had a significant impact on employees. In addition to the grants made at a corporate level, employees' donations were matched by the company and volunteering days were planned to help with bush regeneration efforts.

But little did we know that the year had much more in store. The global pandemic meant these volunteering days could not go ahead and instead we were forced to pivot and focus on our own people and business.

Our response to COVID-19

We are proud of the rapid and efficient response to the initial shutdown in March 2020. Our crisis management team met daily and navigated the uncertainty confidently. Communication with employees was regular, honest and constructive. The entire business, including the contact centre, was able to transition to remote working arrangements within a week, with minimal disruption to business-as-usual operations.

In response to feedback in the 2018 employee engagement survey, we implemented a major IT upgrade in 2019 and had been working intensely on collaboration as a key capability within the business. Both initiatives proved critical in our agile response to COVID-19.

A survey during lockdown revealed that 98% of employees were confident in the business response to the pandemic, with leadership and communication identified as key positive attributes.

Of course, like most other businesses, Australian Ethical was not entirely immune to the impacts of COVID-19. But because of our commitment to our purpose, there are countless examples of our people going beyond expectations to deliver results for our customers, the community and beyond.

For example, our investment team collaborated even more closely, managed the volatility in the market and even took the opportunity to buy where they saw opportunities to end the financial year in a market-leading position. Our customer service team handled the flood of additional enquiries and were able to reassure members while also responding to changing government guidelines to the early release of super. Our marketing team were quick to create a COVID-19 microsite for members and find new, innovative ways to communicate with customers via video and social media.

Meanwhile, our Foundation was able to work closely with many of our charity partners to accommodate their situations and provide practical help throughout COVID-19.

As we write this report in September 2020, our employees are continuing to work remotely with the option to come into the office on a voluntary basis where they are able to maintain strict social distancing in our large, open plan floor space. Additional measures have been put in place to safeguard employees' safety including hand sanitiser, more regular cleaning and clearly communicated revised building guidelines.

1. aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1920/Quick_Guides/AustralianBushfires

Employee engagement

2016	2017	2018	2019	2020
77%	55%	78%	71%	86%

We ran our annual employee engagement survey in June 2020 with the pandemic in full swing and most of our employees working remotely. Ninety-four % of employees responded to the survey and we achieved an overall engagement score of 86% – our highest to date. The results also compared very favourably to Culture Amp’s industry and national benchmarks:

- +16% Australia 2020
- +15% Finance Australia 2020
- +9% Finance Australia Top 25% 2020

Employee wellbeing

We actively champion the benefits of balance. It is important for both the wellbeing of employees and the long-term success of our business. And while our engagement survey results indicate that most employees are happy with the balance in their lives, we have continued to grow our employee wellbeing offering. This is because we believe our employees are the most valuable investment we can make in our future.

In the past year we have increased both the number and the range of wellbeing initiatives including sessions on managing stress, using mindfulness, and protecting mental health. During lockdown, we hosted a special lunch

and learn session to help the parents among our team build resilience as they juggled the pressures of working from home with home schooling. Other lunch and learn sessions focused on recycling and managing household waste and cycling, plus a workshop on empathy.

Before COVID-19 took hold, we were able to host bring your kids to work days, documentary and film screenings and regular company-wide lunches showcasing various local small businesses. Meanwhile our annual personal wellbeing program including flu vaccinations, skin checks, ergonomic assessment, and values awards continued. We also reimburse employees for the cost of wellbeing initiatives that suit their own needs and are undertaken in their own time.

Employee mental health

Empathy is a core value of Australian Ethical and we recognise that employees may face mental health challenges that can affect all aspects of their lives. We are particularly passionate about looking out for our employees’ mental health and doing our bit to end any lingering stigma around mental health issues.

This year, we switched our employee assistance provider to the Indigo Project, an independent and progressive psychology and coaching practice. The Indigo Project complements employees’ access to 15 days of wellbeing leave, trained

mental health first aiders within the business, private wellbeing rooms at the office, flexible working arrangements and other initiatives. We also ran an in-house, six-week meditation course for employees.

Nurturing employees’ mental health has been a particular focus as we manage the impacts of COVID-19. During this period we have experimented with different ways to remain connected included monthly themed catch-ups, online trivia, charitable and sustainability initiatives as well as a strict adherence to our regular, weekly whole-of-business meetings.

Diversity

We believe a vibrant, diverse and inclusive workforce reflecting the whole of society is key to our ongoing success. Our Board is one of the few on the ASX with 50:50 gender equality. Four of our nine Senior Management Team (SMT) members are female (44%), while our overall workforce balance is 55% female, both categories are above our target of 40% of either gender.

We actively participate in diversity celebrations such as International Women’s Day; International Day against Homophobia, Biphobia, Interphobia & Transphobia and Wear it Purple in support of the LGBTIQ community, as well as hosting our own events that celebrate the unique backgrounds and abilities of all our employees. Where these events could not be held in the office, we celebrated them virtually.



Gender diversity of employees

Category	FY20 Actual % female	FY20 target % female
Board	50%	40%
Senior Management Team	44%	40%
Employees	55%	50% (either gender)

Gender diversity of employees

	F	M	% of F
Management	3	5	38%
Professional	31	23	57%
Support	2	1	67%
Total	36	29	55%

Age diversity of employees

Under 30	30-40	40-50	50-60	60+
23% (15)	32% (21)	29% (19)	14% (9)	2% (1)

Gender by contract type

	F	M
Permanent	26	26
Perm P/T	6	2
Temporary Contractor	4	1
Total	36	29



Volunteering is an important part of who we are and how we extend our positive impact.

Performance management

Despite the challenges of remote working, performance levels have remained high with many employees reporting increased productivity due to less time spent commuting.

Our performance management system is built around values-based behavioural criteria, risk and compliance objectives and critical success factors cascaded to all employees from our business strategy. Throughout the year informal feedback on performance is provided. This is supplemented by a more formal biannual performance and career development discussion.

Long-term sustainability

Our employees share in the success of our business as each is a shareholder. All permanent employees are eligible for a Short-Term Incentive (STI) payment based on their individual performance. In addition, a Long-Term Incentive of company shares will vest in the eligible employee's name after

three years, providing they are still employed and the company has achieved certain 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%; 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

Volunteering

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. This entitlement has been affected by the impact of COVID-19 but employees were able to volunteer with The Foundation for National Parks in October and Greyhound Rescue in November before the pandemic containment measures were introduced.

Certifications, memberships, collaboration

B Corps certification	Certified by B Lab as Best for the World Honoree: Governance Certification shows that across our business we meet rigorous standards of social and environmental performance, accountability, employee engagement and transparency.
RIAA certification	Responsible Investment Association of Australasia: <i>Certified Ethical Investment</i>
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 to:	CFA Institute Asset Manager Code Insurance in Superannuation Voluntary Code of Practice Women’s Empowerment Principles Investor 30% Club Statement of Intent (for 30% women directors of 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
Memberships, engagement organisations we support	Association of Superannuation Funds of Australia Limited (ASFA) The Financial Services Council Responsible Investment Association Australasia (RIAA) (including RIAA Human Rights Working Group) Global Reporting Initiative (GRI) United Nations Principles for Responsible Investment United Nations Environment Program Finance Initiative Investor Group on Climate Change (IGCC) including IGCC Policy Working Group and Transparency and Thought Leadership Working Group Portfolio Decarbonisation Coalition Australian Chapter of the 30% Club Investor Group Climate Action 100+ 1% for the Planet ACNC Registered Charity Farm Animal Investment Risk and Return (FAIRR) Business Benchmark on Farm Animal Welfare’s (BBFAW) ShareAction Investor Decarbonisation Initiative Australian Sustainable Finance Initiative technical working group on disclosure and transparency

Memberships and Certifications



Awards

Super & pension products

Winner **SuperRatings Infinity Award 2020**
 Winner **Finder.com.au Green Super Fund 2020**

Managed funds

Our Australian Shares Fund won both the **2020 Financial Standard Investment Leadership Award: ESG – Australian Equities** and the **2020 Financial Standard Investment Leadership Award: High Performance – Australian Equities**

Organised by

International Climate Reporting Awards
 Jury's special prize:

Media partner: **novethic essentiel**

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.

Advocacy & engagement

We believe that companies with high ethical standards and sustainable business practices make good long-term investments and we seek out those that aspire to do more than just comply with regulation. We believe our engagement benefits our investment process, our investors, the companies we engage with and society as a whole.

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.

COVID-19 has sharpened the importance of our engagement particularly around certain issues. The virus has forced a rethink around the world with many of our ethical convictions – such as climate action, biodiversity and environmental protection – becoming even more relevant.

Over the years, we've succeeded in securing commitments from companies to improve labour rights, animal welfare and environmental practices, as well as engaging with government on issues that concern our customers.

Why do we engage?

We invest for a better future, and that means we use all the tools we have as an investor to influence change. As well as shifting capital to positive businesses and away from the unsustainable, we use our ethical investment voice to influence companies and governments for the better. Shareholders appoint directors and vote on executive

remuneration, giving us powerful influence over boards and management to better manage companies' social and environmental impacts. We also bring a credible, long-term voice to public policy debate, to promote government policy for a fair and flourishing society and economy.

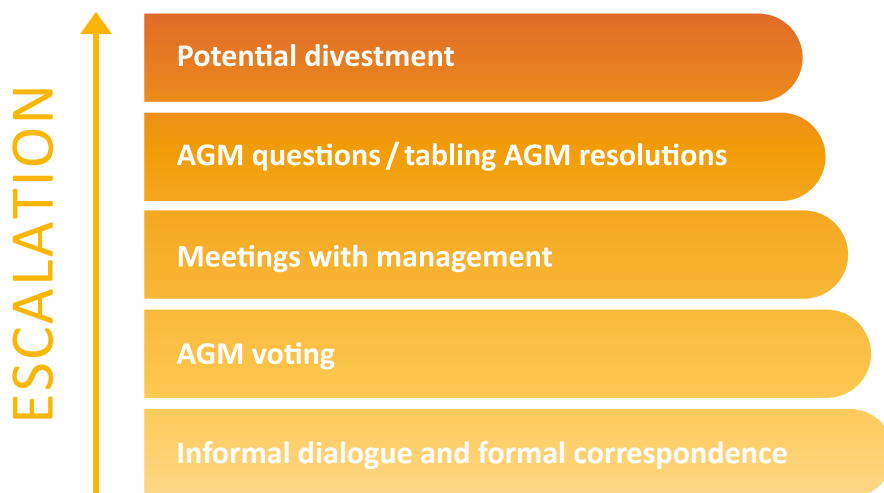
How do we engage?

We exercise our influence in many ways. Private conversations allow us to communicate our concerns, and to build our understanding of a company's positive and negative impacts as well as obstacles they may face to operating more sustainably. When progress behind closed doors is slow,

other levers may be needed including shareholder resolutions, questions at company meetings, voting against election of directors or executive remuneration, and speaking up in the media.

We often engage and advocate independently, but we also look for opportunities to amplify our influence through collaborative influencing with like-minded investors and civil society groups.

When companies don't respond to engagement, divestment needs to be on the table. The prospect of divestment provides consequences for companies when an engagement is not achieving its objectives.



What does divestment look like?

In June 2020 we divested our \$5 million shareholding in Marsh & McLennan, an investment which was held by the Australian Ethical International Shares Fund and cross-held by our super fund. We divested from the company because it helped Indian conglomerate Adani obtain insurance for the enormous Carmichael thermal coalmine in the Galilee Basin of Queensland. This coal mine, if developed, will mine huge amounts of low-quality thermal coal. Fossil fuels like these simply must stay in the ground if we are to have any hope of achieving the aims of the Paris Agreement.

We don't take divestment lightly. Our decision to sell our holding in Marsh & McLennan for ethical reasons came after months of engagement with the company about its policy on climate change. When a company is judged to have acted unethically, we think investors should look for opportunities to influence an appropriate response by the company to remedy errors and ensure they are not repeated. But if that can't be achieved, divestment is a powerful signal to the company and others like it.

The ultimate reason for our divestment was because Marsh & McLennan failed to provide a clear public commitment not to provide services to support projects like the Adani Carmichael coal mine in the future.

We acknowledge Marsh & McLennan has made a public statement saying it may refuse work which is not aligned with its commitment to the UN Sustainable Development Goals, including climate change mitigation.



However, the statement was vague and lacked meaningful information about how the company would assess alignment with the Paris Agreement.

The reality is that general statements of principle are no longer sufficient in the face of widespread failure by companies and governments to respond meaningfully to the harm of global warming. Leading companies have a responsibility to state clearly what they will be doing to align their business with a path to net zero emissions by 2050. We need tangible commitments and transparency about how the commitments will be implemented and who will be accountable for that implementation.

We continue to have a relationship with Mercer, a subsidiary of Marsh & McLennan, which provides administration services for Australian Ethical Super. We have an ongoing contract with Mercer and we will continue to use this relationship to encourage stronger climate action and transparency across the Marsh & McLennan group. In addition, we have previously used the services of insurance broker JLT, which was acquired by Marsh & McLennan in 2019. We will be seeking proposals from alternative insurance brokers.

Our engagement process

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 urgent action is required to limit its deep and widespread impacts. We focus on animal welfare issues where we see significant 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.

Issues and outcomes for 2019-20

During the year we engaged with over 400 companies and saw over 70 make or commit to positive change on the engagement issue. We're not claiming credit for all this change, but we're doing our bit. In the diagram we break down:

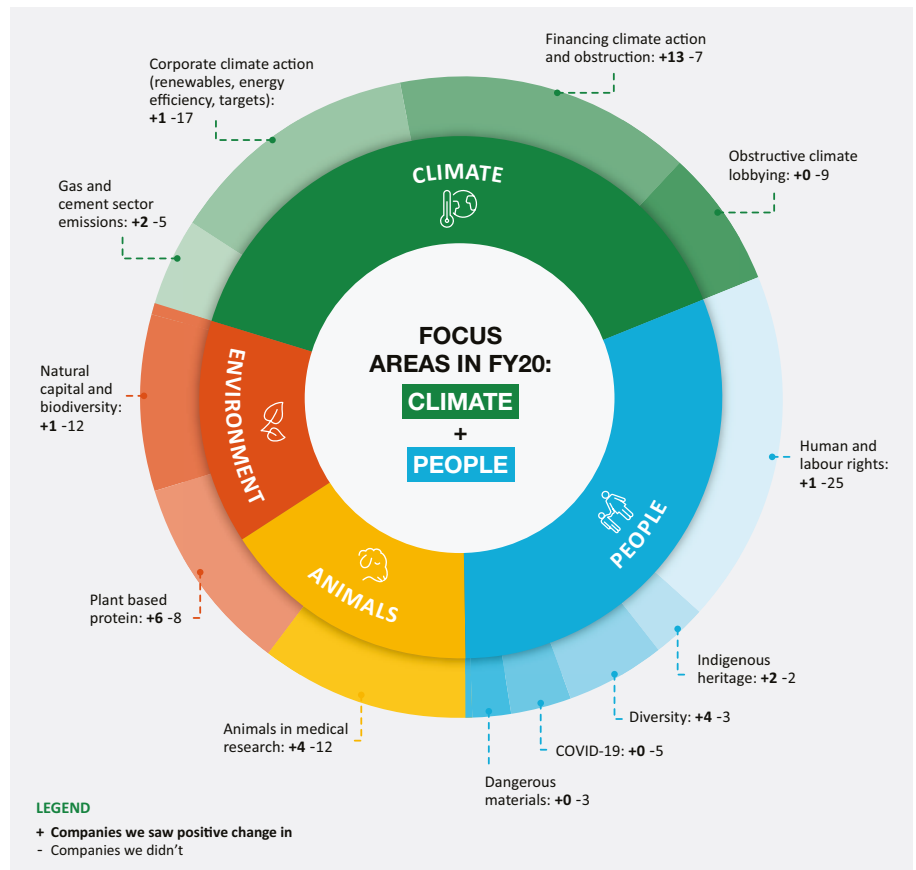
- the different issues we engaged on this year. We group them roughly under people, animals, environment and climate, though many threaten diverse social and environmental harm. We break out climate because of its importance and impact on all of people, animals and environment.

- We have labelled the number of engaged companies where we saw positive change on the issue with a '+' and the number where we didn't as '-'.
The time we devote to an engagement varies. Some require a lot of research and interaction with companies, in other cases we have a limited support role for a collaborative engagement which others are driving. In the diagram we take this into account by reducing the weighting of the more limited engagements¹. There's more detailed information about our engagements during the year [here](#).

Measuring effective engagement

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

During the year we engaged with over 400 companies and saw over 70 make or commit to positive change on the engagement issue



¹ For more limited engagements we divide the number of companies engaged and who changed by 5.

outcomes in some way, as a guide to what's working and what isn't, and to help us make future engagement more effective.

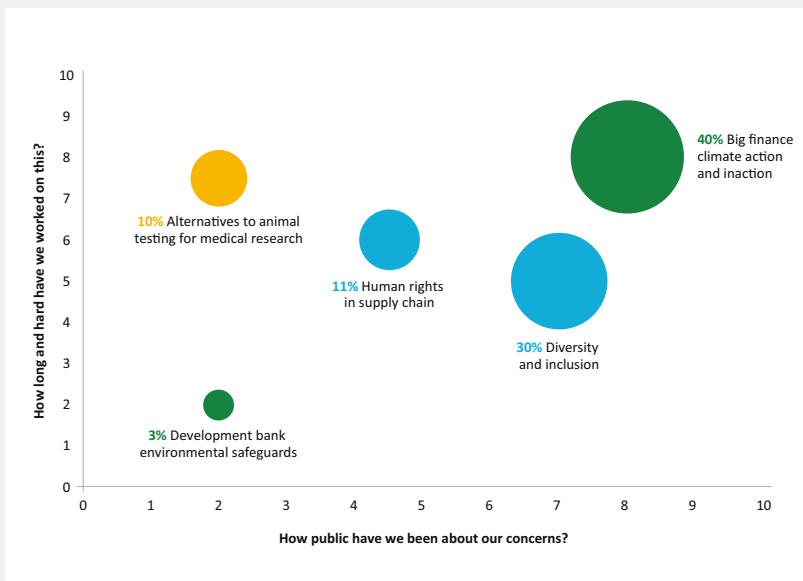
Our approach is to assess whether a company we engaged with made a positive change or commitment to change on the engagement issue during the year. We don't claim credit for all this change, which will often be influenced by the good work of others inside or outside the company or by a changing regulatory or economic environment. But better outcomes can help us identify which engagement tools and strategies are more effective.

Looking across engagement outcomes over the last three years, we see strong pay-offs from depth (tackling an issue in detail), persistence (tackling an issue over a period of years) and speaking-out (raising concerns publicly). On an issue like climate change, for example, we've researched and engaged for decades, signalling our concerns with divestments, shareholder resolutions and a strong media voice on the urgent need for climate action.

At this time our assessment is as much qualitative as quantitative, and the following diagram is an illustration of our developing thinking on engagement that works.



Real change takes time and a loud public voice



LEGEND
Circle size = % of change achieved



Getting off gas – a brief history of engagement with the sector

Our longstanding engagement with the gas sector has several ingredients for a successful engagement – persistent, deeply researched and often public – but unfortunately our gas engagement has not produced the change we sought. Successful engagement is harder when target companies invest heavily in resisting change, and that’s what we’ve seen from Australian gas companies who continue to pursue new unconventional gas projects across the country. That makes engagement harder, but it also makes it even more important.

Gas has some potential advantages over coal as a source of electricity, including more flexibility and lower emissions in some cases. But whether it’s better or worse than coal is not the point. Gas no longer stacks up against investment in renewables and energy storage. We divested from our remaining gas infrastructure investments five years ago and have been raising concerns about the sector for many years before that. Since 2011 we have opposed the development of unconventional gas in Australia, drawing attention to its many risks and unacceptable impacts:

- uncertain consequences of fracking, including contamination of precious groundwater including the Great Artesian Basin

- uncertain ‘fugitive’ methane emissions, leaking into the air from gas extraction processes and equipment and from LNG processing and transport
- disregard for impacts on local communities and farmland.

Getting to the facts

It’s frightening that we still know so little about the level and sources of human-caused methane emissions. Global methane levels have grown rapidly at the same time we’ve learned that natural methane emissions are lower than previously thought. Growing animal agriculture is one source, but so is the oil and gas sector.

Since 2014 we’ve worked to help address this uncertainty. We’ve engaged with scientific researchers at CSIRO and Australian universities to better understand what we do and don’t know about methane leaks from unconventional gas fields. We contributed to an international report on standards for methane disclosure by oil and gas companies. We monitor ongoing research. We’ve asked gas companies to report honestly on this continuing uncertainty, and to invest more to resolve the uncertainty and to reduce leaks from their gas infrastructure.

Shareholder resolutions

Although we don’t invest in fossil fuel companies like Santos and Origin Energy, we have used nominal holdings of shares in both companies to support shareholder resolutions calling for climate action. Since 2014 we have supported seven resolutions with requests including the following:

- align company strategy with the Paris Climate Agreement
- better methane emissions management and disclosure
- review membership of industry associations which obstruct sensible climate and energy policy
- ensure consent by Aboriginal native title holders to shale gas exploration in the Northern Territory

Collaborations

We have engaged independently with the gas sector, and we have also collaborated with others to promote change. We contributed for several years to the Australian unconventional gas working group of the UN Principles for Responsible Investment. We collaborated with the U.S. Environmental Defense Fund in its work on methane emissions from the oil and gas sector. As part of the global Climate Action 100+ initiative we have supported engagements with Santos and Origin Energy.



What's changed, what hasn't

While gas companies have increased climate-related disclosure and set some emissions reduction targets, real action in response to climate change has been limited. They don't accept responsibility for the all-important emissions from combustion of their gas (their 'Scope 3 emissions'). They claim false certainty about the level of leaked methane emissions. They seek government funding for unproven carbon capture and storage (CCS) technologies in an attempt to reconcile gas industry growth with the emissions reductions needed to limit warming to 2 and 1.5 degrees. They push ahead with new unconventional gas projects.

Consequently, determined investor engagement with the gas sector remains essential.

Lendlease – responsibility to protect koala habitat

Throughout the year we engaged with Lendlease about its proposed residential development at Mt Gilead, just south of Campbelltown in NSW. Our focus was potential effects on one of the last remaining healthy koala colonies in NSW. We considered carefully the concerns of NGOs opposing the development. We expect Lendlease to do more than comply with planning approvals. The company has a positive responsibility to take adequate steps to protect the koalas, including preserving habitat, ensuring effective travel

corridors and fencing or other measures to protect koalas from dogs and traffic. The development should only proceed if it is clear that it does not threaten the viability of the koala populations in the area.

Lendlease responded to our detailed questions and we perceived a shift over the engagement towards greater ownership of responsibility to protect the local koala colony. In recent months the NSW Deputy Chief Scientist has released a report with recommendations for protection of the affected koalas, and the NSW government has announced a conservation plan to protect endangered koalas in the area including a new Georges River Koala Reserve. Lendlease has publicly confirmed its commitment to a number of koala protection measures and will gift land to the new reserve. We continue to monitor the progress of the proposed development.

Insurers and raising the Warragamba dam wall

Since February we have been engaging with insurers about the proposal to raise the Warragamba Dam wall to reduce the frequency of flooding downstream homes and other properties. The proposal would 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 walls 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 have expressed support for the project. We are concerned this support has been given without due consideration of the negative impacts and without proper consultation with the Gundungarra people. To help build our understanding of the issues we have consulted extensively with the Colong Foundation which is opposing the dam wall raising.

We have engaged with the ICA, IAG, Suncorp, Allianz and QBE on this issue, and discussions continue with some of them. We supported shareholder resolutions and asked questions about the issue at QBE's annual general meeting in May and are considering our approach to similar resolutions for the upcoming IAG shareholder meeting. We accept that it's appropriate for the insurance sector to contribute its risk management expertise to consideration of flood mitigation proposals like raising the dam wall. But insurers need to be clear when they are contributing this expertise, and when they are advocating for or against particular projects. Before supporting a project,

they should satisfy themselves that negative impacts have been adequately investigated and alternatives considered. Particular care is needed to ensure that the outstanding universal value of World Heritage Sites are not harmed and free prior and informed consent is obtained where traditional owners are affected.

Responsible insurers should also use their influence to:

- oppose inappropriate new property developments, particularly where the development may increase risk to existing residents and where insurance may become unaffordable in the future as the risk and intensity of floods increase with climate change.
- promote changes to regulatory frameworks and processes to ensure that all relevant impacts of proposals like the dam wall raising proposal are adequately investigated and weighed against lower impact alternatives.

We're also focusing our own advocacy efforts to fix inadequate regulatory protection of cultural heritage, the environment and animals. Our submission this year to the review of the Environmental Protection and Biodiversity Conservation Act raised concerns that Aboriginal and Torres Strait Islander peoples are not appropriately included in decision-making. These laws also lack clear recognition of the national environmental significance of climate change and land clearing. Changes are needed if we are to make amends for Australia's terrible record on deforestation and mammal extinction.

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' about the way key people in the organisation are paid.

At company meetings of shareholders over FY20 we disagreed with the voting recommendations of board and management about 12% of the time, including due to concerns about low board diversity, lack of independence in governance and audit, and climate inaction. In about half of these cases of disagreement we voted against election or re-election of directors. In other cases we supported shareholder resolutions, we voted not to approve the company's remuneration report and we voted for new directors who were opposed by the incumbent board.





Our climate credentials

Investing and
advocating for
CLIMATE ACTION
since 1986

Nil
investment in coal
mining, fossil fuel
and gas companies

Net zero
operations since 2016

75% less
carbon in our portfolio

5 x more
investment in
renewable power

Targeting
net zero
portfolio by 2050

Climate change is here

We believe human-induced climate change is one of the greatest long-term threats to humans and indeed all life on this planet.

Both NOAA and NASA have confirmed the **world's five hottest years** have all occurred since 2015, while 2019 was the hottest and driest year Australia has experienced since records began. After years of drought, the east coast of Australia experienced the worst bushfire season ever recorded with an estimated 18.6 million hectares of land burnt and at least one billion native animals killed.¹ The 2020 NSW Bushfire Inquiry confirmed that climate change made a significant contribution to the extreme nature of the season.

A low carbon world

The urgency of this situation is not news to us. Australian Ethical has been investing in the transition to a low carbon economy and advocating for action on climate for over 30 years. We have been tracking and reporting our sustainability metrics since 2002. 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.

Fifty years ago, in 1970, the first Earth Day was inspired by a scientist who influenced an awakening to the science of environmental dangers that translated into a strong and effective political movement.

The current COVID-19 experience is proving that science remains essential. Just as science shows the negative effects that human social processes can have on the natural environment, it can also provide the technologies to overcome environmental challenges.

We proactively seek out low carbon investments and avoid investment in carbon intensive companies unless there is a substantial mitigating reason. We have always tried to support businesses that are actively making the transition to a low carbon future.

Every company or sector we invest in is assessed for carbon intensity, direct and indirect. Not just energy, mining and transport, but even food, banking and real estate. For example we will invest in plant protein, a low carbon food choice but not in animal-based agriculture due to its substantial carbon footprint (and significant animal welfare issues).

This careful stock selection means the carbon footprint of our investment portfolio is 75% less than that of the global share market actions.

Our climate actions

- 1 Our investment choices
- 2 Our advocacy and engagement on climate action and policy, and
- 3 Reducing and offsetting 100% our own operational emissions

“Beef requires 20 times more land and emits 20 times more greenhouse gas emissions per gram of edible protein than common plant proteins, such as beans” WRI

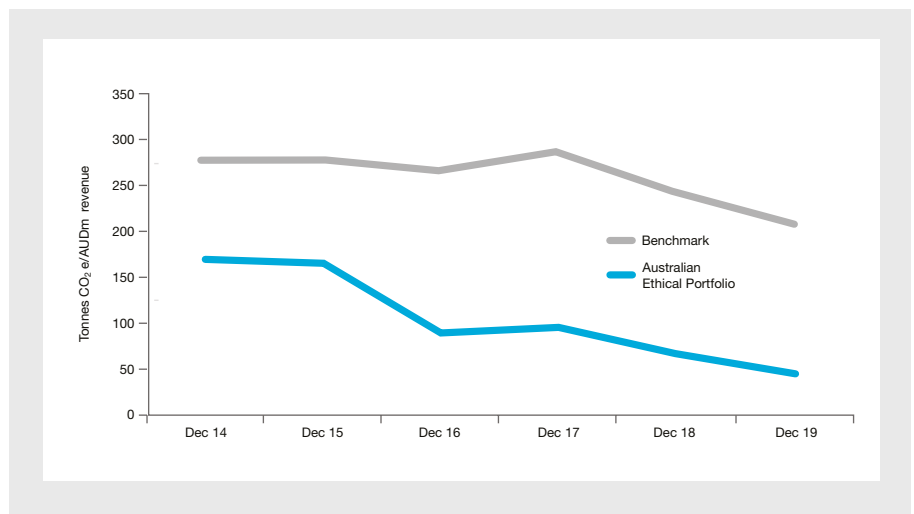
¹[1.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1920/Quick_Guides/AustralianBushfires](https://aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1920/Quick_Guides/AustralianBushfires)

Path to net zero

The tracker below shows the emissions intensity of our share investments reduced by 30% in 2019, while the global share market reduced by 15%.

✓ Our carbon footprint target is net zero emissions by 2050

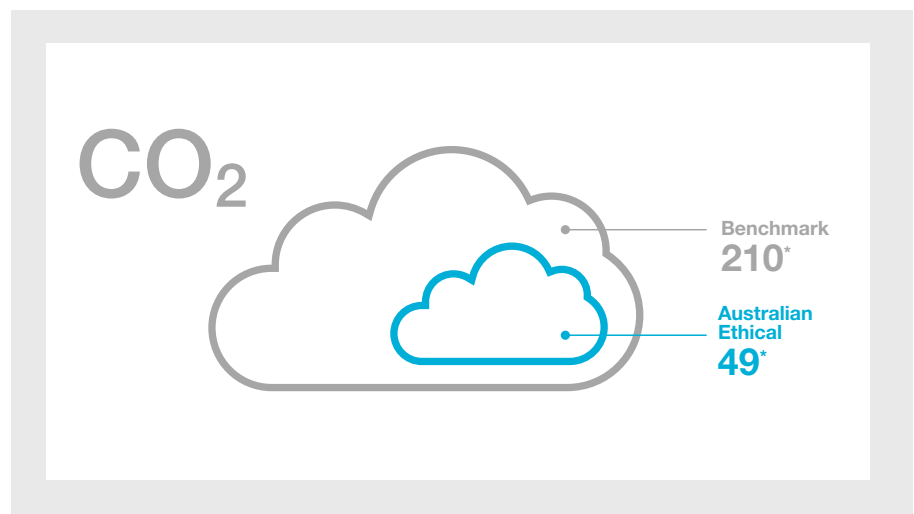
We have been tracking our progress towards net zero emissions since 2014. As this chart shows, the carbon footprint of our portfolio is steadily reducing.



This chart shows the carbon footprint of our share in this investments calculated as their carbon intensity measured in tonnes revenue compared to the benchmark the benchmark is a blended benchmark of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and the MSCI World ex Australia Index (for international share holdings). More information on how we calculate our carbon footprint is contained in our 2020 TCFD Report.

✓ Our share portfolio is 75% less carbon intensive than the benchmark*

We assess the carbon footprint of our share investments based on the carbon intensity of the companies we invest in. This is calculated from direct and some indirect emissions (Scope 1 & 2 emissions) of the companies relative to their revenue. (Assured by KPMG see page 66.)



*Carbon footprint and carbon intensity are measured in tonnes CO₂e/ million AUD revenue. The Benchmark is a blended benchmark of the S&P ASX200 Index (for Australian share holdings) and MSCI World ex Australia Index (for international share holdings). More information on how we calculate our carbon footprint is contained in our 2020 TCFD Report.



Low carbon future

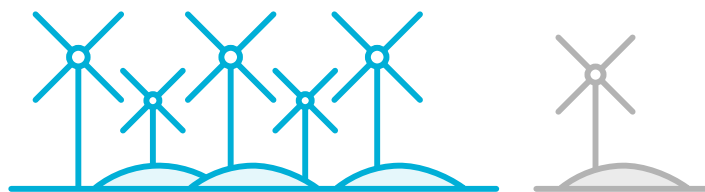
Carbon footprinting doesn't capture all important climate risks. Fossil fuel reserves aren't included while they remain in the ground, but they will frustrate all efforts to limit global warming if they are extracted and burned, the proposed Adani Coal Mine is a case in point. To supplement our carbon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

Fossil fuel reserves per A\$1,000,000 invested

	Our share investments	Share market benchmark
Thermal coal reserves	Zero	2,650 tonnes
Gas reserves	Zero	2,000 barrels of oil equiv.
Oil reserves	Zero	1,130 barrels of oil equiv.
Potential emissions from fossil fuel reserves	Zero	6,000 tonnes CO2 equiv.
From thermal coal, oil sands, shale oil and shale gas	Zero	4,830 tonnes CO2 equiv.

Our portfolio is heavily weighted in those companies helping to build a low carbon future, renewables, energy efficiency, recycling, electric vehicles. Our investment in renewable power generation is proportionally **five times** greater than that of the global share market. Our **2020 TCFD Report** explains the way we track and calculate this.

5 x more



INVESTMENT IN RENEWABLE POWER GENERATION THAN THE GLOBAL SHARE MARKET



Our operational carbon footprint

As we strive to limit global warming through our investment screening, engagement and advocacy, it's also important that we pay attention to our day-to-day operational emissions.

This year we conducted a detailed review of our operational impact with the help of **Pangolin Associates**, specialists in operational carbon footprinting and reporting.

In previous years we have focused on the emissions from our directly metered electricity use and business travel. This year we wanted to significantly expand what we measured and reported. The scope was widened to include emissions from food and drink, furniture and IT equipment, external IT support, staff commuting to and from work, traditional (non-digital) advertising and shared building electricity and waste services.

As a result of our expanded scope, our reported operational footprint increased to 450 tonnes of CO₂-equivalent, about four times larger than previous years. This gives a more comprehensive picture of our operating emissions and highlights the opportunities to reduce emissions in the way we operate.

One of the biggest increases was the footprint of marketing activity (16% of total emissions), which is something we will continue to monitor and review. There are not many companies who include advertising in their operational footprint, however we consider advertising an integral part of growing our business for the benefit of all stakeholders. This year we were able to estimate emissions from more traditional forms of advertising using generic emissions factors, which were applied to our spending. However, we excluded emissions related to digital advertising as we could not identify a reasonable basis for estimating those emissions. We will continue to monitor the development of estimation methodologies as they evolve.

Along with advertising, the other main contributors to our footprint were our external IT support service, changes to our Sydney office to accommodate more employees and the upgrading of laptops. New equipment and furniture create a large impact as we account for the full life-cycle emissions of any new item as we acquire it (rather than accounting for emissions over its life).

Reducing emissions

We limit our operational emissions by buying renewable electricity for our directly metered office power. We consider climate performance when we select suppliers of products and services. Remote working practices due to COVID-19 have shown us we can limit business and commuting travel emissions through increased use of online meetings and more flexible work practices. At the same time, we must consider the impact of additional domestic emissions from increased work at home. These individual impacts will be harder for us to track.

100% offset

We have offset 100% of our identified Scope 1 & 2 and 3 operational emissions since 2016. In FY20, 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 ranger program via the Karrkad Kanjdji Trust, and Australian Ethical 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 wide reaching benefits, not just for the climate but for all communities and people involved, as well as preserving species, land and culture.

We have also used Kariba REDD+ carbon credits remaining from previous years. The Kariba REDD+ project helps promote the independence and wellbeing of communities in Zimbabwe including to help prevent further land clearing.

This year we increased our carbon offsetting by an amount equivalent to three times the FY20 emissions from shared building electricity. We did this because we did not measure shared building electricity in previous years.

Breakdown of our operational carbon footprint

Category	FY17	FY18	FY19	FY20
Scope 1 & 2 emissions (tonnes of CO2 emissions pa)	41.5 ¹	50.11 ¹	50.23 ¹	0 ¹
Operational Scope 3 (tonnes of CO2 emissions pa)	36.6 ¹	36.5 ¹	54.69 ¹	449.5 ¹
Full scope emissions per full time equivalent employee	1.6 ¹	1.5 ¹	1.6 ¹	6.9 ¹
Full scope emissions intensity (total per AUD million revenue)	2.8 ¹	2.4 ¹	2.6 ¹	9.0 ¹
Full scope emissions per AUD billion funds under management	36 ¹	31 ¹	31 ¹	11 ¹
Offsetting of reported operational emissions	100%	100%	100%	100% ¹

¹ Previous years' figures are not directly comparable with this year's figures because we have expanded the categories of emissions reported this year as discussed above. 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 this year our Scope 2 (and Scope 1) emissions are correctly reported as zero.



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 2020.

Information Subject to Assurance

The Assured Sustainability Information, as presented in the 2020 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 as at 31 December 2019 (tCO ₂ e per AUD \$ million revenue)	49
Carbon footprint of the blended S&P ASX200 Index and MSCI World ex Australia Index benchmark as at 31 December 2019 (tCO ₂ e per AUD \$ million revenue)	210
Relative carbon intensity reduction of AEI equity share portfolio compared to the blended S&P ASX200 Index and MSCI World ex Australia Index benchmark as at 31 December 2019 (%)	75
AEI portfolio-level sustainable impact revenue per \$1 million invested relative to a blend of the S&P ASX 200 Index and the MSCI World ex Australia Index ("the market") as at 31 December 2019 (times market)	3.8
Alternative energy sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	17,160
Alternative energy sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	3.5
Energy Efficiency sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	15,000
Energy Efficiency sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	3.4
Green Building sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	7,440
Green Building sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	2.4



Assured Sustainability Information	Value
Sustainable Water sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	2,680
Sustainable Water sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	3.9
Pollution Prevention sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	50,860
Pollution Prevention sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	12.7
Nutrition sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	3,140
Nutrition sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	0.7
Affordable Real Estate sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	1,600
Affordable Real Estate sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	2.1
Major Disease Treatment sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	2,450
Major Disease Treatment sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	0.6
Sanitation sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	1,000
Sanitation sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	1.0
SME Finance sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	520
SME Finance sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	0.9
Education sustainable impact revenue per \$1 million invested as at 31 December 2019 (\$AUD)	3,790
Education sustainable impact revenue per \$1 million invested relative to the market as at 31 December 2019 (times market)	16.1



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.

Sydney
28 October 2020

GRI Content Index

Disclosure	Description	Reference																																	
Organisational profile																																			
102-1	Name of the organisation	Front cover																																	
102-2	Activities, brands, products and services	Pages 29, 50, 51 Annual Report pages 14, 16, 17 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	Page 33																																	
102-6	Markets served	Page 5 <table border="1" data-bbox="609 824 1149 1294"> <thead> <tr> <th></th> <th>Managed funds clients</th> <th>Super members (funded)</th> </tr> </thead> <tbody> <tr> <td>ACT</td> <td>528</td> <td>1,468</td> </tr> <tr> <td>NSW</td> <td>3,008</td> <td>16,456</td> </tr> <tr> <td>NT</td> <td>86</td> <td>740</td> </tr> <tr> <td>QLD</td> <td>1,093</td> <td>5,760</td> </tr> <tr> <td>SA</td> <td>500</td> <td>2,085</td> </tr> <tr> <td>TAS</td> <td>368</td> <td>2,060</td> </tr> <tr> <td>VIC</td> <td>2,708</td> <td>15,643</td> </tr> <tr> <td>WA</td> <td>542</td> <td>3,974</td> </tr> <tr> <td>Other</td> <td>162</td> <td>633</td> </tr> <tr> <td></td> <td>8,995</td> <td>48,819</td> </tr> </tbody> </table>		Managed funds clients	Super members (funded)	ACT	528	1,468	NSW	3,008	16,456	NT	86	740	QLD	1,093	5,760	SA	500	2,085	TAS	368	2,060	VIC	2,708	15,643	WA	542	3,974	Other	162	633		8,995	48,819
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	8,995	48,819																																	
102-7	Scale of the organisation	Pages 8, 9, 12, 13, 15 Annual Report pages 12, 14, 15																																	
102-8	Information on employees and other workers	Pages 44 to 49 employees are usually based at our sole office in Sydney. Due to the COVID-19 epidemic employees moved to work from home arrangements in March 2020. Home included interstate locations such as Canberra and Brisbane.																																	
102-9	Supply Chain	Page 37																																	
102-10	Significant changes to the organisation and its supply chain	Page 37, 52																																	
102-11	Precautionary Principle or approach	The Australian Ethical Charter is aligned with the Precautionary Principle.																																	
102-12	External initiatives	Pages 2, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 23, 2, 25, 27, 28, 29, 32, 37, 39, 40, 42, 43, 46, 50, 51, 53, 56, 57, 58, 62, 63, 65 The 2020 TCFD Report																																	
102-13	Memberships of associations	Pages 50-51																																	

Disclosure	Description	Reference
Strategy		
102-14	Statement from senior decision-maker	Pages 8, 9 Annual Report pages 4, 5, 8, 9
102-15	Key impacts, risks and opportunities	Pages 9, 34, 35, 36, 45
Ethics & integrity		
102-16	Values, principles, standards and norms of behaviour	Pages 5, 8, 9, 19 Annual Report page 9 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. In accordance with the formal grievance procedures, employees can discuss any concerns, issues or complaints around their employment, regardless of their nature of severity. 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 FY20, the external grievance mechanism available for superannuation complaints was the Australian Financial Complaints Authority (AFCA). The internal risk and compliance reporting tool "Tickit" is used to track, monitor and document issues. External grievance mechanisms are able to be reported through The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC).
102-18	Governance structure	Page 33 Annual Report pages 31, 32
102-19	Delegating authority	Corporate Governance Statement Principle 7 , pages 10, 11
102-20	Executive level responsibility for economic, environmental and social topics	Page 33 Annual Report page 39 Ethical Investment Policy
102-21	Consulting stakeholders on economic, environmental, and social topics	Pages 4, 5, 31, 52, 58, Appendix 1 Ethical influencing 2020
102-22	Composition of the highest governance body and its committees	Page 33 Annual Report pages 31, 32 Corporate Governance Statement Principle 2 (Recommendations 2.1 and 2.3) pages 3 to 4
102-23	Chair of the highest governance body	Annual Report page 6, 31 Corporate Governance Statement Principle 2 (Recommendation 2.3) page 6

Disclosure	Description	Reference
102-24	Nominating and selecting the highest governance body	Board Charter Board Renewal Policy Corporate Governance Statement Principle 2 (Recommendation 2.4, 2.5), page 7
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), page 8 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. In July 2020 a new position of Chief Strategy Officer was created and filled. This role sets on the Senior Management Team. Board Charter
102-27	Collective knowledge of highest governance body	Corporate Governance Statement Principle 2 (Recommendations 2.2 & 2.6), pages 5 and 7 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 31, 32
102-28	Evaluating the highest governance body's performance	Corporate Governance Statement Principle 1 (Recommendation 1.6) page 4
102-29	Identifying and managing economic, environmental and social impacts	Corporate Governance Statement Principle 7 (Recommendation 7.4) page 11
102-30	Effectiveness of risk management processes	Pages 18, 33, 34 Corporate Governance Statement Principle 7 (Recommendation 7.2) page 10 Due diligence is undertaken monthly by the senior management team and reported to the Board.
102-31	Review of economic, environmental and social topics	Page 33 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 Compliance Manager has a reporting line and obligation to report to the Chair of the Audit Committee, who in turn is a Non-executive Director. The Company Secretary has a reporting line to the Chair of the Board.
102-34	Nature and total number of critical concerns	There were no critical concerns that needed to be communicated to the Board during the reporting year.
102-35	Remuneration policies	Remuneration Report (as part of the Annual Report), pages 46 to 61
102-36	Process for determining remuneration	Remuneration Report (as part of the Annual Report), pages 46 to 61

Disclosure	Description	Reference
102-37	Stakeholders' involvement in remuneration	Remuneration Report (as part of the Annual Report), page 60
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 2.97:1
102-39	Percentage increase in annual total compensation ratio	The highest paid individual's salary increased by 0% and the median salary increased by 6%.
Stakeholder Engagement		
102-40	List of stakeholder groups	Pages 2, 7, 31, 32, Appendix 1 Ethical influencing 2020
102-41	Collective bargaining agreements	No staff are employed on collective bargaining agreements
102-42	Identifying and selecting stakeholders	Page 13
102-43	Approach to stakeholder engagement	Pages 2, 13, 31, 32, Appendix 1 Ethical influencing 2020
102-44	Key topics and concerns raised	Page 13 Ethical influencing 2020
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 FY20. 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 13
102-48	Restatements of information	No restatements of information in the period.
102-49	Changes in reporting	A new materiality process was conducted in the period. Page 13
102-50	Reporting period	1 July 2019 to 30 June 2020

Disclosure	Description	Reference
102-51	Date of the most recent report	29 October 2019
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Tom May, General Counsel and Company Secretary: tmay@australianethical.com.au
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI Content Index	The GRI Content Index is set out in this table.
102-56	External assurance	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 66-67

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		Annual Report pages 10, 11, 12, 14, 15	I (no limitations)
201-2 Financial implications and other risks and opportunities due to climate change		Pages 8, 16, 24, 36, 39, 40, 42, 54, 56, 60 to 64 Annual Report pages 4, 33, 38, 39, 40	E (no limitations)
Anti-corruption 2016			
Management Approach (103-1; 103-2; 103-3)		Australian Ethical's name and ethos means it must set a very high bar for its ethical business practices or risk substantial brand damage. Code of Conduct	I
205-3 Confirmed incidents of corruption and actions taken		There were no incidents of corruption concerning Australian Ethical's business, its employees, or business partners, nor any public legal cases regarding corruption brought against Australian Ethical or its employees	I (no limitations)
Supplier Environmental Assessment 2016			
Management Approach (103-1; 103-2; 103-3)		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 Ethical Charter All new suppliers are assessed for alignment with the ethical charter Pages 37, 52, 53 Ethical Investment Policy	I
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	100% of 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 52, 53, 54	I and E (no limitations)
Marketing and Labelling 2016			
Management Approach (103-1; 103-2; 103-3)		Australian Ethical is bound by the requirements contained in the Corporations Act (2001), the Superannuation Industry (Supervision) Act (1993), the Regulatory Guidance produced by the Australian Securities and Investments Committee (ASIC) and the Financial Services Council (FSC) Standards when determining the marketing plans for its products. 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 (100%) of Australian Ethical's investment and superannuation fund products are accompanied by a product disclosure statement, and any changes to products are communicated to our clients via our website and when appropriate, in more targeted letter or email campaigns. 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)

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
417-3	Incidents of non-compliance concerning marketing communications	There were no incidents of non-compliance concerning marketing communications	I (no limitations)
Socioeconomic Compliance 2016			
Management Approach (103-1; 103-2; 103-3)		Corporate Governance Statement Principle 7 (Recommendation 7.1 and 7.2) page 10	
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 16 to 29 Ethical Investment Policy	I
FS6	Percentage of the portfolio for business lines by specific region, size and by sector	Annual Report pages 12, 15,16, 17, 18, 20, 21, 22, 23, 24, 25	I (no limitations)
Active Ownership			
G4-Disclosure on Management Approach		Pages 51 to 58 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. Ethical influencing 2020 Proxy Voting Policy Proxy Voting Record 2020	
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 54 We engaged with 407 or 12% of the total companies in our portfolio. Ethical influencing 2020 Ethical Investment Policy	I (no limitations)

Topic Specific GRI Standard & Disclosure	Description	Reference	Internal/External Boundary (I/E) and Limitations
FS11	Percentage of assets subject to positive and negative environmental or social screening	All (100%) of our investments must meet the Australian Ethical Charter which includes both positive elements (that we expect our investee companies to support) and negative elements (that we expect our investee companies to avoid). Ethical Investment Policy	I (no limitations)
Australian Ethical Specific Material Topics			
Credibility of Investment Team			
Management Approach (103-1; 103-2; 103-3)		Page 28 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 (\$544.1m) 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 10, 19, 31, 34, 44 to 49	I
COVID-19			
Management Approach (103-1; 103-2; 103-3)		Pages 8, 9, 13, 32, 33, 39, 40, 42, 45, 46, 49, 52, 64 Annual Report pages 14, 18, 22, 23, 33, 34, 35, 36, 37, 38, 40	I
Climate Change Risks and Opportunities			
Management Approach (103-1; 103-2; 103-3)		Pages 8, 16, 24, 36, 39, 40, 42, 54, 56, 60 to 64 Annual Report pages 4, 33, 38, 39, 40 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	Annual brand research online survey, Net Promoter Score (NPS) survey, digital onboarding process, significant event notices, annual Good Money magazine, annual statements, online member portal, responding to email, social media and phone enquiries, invitation to vote for Community Grants recipients
Investors	Annual Good Money magazine, annual brand research telephone survey, Net Promoter Score (NPS) survey, half-yearly, annual statements and distribution statements, online portal, responding to email, social media and phone enquiries, significant event notices, invitation to vote for Community Grants recipients
Advisers	Adviser updates via email, invitation to vote for Community Grants recipients and face-to-face engagement at professional development days and site visits (pre-COVID-19). From March 2020 onwards we delivered a number of interactive webinar and virtual speaking spots covering Ethical Investing.
Employers	Emailed notices, employer portal, one on one site visits, tailored induction kit for new employees as well as COVID-19-friendly virtual pitches for new business and educational sessions for existing employers.
Shareholders	Annual and Sustainability Report, dividend notices, Annual General Meeting, ASX notices, shareholder self-serve online portal, invitation to vote for Community Grants recipients and an invitation to participate in the materiality assessment survey (395 respondents).
Investee companies	Proxy voting, meetings with management teams, advocacy engagements
Community	We engaged daily with our social media community of more than 134,000 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 September 2019 and asked for their views on the proposed changes to the federal environmental and biodiversity protection laws, which we added to our submission to government. We collaborated with other organisations and businesses such as 1 Million Women, HalfCut, Bank Australia and Animals Australia to amplify environmental and social justice campaigns.

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Past performance is not a reliable indicator of future performance.

Unless otherwise indicated, the photographs and drawings of assets in the report are not real assets connected to the Australian Ethical Managed Funds Investment Schemes ('Managed Funds') or the Australian Ethical Retail Superannuation Fund ('Super Fund'). Where used, photographs of the assets of the Managed Funds or Super Funds are the most recent available. Photographs and drawings of public buildings, transport, or panoramic views do not depict Managed Funds or Super Fund assets.

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