Minutes of the 2020 Annual Member Meeting

The inaugural Annual Member Meeting of the Australian Ethical Retail Superannuation Fund was held online on Tuesday, 24 November 2020 at 7 pm

Present

Directors of Australian Ethical Superannuation Pty Limited

- Stephen Gibbs, Chair
- Kate Greenhill, Non-Executive Director
- Mara Bun, Non-Executive Director
- Michael Monaghan, Non-Executive Director

Responsible Officers and other attendees

- John McMurdo, CEO Australian Ethical Group
- David Macri, Chief Investment Officer
- Stuart Palmer, Head of Ethics Research
- Madeleine Banfield, Executive Officer Superannuation
- Mark Simons, Chief Financial Officer
- Tom May, General Counsel & Company Secretary
- Karen Hughes, Chief Risk Officer & Company Secretary
- Kim Heng, our Chief Operations Officer
- Maria Loyez, Chief Customer Officer
- Marion Enander, Chief Strategy & Innovation Officer
- Julie Orr, Non-Executive Director of Australian Ethical Investment Limited
- Karen Hopkins, Partner KPMG, Auditor

Agenda

- Introduction and Chair address from Steve Gibbs
- Fund and ethical update
- Investment summary
- Q&A session

The Chair opened the meeting at 7 pm and closed it at 8:05 pm

A video recording is available here

The attached Appendix is a transcript of proceedings

Appendix – transcript of proceedings

Stephen Gibbs: Good evening everyone, I'm Steve Gibbs, Chairman of Australian Ethical Superannuation Proprietary Limited. Welcome to the inaugural annual members meeting of the Australian Ethical Superfund. I would like to acknowledge the Gadigal people of the Eora Nation as the traditional owners of the land where I am now and where we are hosting this meeting. I would also like to acknowledge the traditional owners of the various lands on which you are all joining us this evening, and the Aboriginal and Torres Strait Islander people present today. I pay my respects to their elders past, present and emerging, and recognise their continuing connection to land, waters and culture.

We now have a short video before we commence the formal proceedings.

Short video presentation

Stephen Gibbs: I would like now to introduce my fellow Directors, Kate Greenhill and Michael Monaghan, who are in the room here in Sydney with me, even though you can't see them, and Mara Bun who's online. I'd also like to introduce members of Australian Ethical's Senior Management Team who are present at today's meeting, some of hich are in the room and some of which are online. Firstly John McMurdo, the CEO of the Australian Ethical Group, David Macri, our Chief Investment Officer, Stuart Palmer, head of Ethics Research, Karen Hughes, Chief Risk Officer and Company Secretary. Kim Heng, our Chief Operations Officer, Mark Simons, Chief Financial Officer and Tom May, Company Secretary.

We are also joined online by Julie Orr, a Non-Executive Director of Australian Ethical Limited, and with me is Madeleine Bandfield, our Executive Officer Superannuation, who will be talking to you soon. I also confirm that our auditor, Karen Hopkins, a partner of KPMG is also present online. Please note that we are recording today's proceedings and the recording will be available on our website in June of course.

The order of business will be as follows. I will deliver a short address; the Executive Officer Superannuation and I will then provide a fund and ethical update. Following this I will provide you with insights into the performance of the fund's investment options for the year. After this we will answer questions from you, our members, some of which have been received prior to the meeting.

We will hope to leave as much time as possible to answer those questions, but we may not get to all of them, depending on how many there are. If you would like to ask a question, please press the ask a question button, you'll be prompted to enter your member number and then type in your question.

First, we run through a brief history of the fund and we'll talk about the milestones for the year. Australian Ethical Superannuation Fund started 22 years ago as part of Australian Ethical Investments business. As you know, our primary goal is to give you the opportunity to invest your super money in an environmentally friendly and socially responsible way. This gives you the means to invest your super in line with your moral outlook, whether that is driven by compassion and empathy for the planet and its inhabitants, by human rights or by animal welfare or in many cases all of these.

We're taking serious action to limit global warning by avoiding investment in fossil fuels and other sectors that are detrimental to the climate. Instead we invest your money in renewable energy companies. We avoid companies that restrict human rights, those that exploit their workers or discriminate. We invest in companies that we know make a strong contribution to human dignity and education and the alleviation of poverty around the world.

We avoid companies that cause unnecessary harm to animals, such as those that use animals for entertainment or sport, and cosmetic companies that test their products on animals. The Australian Ethical investment and ethics research teams work together to provide you with an ethical portfolio of investment options that fit our ethical charter, with the aim to generate competitive returns.

The charter which has been in existence since our very existence, contains 23 principles that influence the way we invest your money. Not only does it drive our investment choices, it underpins every aspect of our business practices. During this time of international turmoil, climate crisis and pandemic, we believe we continue to deliver on our vision of investing for a better world, and right now it has never seemed so important.

The financial year to 30 June 2020 was a truly extraordinary year, one that I think we all sincerely hope will not be repeated. This time last year fires had already started to burn, leading to a horrendous period of bushfire devastation. The fact that the fires started so early and continued with such force for so long was a considerable shock to many people who questioned whether sufficient action was being taken to address the major underlying cause.

Then came the COVID-19 pandemic. It is not the first pandemic that the world has faced, and it is unlikely to be the last, however pandemics are not or at least have not been previously frequent events. What is absolutely clear to me is that catastrophic bushfires and pandemics will be regular events if we don't do something about them. If nothing is done to limit the extreme weather events caused by climate change, the consequences are dire for the planet and all its inhabitants.

We will see further extinction of species and changes to the fundamental existence of life as we know it, if not life itself. However, we must not be depressed by this. If you look on the brighter side, more and more people are realising that something has to be done and something can be done to arrest the climate crisis. An increasing number of people are realising that where they invest their super money should not contribute to the problem but can and should be a positive force for change.

It's heartening to see other superfunds following our lead, although some in a very limited way, and super members successfully challenging their funds for change. Like all superfunds, Australian Ethical was hit by the turmoil in stock markets following the initial impact of COVID-19, but we managed to turn the negative into a positive and we finished the financial year in a much stronger position than where we started, remarkable result.

This was achieved by our unique portfolio construction process, our ethics and adherence to the ethics charter, and our focus on small companies. We don't hold investments in fossil fuel companies or other sectors that were greatly affected by the impact of COVID-19. Superannuation is about the long-term, however some members who were and possibly still are adversely affected economically by COVID-19, found it necessary to access their super following the government's decision to allow early release.

We were able to respond to these members and have that money released where the applications complied with the rules. We hope this was able to help those in need. We will elaborate on the outcomes and successes of the year later, but I can highlight now that the value of funds under management as at 30 June 2020 was $2.72 billion, an increase of 20% in just one year.

The number of superfund members was also up 20% over the year and now stands at over 48,000. The investment options delivered excellent performance, particularly the Australian shares and balanced option. In the SuperRatings investment survey at 30 June, the Australian shares option had ranked first over five, seven and 10 year periods. MySuper Balanced investment option was ranked third for performance over the last financial year in the SuperRatings survey, delivering a return of 2.4%.

The fund won the SuperRatings Infinity Award for the second year running. This award recognises superfunds that lead the industry in sustainable behaviour and those that genuinely commit to responsible investment principles. We also won the finder.com.au Green Superfund of the Year Award. We reduced the percentage administration fee for all our super members by 12 basis points, we will continue to reduce fees as we grow, where and when we can.

In addition, we successfully managed the transition to working from home for all Australian Ethical staff due to COVID-19. The transition was so successful that our staff survey returned a satisfaction result of 98% with the way the transition was handled.

I'm now going to turn to Madeleine, who will talk to you and give you a fund and ethical update.

Madeleine Bandfield: Good evening and again welcome to our very first annual members meeting. It's great to be able to engage with you and talk to you directly, albeit by video. Hopefully next year we'll be able to do this in person. In the meantime, I trust that you and your loved ones are keeping safe and well.

As Steve said, this has been an extraordinary year, it has been a year that has taught us a lot. Many people's eyes were opened by the extreme force of the bushfires earlier in the year and the impacts that our changing climate has had on our lives. More and more people are being compelled to use their super as part of the solution to protect the planet and its inhabitants. We've seen unprecedented growth in funds under management and member numbers. That gives us pride in the work that we've done over the years to make this issue mainstream and in creating a solution that we can all be part of.

Like countless other businesses around Australia, COVID-19 had affected the operations of our business and the lives of people who work for the fund. Fortunately, Australian Ethical and the other companies who provide services to the fund were able to transition quickly to flexible and remote working arrangements. There was minimal disruption and the team continued to collaborate and remain connected. Despite all of this, the fund has achieved some stellar results over the year. The fund has grown by just over 20% over the year to a record $2.72 billion, as Steve mentioned, and it is more than three times the size it was just five years ago.

This is down to more and more of you joining the fund, rolling over your super balances and getting your employers to pay your compulsory super into your Australian Ethical account. The net flow of members has also continued to increase and is up 88% over the year. This includes the outflow of members who needed to take advantage of the early release of super scheme that the government introduced to assist people with the impacts of COVID-19.

In terms of member numbers, the fund grew by a net amount of 8000 members in the year and it has more than doubled its member numbers over the last five years. The future of super is ethical, and as the world tackles the issues of climate change, modern slavery and animal welfare, more and more Australians are expected to align their super and investment choices with their personal values.

We are one of the fastest growing funds in the industry, which means that we compare very well to other funds in terms of sustainability and the long-term viability of the fund. We have been able to pass on the benefits of this growth and improved economies of scale by reducing our fees.

As mentioned earlier, in April we implemented a reduction in the administration fee. This related to a saving of $60 a year for a $50,000 account balance. During the year we also reduced fees for the defensive advocacy and international share investment options. Over the lifetime of your super account, small changes in fees have a larger impact on the amount of super at retirement. So, incremental changes that we make can help your retirement amount in the long-term.

We're keen to reduce fees as and when we can as we want to share the benefits of our growth with you whilst remaining as competitive as possible. Over the year we've been implementing the member outcomes requirements for the financial year ending 30 June 2020. We're required to undertake a business performance review comparing our MySuper product and all our investment options against similar products in the industry. This helps us better understand the part of our super offering that can be improved, by putting them in the lens of what is the best outcome for our members.

We're required to publish our findings on the website towards the end of March 2021, so you can see for yourself how we have performed. More recently, in November this year we bought to fruition changes to our insurance offering, making the insurance premiums we charge to you much fairer. We checked our rates against those charged by other super funds for similar levels of insurance and are pleased that we are able to offer you a competitively priced range of insurances, and further details available on the funds website.

Other changes to insurance and super that happened during the year included putting in place the protecting your super reforms, thereby removing exit fees, capping fees at 3% of total account balances for members with balances below $6000 and making changes to inactive accounts to ensure that the balances are not unnecessarily eroded. On 1 April we implemented the putting members interest first reforms. This means that new members aged under 25 and members with account balances below $6000 are required to op into insurance.

One of the main advantages of holding insurance through your super fund is that it can be more cost effective than paying insurance premiums outside of super because the fund can often negotiate better rates by pooling individuals and providing group cover. We're adopting the insurance super voluntary code of practice, which is aligned with the protecting of super and putting the members' interest first legislation.

Its aim is to improve the value of having insurance and super so it doesn't erode your super account balance and will provide you with better understanding and clearer accountability. We're committed to adopting the code no later than 1 July 2021 and we have a roadmap in place to do this.

The government recently released an initiative called Your Future, Your Super, which will bring some further reforms to super over the next few years, making it easier for you to keep track of your super and to check its performance. It'll mean that it will be easier to take your super fund with you when you change jobs and you'll be able to continue to have your employer contributions paid into your account. Initially the default MySuper option will be subject to annual performance testing that will highlight any underperformance, and then this will be extended to all investment superannuation investment options.

The government also wants to create an online Your Super comparison tool which aims to provide a table of super products ranked by fees and investment returns. There's a lot to do over the coming years that will make improvements to the super industry overall.

Now back to Steve to continue with the ethical update.

Stephen Gibbs: Thank you, Madeleine, I now want to provide you with an ethical update for the year. As I mentioned earlier, the ethical charter guides how Australian Ethical invests. The investment team work to find suitable companies to invest in, filtering potential organisations that match our portfolio and ethical criteria. We believe that incorporating ethics screening into the investment process allows us to build a more complete understanding of the prospects of the company that we invest in, and therefore doesn't detract from long-term performance because it assists in identifying investment risks and opportunities sooner than regular investing processes.

Companies are screened prior to investment and then each year they are screened again to look for any changes in business practices. Here are some examples of investments and divestments that we have made during the year. We invested in Limeade Inc which helps organisations deliver and manage programs designed to improve the physical, emotional, financial and workplace wellbeing of their employees, and in Atlassian, which is a well-established Australian business that provides tools to help people plan, collaborate, communicate and organise.

We've also invested in Australian Unity Specialist Disability Accommodation Fund that provides accessible accommodation to Australians living with disabilities. From an energies perspective we invested in Austed, which provides wind and other renewable energy sources. We also excluded a number of companies; we publicly announced our divestment from the Marsh Group who provide services to the Adani Carmichael mine. We discussed with them our concerns about this on a number of occasions, and finally ended our investment when they didn't clearly rule out their support for similar projects in the future.

We also do a lot of advocacy work on your behalf, working with the companies we invest in and those we rule out, to help them reach or maintain the standards set out in the ethical charter. We put forward shareholder resolutions on areas including gender diversity on boards and management teams of the companies we invest in. We have discussed this issue with some boards and shared what we consider to be best practice. As a result, several of these companies have appointed women to their boards.

We engage with the government on policy, in particular this year we provided a submission on the proposed changes to environmental regulations, drawing attention to the shortcomings in the current rules. We asked you and our social media community for input into that submission, so your voices are being heard. We have also been talking to banks about their exposure to live trade exports. The response has been positive, and they are beginning to tighten up their lending practices.

In 2020 the Australian Ethical Foundation allocated $1.3 million to over 40 organisations primarily focused on charities fighting climate change. Projects included supporting First Nations women rangers in Arnhem Land, blue carbon research to protect our oceans, reforestation work across Australia and protecting wild ecosystems and the wildlife within them, like the Sumatran rhino in Indonesia. We also made targeted donations to aid bushfire recovery.

Furthermore, we have been able to allocate additional funds in the fight against COVID-19, funding treatment research, frontline healthcare provision and emergency food supplies. If you were one of the many people who voted for your favourite organisation to receive a grant, thank you for helping us to make a difference, and thank you to all our stakeholders, without whom we wouldn't be able to achieve all of this.

I now want to turn to an investment update. Our investment philosophy, as I said before, is centred around the 23 principles in our ethical charter. Our charter is based on the belief that investing in assets that have a positive impact on the world, avoiding investments with negative impacts, we can have a positive influence on the future of the planet and its inhabitants.

We believe that the power of money can be harnessed to deliver both competitive returns and positive change for society and the environment. The breadth of our investment style means that we can cover both positive and negative screening, we support sustainable sectors, have a positive impact through our grants and sponsorships and engage the community and government through our advocacy work. The returns that we have achieved speak for themselves.

To give a bit more detail and background, negative screening means that particular sectors, companies or countries are excluded. Some sectors and companies we exclude are manufacturers for example and distributors that generate revenue from gambling, alcohol, tobacco, weapons, slavery, pornography and needless animal harm. On the other hand, positive screening is where we seek out investments in sectors or companies that we want to support, such as renewable energy, education, technology, public transport, healthcare, recycling and the new economy.

We also invest in sectors that specifically relate to sustainability factors, such as clean energy, clean technology, sustainable agriculture and forestry, green property and sustainable water supply. We are responsible for the money held and invested on your behalf and we determine the overall strategy for the fund, and our performance over the financial to 30 June 2020 has been good considering it’s been an exceptionally volatile year.

As I said earlier, the MySuper balanced option returned 2.4% for the year. Now I know this doesn’t sound like much but considering most MySuper options lost money in the year, it is a very good result. In fact of over 100 funds, our fund was only one of 15 that returned a positive result for the year and it ranked third in the SuperRatings balance survey and second in the survey by Chant West. This option has also performed well over the long-term.

The majority of our other investment options also performed well over the year, outperforming their objectives and peers. The Australian Shares Option has been top three in the SuperRating surveys for all periods that we measure, from one to 10 years to 30 June 2020, returning an average of 10.4% every year for the last 10 years. Part of the reason for this success is the way we structure our investments, our adherence to the principles of the ethical charter, and as I said earlier our focus on smaller companies.

By investing in newer more sustainable sectors, our exposure to the traditional older sectors is limited. We are not being held back by the fossils. Technology and healthcare sectors also performed well in the period, some even benefited from the impact of COVID-19. But the future is unknown, and we are not out of the woods by any stretch, but we do look to the long-term past the current crisis and to the new normal of the future.

Our investments also have a long-term view such as those in the education and technology sectors. According to the latest Responsible Investment Association Australia Benchmark Report, the investment funds with an environmental, social and governance focus have outperformed their mainstream counterparts over the medium and long-term, and this type of investment is becoming more popular and we are at the forefront, as we have been for many years. It is not just strong returns that are driving a shift in people’s attitudes to investing but making a positive impact to the world is just as important.

In conclusion, I would like to thank my fellow Directors and the entire Australian Ethical team for their outstanding efforts and achievements during what has been an extraordinary year, a year that provided challenges not seen before, but one which has shown how an organisation that is focused on delivering not just positive outcomes for its members and investors, but also for people, the planet and animals cannot just meet the challenges but can end such a year in a better shape than it started.

I would like to take this opportunity to thank you all for taking the time to listen and participate in this meeting this evening. We are aware that what I've said contains a few dry facts and figures, but it's important we keep you up to date with our performance, as we're committed to do. We have received a number of questions in writing prior to the start of this meeting, and I'm going to go through those questions, summarise the question and then provide the answer.

There's some eight or nine, it might take 10 minutes or so. If you want to ask further questions or if you haven't asked a question already and would like to do so, please as I said before, go to the question button, type in your question and I'll come to those questions after I deal with the questions that were submitted prior to the start of the meeting.

Firstly, we received two questions in relation to vegan investing and whether we would consider setting up a vegan investment option and how we respond to social change relating to animal agriculture practices and the vegan movement. As we have discussed, our investment approach is governed by the 23 principles of the Australian Ethical Charter, and rather than create thematic funds, we apply our charter across all of our investment options.

That is, unlike some other superfunds, we don't just give you an option or two, it's consistently applied across all of our investments. So, whilst we do not have a specific vegan option, under the charter we avoid any investments we consider unnecessarily harmful to animals for all of our investment options. We rule out companies that perform animal testing for cosmetic purposes, as well as ruling out current systems of conventional animal agriculture.

We may invest in companies which use animal testing for healthcare purposes, provided they are applying our three standards which are to reduce the use of animals, to use alternative types of testing to replace the use of animals and to refine the testing to minimise animal suffering.

In terms of social change relating to animal agriculture practices, whilst there has been a recent rise in changing consumer expectations around animal agriculture and plant-based diets, under our charter we avoid any investment we consider unnecessarily harmful to animals. When it comes to agriculture, we only invest in sustainable food production in that it forms part of a healthy diet, it is produced in an environmentally sustainable way and avoids, as I said before, unnecessary harm to animals and indeed humans. This means we do not invest in current systems of conventional animal agriculture.

The next question asked what Australian Ethical Super is doing to support the LGBTIQA community. Our workplace diversity and inclusion policy states that it is core to our ethos to promote human happiness and dignity and avoid discrimination in all its forms. We believe that a culturally diversified workplace that reflects society as a whole, brings a broad perspective that makes us better at being able to support the members of the fund, and leads to better outcomes. We encourage an environment where all perspectives are welcome and can be robustly debated.

Workplace diversity refers to a variety of differences between people and how these differences are managed and expressed in the workplace. Diversity encompasses difference in ethnicity, gender, language, age, sexual orientation, religion, socioeconomic status, physical and mental ability, thinking styles, ideas and perspectives, experience and education. It encourages acceptance and respect.

We run a number of cultural initiatives to embed acceptance, promote inclusion and celebrate this community. They include an office celebration in March, at the same time as the Mardi Gras in Sydney. We have a wear it purple day, this year an external speaker from the Youth Action Council, which represents this community, spoke to all employees at a town hall update in August. We also made a donation to this charity.

As part of the onboarding process, we ask every new employee for their pronoun preference, to ensure we correctly reflect this throughout the organisation. We also encourage employees to note their preferred pronoun in their email signature. In terms of our investments, if we identify concerns of discrimination in the workplace of a company we invest in, we will engage with that company. If we assess that the company is not taking reasonable action to safeguard against discrimination and encourage inclusion, then we will vote against Board members at their re-election or we will divest.

The next question has been asked about the advocacy investment option, and to provide some detail on the investments that make up the fund and to explain the recent poor performance. The questioner asked how the advocacy fund is positioned for the volatility of the market. Are there plans to reduce the fees on the advocacy fund? Do these reflect the value in light of recent performance? The advocacy option invests 75% into ASX listed, Australian Stock Exchange listed companies, and 25% into internationally listed companies, and has outperformed its benchmark since the beginning of the year, and particularly since March when the markets began their turnaround.

The option is investing in equities and has a high-risk level. As such, it suits a higher risk appetite and a longer timeframe of at least seven years to take into account short-term volatility. We don't have plans to reduce fees of this option at the moment, however we are on a journey of fee reduction as the fund grows, and we will seek to reduce administration and investment fees where we can.

We have been asked to what extent does the appalling share price, performance and poor growth prospects of NAB and Westpac impact on our continued support for these two banks in the light of Westpac's Austrac reporting breaches and NAB's condemnation by the Royal Commission into banking misconduct. Firstly the Royal Commission. For NAB and Westpac, our assessment is that whilst there were instances of serious misconduct at both banks. We do not think the funding supporter conclusion that the overall culture and operations of either bank condoned mistreatment of customers.

Having said that, we absolutely agree that more needs to be done by the banks and other financial institutions to address the serious issues that were identified in the evidence given to the Royal Commission. With regard to Austrac, the occurrence of breaches and impositions of fines is not in itself a trigger for divestment. We would divest if there was intentional non-compliance by the bank or systemic disregard by the bank for the importance of compliance. But the statement of agreed facts issued by Austrac and Westpac does not show this.

The regulator said these were not deliberate breaches. Notwithstanding this, the breaches and fines imposed are staggering and there were serious failures by the bank over a long period of time. In assessing these serious failures, we have taken into account the departure of the Westpac Chair and CEO and other accountability measures implemented by Westpac, including the withholding of bonuses. The ongoing response by the bank including increased investment in risk management, people and systems. The complexity of anti-money laundering and counter-terrorism financing compliance across the bank's various payment channels and systems.

Funding and resources committed by the bank to tackle online sexual exploitation of children, including increased bank funding for the International Justice Mission, Save the Children, UNICEF and the Asia Foundation, sending senior executives to the Philippines to provide in-person support and convening and funding an expert advisory roundtable to develop child protection programs.

NAB and Westpac have an important role to play in funding the transition to a world which limits global warning. We invest selectively in banks whose clients include both fossil fuel and renewable energy companies. NAB and Westpac have both imposed restrictions on their dealing with fossil fuel companies. Just as importantly, we need to look at the lending by big banks to support the renewal energy transition. The International Energy Agency estimates we need $1 trillion to be invested in clean energy each year out to 2050, to meet the goals of the Paris Agreement. Both Westpac and NAB are helping to make the transition as leading financiers of renewable energy.

The next question we received was about our standpoint on deforestation and how member's funds are invested considering this, including investment in companies that are involved in growing palm oil trees, and how money is invested in mining companies that need to chop down trees. We don't currently have any palm oil investments. We avoid palm oil involvement because of the impact of the land clearing on local communities and wildlife habitat.

We have supported investor initiatives to raise the roundtable on sustainable palm oil certification standards for sustainable palm oil. When looking at any companies which use palm oil as an ingredient, we look for commitments to source only sustainable palm oil. While we don't avoid all forestry, we will not invest in old growth forest logging or native forest timber, which destroys animal habitat, disturbs ecosystems and contributes to global warming.

We may invest in sustainable plantation timber production, but in these cases, we examine the environmental and animal impacts of any land clearing required to establish plantations and look for forestry stewardship council certification of the plantations.

With regard to mining, we will not invest in mining companies unless the minerals they are extracting are aligned with the transition to a world which limits global warming to 1.5 degrees Celsius. In the mining sector we are currently only invested in lithium mining companies, as lithium is necessary for batteries used for energy storage.

A member has asked about the Australian Ethical community grant decision-making process and would like to know why there is not more transparency about the full process, and why for example some particular religious and feel-good rather than professional international NGOs can continue to win grants over several consecutive years with no available justification.

The community grants assessment process has several stages of review and selection, is rigorous, involves various stakeholders both private and public. Every community grant application is initially scored against our impact assessment framework, of which the main components are displayed in our 2020 community grant application guidelines which are provided publicly on our website during the application process.

We recommend all applying groups read through them prior to applying so that they're aware of our assessment process among other things. The top scoring charities are then selected to make the shortlist for public voting. Shortlisted candidates are displayed on our website for three weeks to allow for the general public and our stakeholders to vote for their favourite projects.

Once the voting has been collated, a final impact assessment is conducted in conjunction with a number of the voting numbers, and winning grants are then selected. Selected winning grants are presented to the Australian Ethical Foundation Board before final approval.

Each charity we award funding to is assessed to be professional and competent and are conducting important social and environmental work. We've received a question related to our review of investments which may support Israeli settlements in Palestinian territory. We state our approach to this on our website along with our position on other issues we are often asked about. In summary, we would avoid investments in a company operating in the Gaza Strip and West Bank where we conclude that the company supports Israeli settlements or control in these areas.

We take this approach because we assess that the maintenance and expansion of the Israeli settlements obstructs negotiations to establish a Palestinian State. Earlier this year, the UN Human Rights Commissioner published a list of 112 companies where they assessed that there were reasonable grounds to conclude that the companies were involved in illegal Israeli settlements. We do not currently invest in any of those companies. Our website does list the companies that we do invest in.

A member has asked, what is the best channel for members to enquire about investment decisions of the fund? The best ways to find out about the companies that we invest in and our approach to ethical investing is through the Australian Ethical website. You can also find out more detail about the Ethical Charter that I've referred to a number of times and our positions on each of the principles covered by the Charter.

Our next question is, ethical investment policies and return on investment is important to all superannuation members, unit holders and shareholders of Australian Ethical, but so is customer experience of these stakeholders when dealing with AE. How many AFCA complaints has Australian Ethical received during the past financial year, AFCA being the Australian Financial Complaints Authority? How can Australian Ethical improve the experience and outcome of members and unit holders, especially when conduct is at fault or not up to the standard expected of any fund promoting ethical investment, or do ethics only extend to investment choices and not beyond? That was the question.

Australian Ethical had 16 complaints filed with the Australian Financial Complaints Authority, or AFCA, for the financial year to 30 June 2020, which is higher than normal and attributable to the impacts of COVID-19, including the volatile investment markets and the early release of super scheme introduced by the Federal government. Member experience and outcomes are very important to us and there are a number of actions that we are taking to improve the interactions that we have with our members.

Firstly, we are bringing our contact centre inhouse so that we have more control over our member experience. Insourcing the contact centre is a key step towards building a better customer experience by providing you with a dedicated team that can act on our desire to be truly member-centric by having a consistent experience that will build trust and a faster response time that will resolve your enquiries more quickly. We are also working with our administrator to understand and resolve the root causes of issues so that we can prevent their occurrence and identify problems earlier.

In addition, we are improving our complaints process ahead of changes being made through legislation. This will help us to improve our response times to complaints. I want to assure you that we understand that service to our members is extremely important. We know we can improve and we will improve. I now turn to the questions that have come through during the meeting.

The first question is, how is the advocacy fund positioned to take advantage of growth in the sustainable energy sector in the coming years? As I said earlier, the advocacy fund invests 75% in companies listed on the Australian Stock Exchange and 25% in international companies. These companies all meet the Charter. A number of them are renewable energy companies and those companies we assess are well-positioned to take advantage of growth as sustainable energy continues to be improved on.

Okay, the next question is, what is the gender diversity of the AE Board and also in the executive team? Do you have diversity targets and what other forms of diversity and inclusion do you address? The AE Board has 50%

gender equality, 50% men, 50% women, the AEI executive team 44% women, 56% men. We do have diversity targets. Those two numbers actually exceed our existing targets. The other forms of diversity I think I've mentioned during my address and we are very focused on having a diverse set of employees.

The next question: are there any investments in regenerative farming systems? At the moment there are no – we don't have any investments in regenerative farming systems, but I am personally aware of the move towards regenerative agriculture and the benefits that it can have in improving environmental outcomes but also improving qualities of soil and harvesting of water and it's something that we will be giving consideration to as we go forward.

This a long question. Has Australian Ethical invested in soft plastics recycling in Australia and has Australian Ethical invested in the hemp building products industry in Australia? The question says, I ask this because I can no longer buy Australian hemp to build my new house because the only local processor has had to close down despite the fact that there are local growers for hemp fibre. The building product is in the processed waste from this.

I might ask David. Well, just the first question, do we invest in soft plastics recycling in Australia? David Macri, you won't be able to see him but he's going to take the microphone. Our Chief Investment Officer will help me answer this question. Thank you.

David Macri: Good evening, everyone. No, we don't invest in soft plastic recycling companies in Australia, the reason being that there aren't any companies listed on the ASX for us to invest in that to that.

Steve Gibbs: Thank you, David. The next question: Mr Gibbs mentioned investments in new economy, what does this include? David, again?

David Macri: Thanks, Steve. So, I guess we define the new economy being sectors that we think will be driving our economy into the future and providing that sustainable performance. So, we classify sectors such as technology, healthcare, biotechnology, education as part of that group and the old economy we refer to as being the mining, the coal, the old energy generation as opposed to the new renewable energy generation.

Steve Gibbs: Thank you, David. The next question. Okay, this is a real good question. The question is, I would have expected Australian Ethical to attack the view that the removal of funds from super for whatever reason is not in the members' interest. Why didn't we? Well, my view on that and our view on that is that it is not really in the members' interest if they have to withdraw super early because that will inevitably mean they'll have less money for retirement.

However, it was very difficult to criticise something that was being used for people by people who were really, really desperately in need and if you were really, really desperately in need during that time, having lost your job, whatever, then it was very hard to say people shouldn't be able to access some of their superannuation in such dire consequences. Now, we don't like it, I said before we believe it's a long-term situation. We hope that we don't ever have to have the situation again where members are forced to withdraw their superannuation money, to use their retirement income to fund current expenditure.

We would have thought that that is a responsibility of government, however once the rules were established, there was no option for us but to facilitate our members who were in that unfortunate position.

The question is, what is the strategy for increasing membership? Our strategy for increasing membership is to explain what ethical investing is about, to indicate – as I said in my short address – that member superannuation doesn't have to be part of the problem. It can, in fact, be part of the solution. As more and more people realise that - and our membership growth has been extraordinary – we actually don’t have to do a lot once people know we exist.

Our biggest problem is there aren’t that many people who know that you can invest ethically and still get very good returns. You don’t have to be part of the problem and you can look after yourself now and in retirement as well as looking after the planet and doing good can do better.

The next question is, how will you handle potential economic volatility in America should the transition to the Biden administration prove problematic in brackets such as riots et cetera? I think our screening process of the companies we invest in will enable us to assess whether any such companies are likely to be negatively impacted if such problems exist. We do have some investments in companies in America but it’s not the country that we invest most money in and our Ethical Charter is robust enough I believe to enable us to identify any potential issues before they come to fruition.

Next question is, does Australian Equity – I presume it means Australian Ethical – invest directly into a company, not via stock exchanges? If we’re talking about company investments, 99% are through stock exchanges. We did have until the company listed last week one investment in an unlisted company, but no, we directly invest in companies via the stock exchange. We do have a small allocation to venture capital through an external manager which may invest in companies that aren’t listed. I’m looking at our Chief Investment Officer and he’s nodding his head when I say that. So, did you want to add something to that, David?

David Macri: Yes, so our alternative investments do fund venture capital into companies that aren’t listed but we avoid doing that directly ourselves.

Steve Gibbs: So, the question is, will Australian Ethical reduce fees on superannuation and pension accounts in line with industry funds’ sustainable, socially responsible stroke ethical products? In the past, retail funds have been able to just justify higher fees by stating that they perform better, however now you only need to look at industry funds such as UniSuper’s sustainable balance product which has a total fee of 0.39% and which achieved a return…

Steve Gibbs: …achieved a return of 6.39% in 2019/'20, the 10-year average performance rate is 8.38%. As I said before, we are reducing our fees. We have done in the past and we will continue to do so as we grow. We are committed to doing that. The question raises one particular product or one particular super fund, on the face of it that fee is slightly lower than ours. Their performance in ’19/‘20 was good, their 10-year average performance is actually lower than our 10-year average performance. So, we are aware of the competition but we believe that we deliver very good value for money in the long term.

The question is, given that the contact centre is coming inhouse, why was it ever outsourced? Outsourcing administration of superannuation funds and everything that goes with that is very, very common in the industry. You will find in reference to industry funds – as the last question it did reference – most industry funds outsource all of their administration of superannuation. It’s a mass technology-based function that is quite expensive to do inhouse. There are a few super funds that have inhouse contact centres or do inhouse administration. They are the exception rather than the rule.

We are now in a position because of the growth we have had in our membership and with our funds under management to be able to bring the contact centre inhouse to provide a much better service and that’s why we will be doing it in the very near future.

The next question is, what international markets and what is the rough allocation to each market is the international funds invested in? I will have to ask our Chief Investment Officer David Macri again to provide the detailed answer to that question. Thanks, David.

David Macri: Thanks, Steve. So, our international exposure is predominantly developed markets and the largest proportion of that is the US, as you can imagine, but there's also a large proportion to Europe, Japan and the UK. We are looking at potential investments in other markets but for the time being, that's the allocation.

Steve Gibbs: Thanks, David. I'm told that's the last of the questions that have been submitted. We have one more coming, thank you. We do have a little bit more time, so it's not too late if you want to submit a question, please do so. But of course, when the questions that I have notice of expire, I will be closing the meeting so please get your questions in quickly.

The question is, will Australian Ethical do away with buy and sell rates which seem to advantage shareholders to the detriment of members? I'm not sure how the questioner thinks that buy and sell spreads, as we call them, advantage shareholders. They are applied to basically recoup the costs of buying and selling as people are either putting more money with us or withdrawing money from us, so it's simply a cost recovery. We do not seek to make a profit on buy and sell spreads.

We're just seeing if there are any more questions. One more question coming, thank you. Are you researching biomedical investments, is the question. There's significant strides being made in personalised medicine. Healthcare is a very important area for Australian Ethical and one that we are increasing our investments into. I'll say that as a general proposition and ask David again would he want to add anything to that?

David Macri: Yes, biomedical investments is a really interesting area that we spend a lot of time and effort on. Yes, there's lot of progress and personalised medicine is a very exciting prospect for the sector which will have hopefully a very positive impact for all of us in the future.

Steve Gibbs: What is Australian Ethical's approach to investment in China-owned companies? Is this changing as they flex their muscles? I'm not sure that we invest in any what you would call China-owned companies. I don't know whether you mean owned by the Chinese government or whether you mean listed on the Chinese stock exchange but we certainly don't invest in companies listed on the Chinese stock exchange except if that's a listing as well as a listing somewhere else.

David Macri: Yes, that's correct, Steve, we don't invest in Chinese companies that are listed in Shanghai.

Steve Gibbs: Thank you, David. I think there might be another question. The question is, explain the correlation between fees and fund administration costs. It is not done to earn income. The fees that we charge our members are fees for both administration and investment. The major proportion of those fees are used to pay for services that our outside service providers provide and also for the costs of investing your money to generate as good as possible return that we can.

The next question is, I understand you invest in social impact through your foundation but do you intend to offer it through an investment option sometime in the future? Impact investment is something that only today at our Board meeting we spent some considerable time talking about. We do invest in a very small way in social impact as the question says through the foundation.

We actually think that our whole portfolio has impact when you think of what we don't invest in and what we do invest in. It is all having positive impact for people, the planet and animals. But there is an increasing trend to look at specific impact investment alternatives and propositions and that is something that we're considering as we speak.

I think we've just about answered the questions that have been submitted. I'll just give one or two more minutes.

Steve Gibbs: So, there's another question, here we go. The question is, how does management view the commitments by China to go carbon neutral by 2060, Japan and South Korea to achieve net zero carbon by mid-century and the incoming Biden administration's comments to do the same and the opportunities for Australian companies in the transition?

Well, of course we welcome commitments to go carbon neutral, to have net zero emissions by 2050 or even in China's case, 2060. It's better than having no target at all, frankly. We do think that that creates opportunities for Australian companies and our investment process we are confident will be able to identify those companies if they're not already in our portfolio, which they probably are, but to be able to identify those companies and to take advantage of those opportunities to generate investment in the countries with those targets.

We believe that not having a specific target to go carbon neutral by, for example, 2050 or even earlier, if possible, is a major failing. More than half of the countries that Australia trades with now has a target of zero emissions by 2050 or 2060. Why Australia does not have such a target is beyond me.

I think that's all the questions, so again….

Steve Gibbs: The question is – it's not a question, but thank you very much for the meeting. Your openness to answer questions is much appreciated. Thank you very much to whoever sent that in. I am going to now close the meeting. Thank you again for all of you who are in attendance. I hope you got something out of tonight. Next year we will obviously be doing this again. Hopefully we can have some people in the room with us but we do want to reach as many of our members as possible so we'll either do it online again or we might even do some member meetings in different locations.

We realise that not everyone can get to Sydney or Melbourne or somewhere else and so we will continue, provided the technology's worked all right and what I want to end with is saying, please give us your feedback as to how you've found tonight's member's meeting, not just about did the technology work, did you find what we presented to you interesting? Were there gaps that you would have thought we addressed and if you think of questions after we close that you say, oh, I wish I had have asked that, please send it in and we'll do our best to respond as quickly as we can.

So, thank you again and good night.

End of transcript