

# Outcomes Assessment for the Australian Ethical Retail Superannuation Fund

30 June 2023

## Overview

Australian Ethical Superannuation Pty Limited (Trustee) as trustee of the Australian Ethical Retail Superannuation Fund (Fund) regularly reviews the performance of the Fund with quarterly and annual checks on key performance metrics and the delivery of initiatives.

Each year the Trustee conducts an Outcomes Assessment (Assessment) that considers all aspects of the Fund including fees, returns, insurance, and the ethical impact of its investments. The assessment for the year to 30 June 2023 is set out below and is the Trustee's view of whether your financial interests are being promoted for each of the products offered by the Fund – MySuper, Choice and Pension.

The last two years of volatile investment markets and rising inflation has truly tested the convictions of the Australian Ethical Charter. Our low exposure to the energy sector, due to our position on fossil fuels, and high exposure to the technology sector has led to volatility in performance against the market. However, superannuation investing is about long-term returns and for us, ethics and impact, and we remain focused on disciplined fundamental investment principles to create a more sustainable future for people, planet and animals.

## Assessment Determination

The assessment of each of the Fund's products (MySuper, Choice and Pension) consists of a review of:

- ❖ How the Fund has met the requirements of the Australian Ethical Charter;
- ❖ The investment options offered compared to similar investment options available, in terms of return and risk;
- ❖ The fees charged to members, both administration and investment fees; and
- ❖ The insurance offered to members in the MySuper and Choice products.

## Fund Growth

The Fund's growth continues to be above the industry average, with substantial increases in total funds under management and membership over the last 5 years, in fact the Fund has grown from \$1.8 billion to \$7.2 billion in that time, almost 300% growth!

This year the Trustee completed the Successor Fund Transfer (SFT) of Christian Super members into the Fund on 25 November 2022. This has significantly increased the total membership of the fund and the amount of Funds under Management.

Organic growth is also continuing at pace, with net growth of the membership (excluding those from the SFT) of over 24,500 members. Total funded membership was almost 115,000 as at 30 June 2023.

## Investment Performance

For the majority of our investment options and time periods, returns have been at or above median when compared to similar funds in the SuperRatings investment returns surveys, however over three-years the options have generally underperformed. This was due to the impact of a turbulent period for investment markets in 2021 and 2022 which impacted Australian Ethical due to having a high exposure to technology stocks, which underperformed, and a low exposure to the energy sector (because we don't invest in fossil fuel companies) which outperformed. In addition, the investment market has been affected by higher than expected inflation and rising interest rates.

Markets settled in the second half of this financial year and performance turned around, with the technology and healthcare sectors standing out with good performance. The MySuper option returned 9.3% for the year to 30 June 2023 showing that in the face of unprecedented market conditions, our rigorous ethical assessment and disciplined, fundamental investment analysis proved its mettle, delivering investment returns over the financial year. Technology stocks ended the year outperforming the market along with the stocks that we hold in the materials sector, particularly lithium and other construction materials.

## Fee Reductions

In November and December 2022 we reduced the administration fee across all products, MySuper, Choice and Pension, and reduced the investment fee for the Conservative, Growth, High Growth and Australian Shares options in the Choice product, and also in the Conservative, Growth and Australian Shares options in the Pension product.

## Insurance Offering

The insurances offered by the Fund to members in the MySuper and Choice products, are competitive and are unlikely to inappropriately erode the retirement outcomes of members who take up default insurance cover.

Overall, the Trustee is comfortable that members are not disadvantaged by the scale and size of the Fund and continued growth will benefit members as increased scale is able to be used to reduce fees.

Determinations relating to investments and fees are set out below for each product.

## MySuper Product

When compared to similar MySuper products in the SuperRatings MySuper Fund Crediting Rate Survey, investment returns have been above median for most periods to 30 June 2023 with a dip in three year returns caused by volatility in the investment markets from rising inflation and interest rates, and geopolitical issues. However, we remain focused on long term returns and aligning investments with the Australian Ethical Charter.

When the total fee for the Fund's MySuper product for an account balance of \$50,000 is compared to other MySuper products, it is well within the third quartile. The Trustee regularly reviews fees charged to members and has a history of reducing fees where possible with the most recent changes made in November and December 2022, as highlighted above.

## Choice Product

Similar to the Balanced MySuper option, the Choice investment options have been impacted by the significant volatility in the investment markets over the past couple of years reflected in the options underperforming to their benchmarks (the SuperRatings Fund Crediting Rate Surveys) for the 3-year period. However, the Australian Shares option has been a highlight for the Fund and has performed strongly over the long term, particularly the 5-year period, as have the Growth, High Growth and International Shares options.

The review found that investment fees for the Choice products are higher than median for all options, apart from the Defensive option, when compared to similar products in the SuperRatings surveys. With the recent administration and investment fee reductions described above, total fees are decreasing in line with the Trustee's strategy to reduce fees.

## Pension Product

Investment returns vary across the options with 5- and 10-year returns being above median for most options. Similar to the MySuper and Choice products, the Pension product investment options have been impacted by the significant volatility in the investment markets over the past couple of years reflected in the options underperforming to their benchmarks (the SuperRatings Fund Crediting Rate Surveys) for the 3-year period.

The review found that fees are higher than median for all options, apart from the Defensive option, when compared to similar products in the SuperRatings surveys. The recent reduction to the administration and investment fee described above has reduced fees for the Pension product in line with the Trustee's strategy to reduce fees.

## Overall Assessment

The Trustee concluded that the financial interests of the Fund's members and beneficiaries are being promoted. It considered each of the following points in conjunction with the purpose of the Fund to invest in line with the principles set out in the Australian Ethical Charter.

- ❖ The options, benefits and facilities offered are appropriate for the members
- ❖ The investment strategy, including the level of investment risk, is appropriate for members
- ❖ The basis for the setting of fees is appropriate for members
- ❖ The insurance strategy is appropriate for members
- ❖ The insurance fees charged do not inappropriately erode the retirement incomes of members
- ❖ The scale of the Trustee's business operations does not disadvantage members
- ❖ The MySuper product's operating costs are not inappropriately affecting the financial interests of members

# Options, Benefits and Facilities

## Ethics

The key purpose of the Fund is to invest your superannuation for a better world and to achieve competitive returns alongside positive change for the planet, people, and animals. The Ethical Charter sets out the 23 principles that guide investment decisions which can be found on the Australian Ethical website.

Over the year we have met these principles and the highlights for the year are:

- ❖ The carbon intensity (tonnes of carbon dioxide per \$ company revenue) for Australian Ethical's listed share investments is 78% less than a comparable benchmark as at 30 June 2023.<sup>1,2</sup>
- ❖ Australian Ethical's listed share investments have 2.4x the revenue from sustainable impact solutions compared to a mainstream share market benchmark as of 30 June 2023. This measure assesses the revenue earned by companies we invest in from products, services and activities aligned with sustainability frameworks like the UN Sustainable Development Goals (SDGs).<sup>1,3</sup>
- ❖ Australian Ethical's listed share investments have a 4.1x the investment in renewables and energy solutions compared to a mainstream share benchmark as of 30 June 2023.<sup>1,3</sup>

The Australian Ethical business is a B Corps Best for the World for Customers and Governance for 2022, meaning that it meets high standards of social and environmental performance, transparency, and accountability, and it uses its business as a force for good.

## Services

The Fund offers the following services to members, including;

- ❖ A MySuper Product which consist of the Fund's Balanced investment option
- ❖ A Choice Product consisting of a range of investment options
- ❖ A Pension Product consisting of several investment options
- ❖ Insurances which can be adjusted to meet members' needs
- ❖ The ability for members to make additional contributions for themselves and their spouses

The Fund has also won multiple awards over the past few years which can also be found on the Australian Ethical website.

---

<sup>1</sup> Compared to a blended sharemarket benchmark of S&P ASX200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Based on shareholdings at 30 June 2023 and analysis tools provided by external sources which cover 92% of the listed companies we hold shares in by value.

<sup>2</sup> Carbon/CO<sub>2</sub>e intensity of listed companies whose shares we invest in across our funds and options, measured as tonnes CO<sub>2</sub>e per \$ revenue. This should not be considered representative of individual funds or options which will have their own mix of share and other investments.

<sup>3</sup> Based on the revenue from sustainable impact solutions earned by listed companies whose shares we invest in across our funds and options, and the proportion of those listed share investments in renewables and energy solutions. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. Sustainable impact data is provided by external sources and aims to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the U.N. Sustainable Development Goals (SDGs), EU Taxonomy of Sustainable Activities, and other sustainability related frameworks. More information available at [https://www.msci.com/documents/1296102/16472518/ESG\\_ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b](https://www.msci.com/documents/1296102/16472518/ESG_ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b)

The Trustee has determined that these services are consistent with its strategy, which is primarily to provide members with a superannuation fund that invests in line with its Ethical Charter, along with providing services that are cost effective and don't inappropriately erode members' retirement benefits.

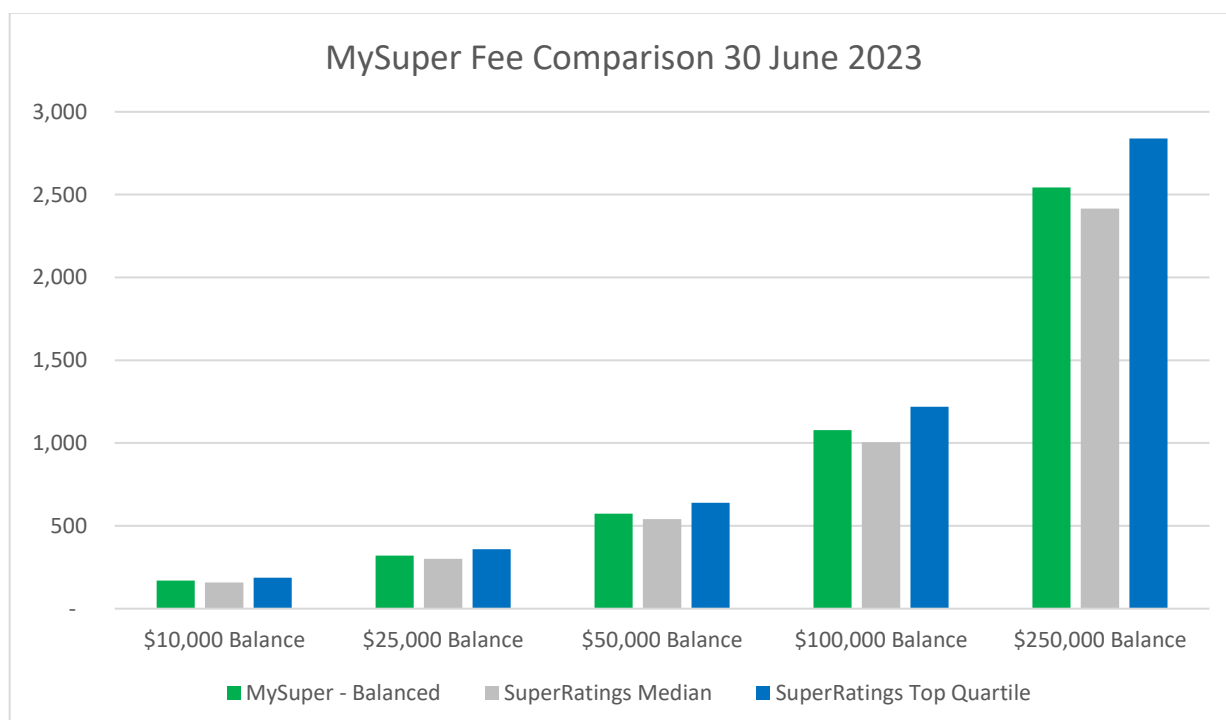
## Fee Assessment

The fees charged by the Fund are separated into administration and investment fees. The administration fee is the same across all products, however the investment fees differ for each option due to the differing complexities in managing the underlying investment portfolios.

The Trustee reviews its fee structure each year and is on a path of fee reduction over time demonstrated by changes to the administration fee for all options and investment fees for the Conservative, Growth, High Growth and Australian Shares options in November 2023.

### MySuper Product Fees

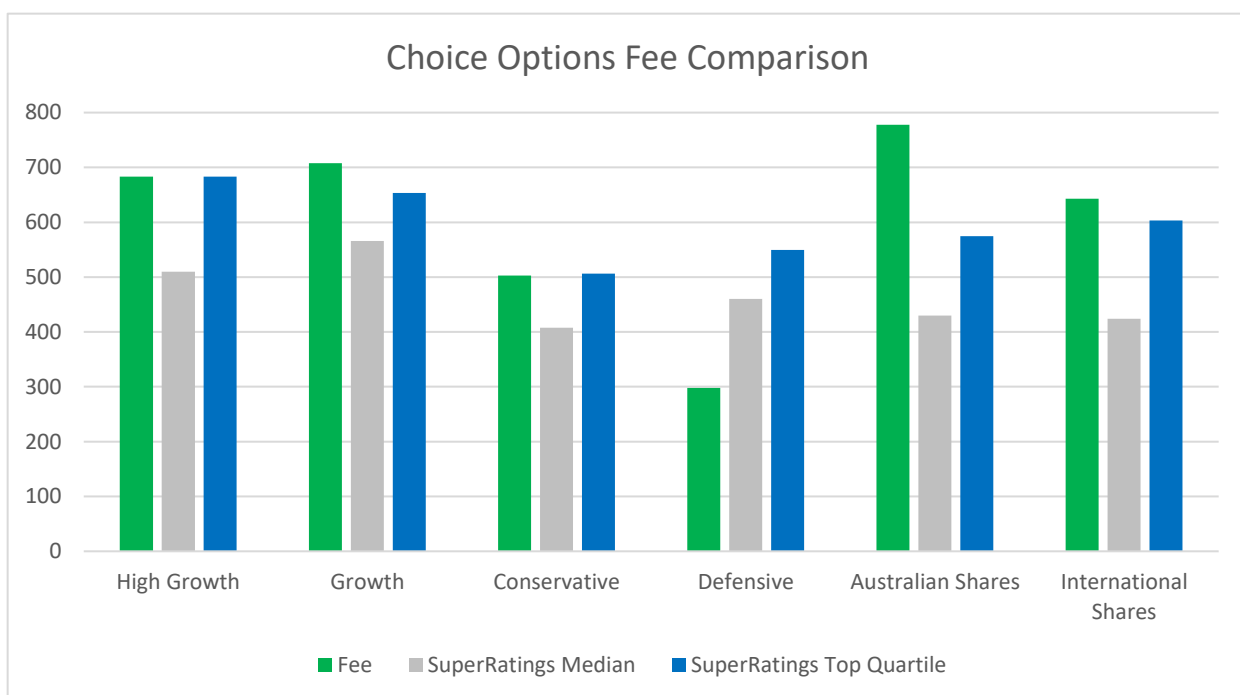
Total annual fees for the MySuper product have been calculated based on \$10,000, \$50,000, \$100,000 and \$250,000 balances and are within the third quartile at each account balance and compared to similar products in the SuperRatings fee survey as at 30 June 2023.



## Choice Product Fees

The chart below shows the fees for each of the Choice investment options for a representative \$50,000 account balance when compared to the median and 75<sup>th</sup> percentile fees for similar products in the SuperRatings fee survey as at 30 June 2023.

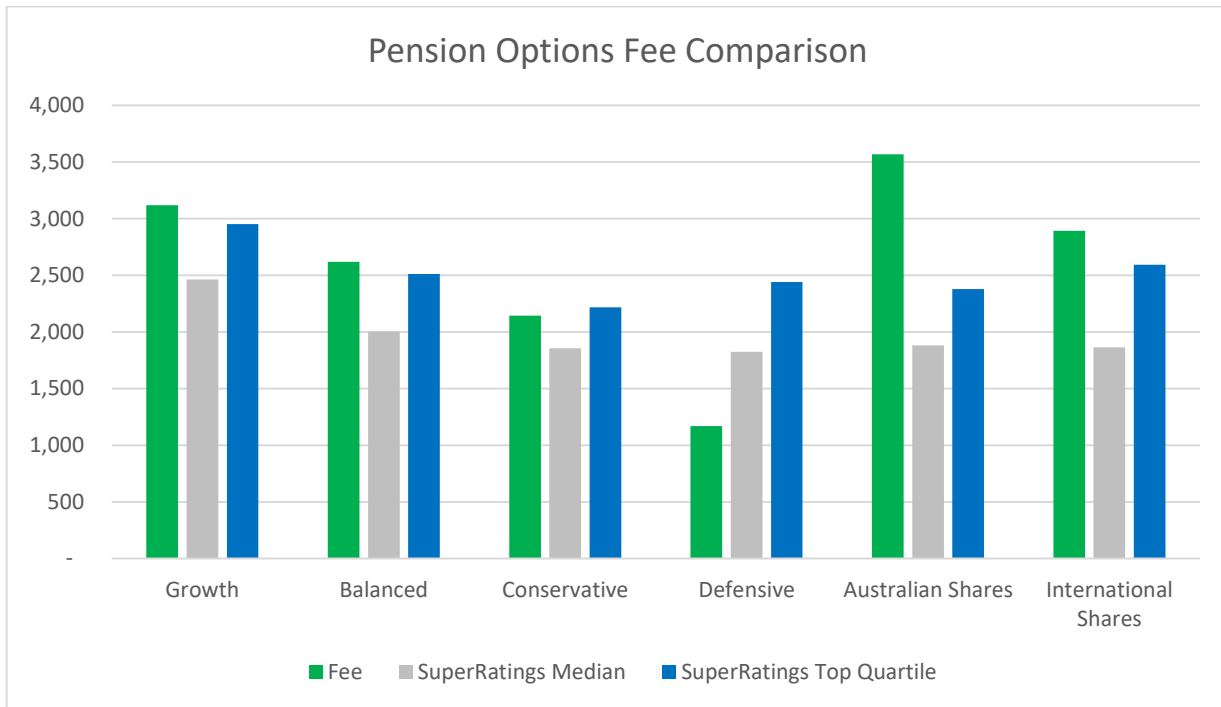
The Trustee noted that fees are at or below the median for the Defensive option, within the third quartile for the High Growth and Conservative options, and in the fourth quartile for the Growth, Australian Shares and International Shares options. The fees for all options are reducing as the Fund is able to take advantage of the scale it has acquired through growth and will continue to review and reduce fees where possible.



## Pension Product Fees

The chart below compares the fees for each of the Pension investment options against the median fee and 75<sup>th</sup> percentile fees as used in SuperRatings Pension fee survey at 30 June 2023. The fees below are based on a representative account balance of \$250,000 which is approximate to the average pension account balanced at retirement.

The Trustee noted that fees are below the median for the Defensive option, within the third quartile for the Conservative option and in the fourth quartile for all other options. The fees for all options are reducing as the Fund is able to take advantage of the scale it has acquired through growth and will continue to review and reduce fees where possible.

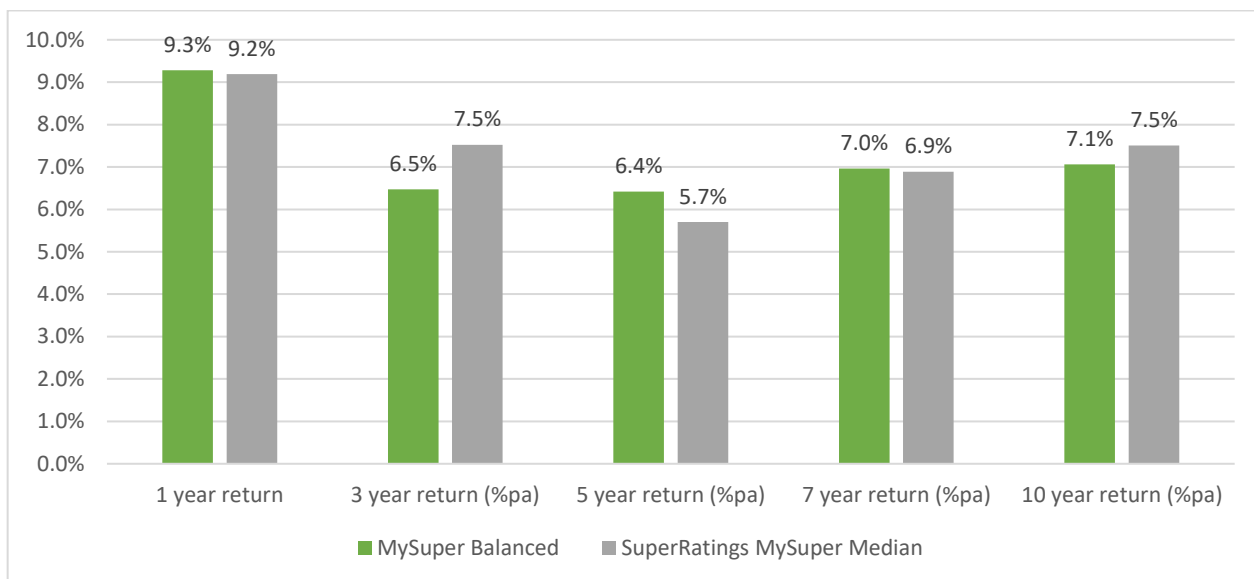


## Investment Performance Assessment

### MySuper Product Investment Performance

The MySuper Product has passed the APRA Your Future Your Super Performance Test as at 30 June 2023 as it has done for each year since its inception. This test assesses funds' long-term performance against set benchmarks for fees and investment returns and its aim is to improve efficiency, transparency and accountability in the super industry.

The returns for our MySuper product, the Balanced option, are compared to the median MySuper option returns for 1, 3, 5, 7 and 10 year periods in the graph below. The data has been sourced from SuperRatings Fund Crediting Rate Survey of MySuper Funds at 30 June 2023. These values are net of fees, costs and taxes.

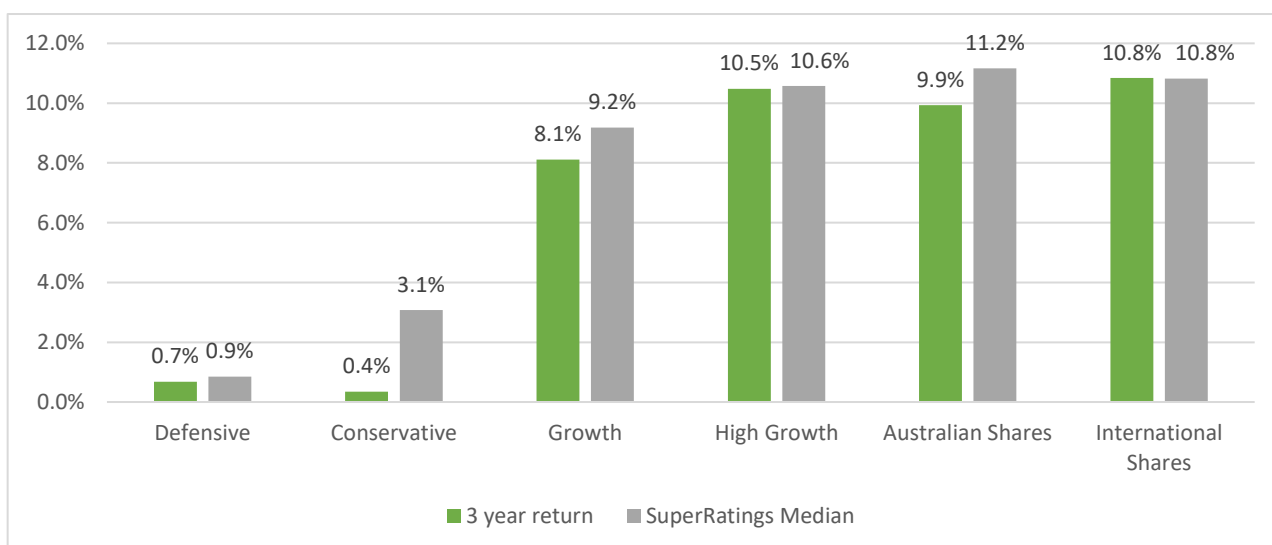


Returns are a mixture of above and below median with the three year period being lower than median by 1%. This highlights the impact over the last two years of significant volatility in investment markets and the relatively better performance of industry sectors that Australian Ethical does not invest in because of our commitment to invest to make the world a better place through the Australian Ethical Charter.

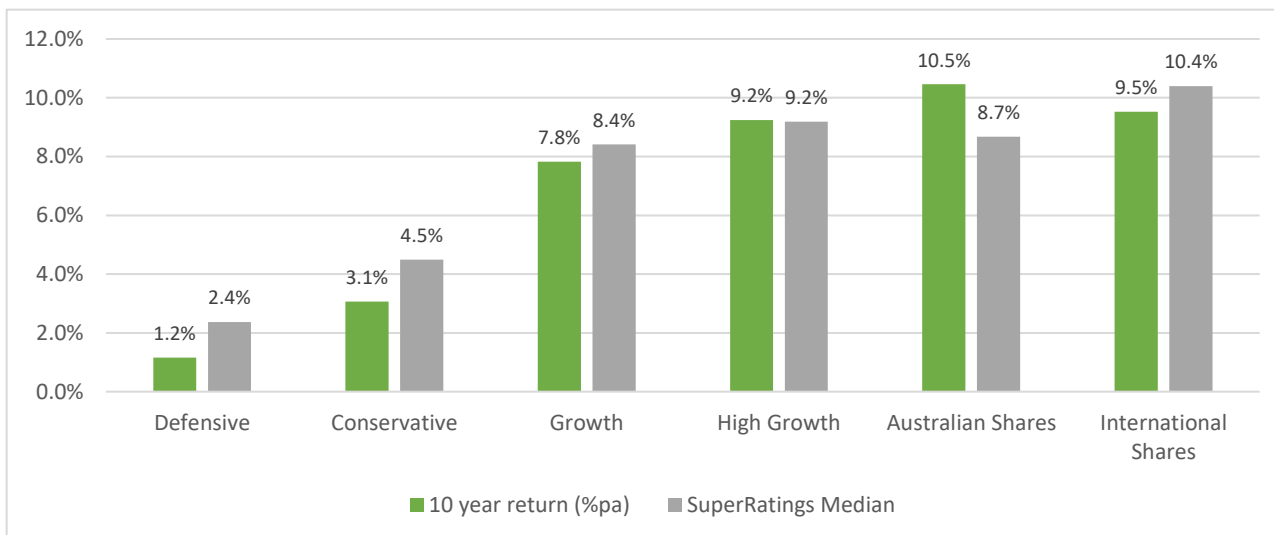
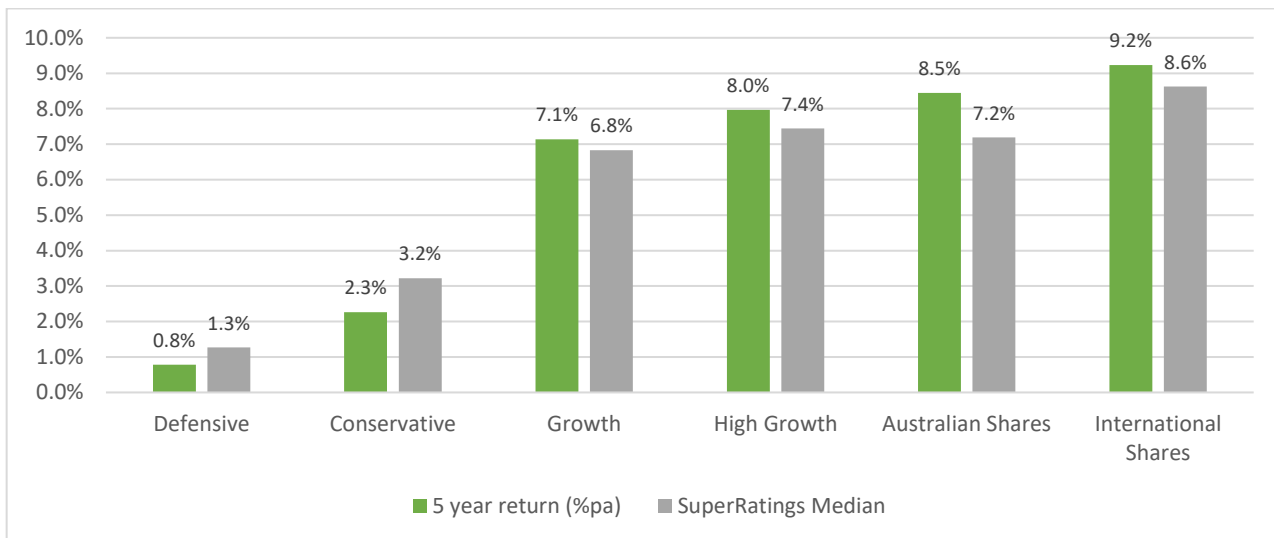
## Choice Product Investment Performance

In 2023, APRA conducted the Your Future Your Super Performance Test on diversified investment options which included the Conservative, Growth and High Growth options of the Fund’s Choice products. All three options passed the test.

The returns for each of the Choice Product’s investment options are shown below for 3, 5 and 10 year periods using data sourced from the SuperRatings Fund Crediting Rate Survey at 30 June 2023.







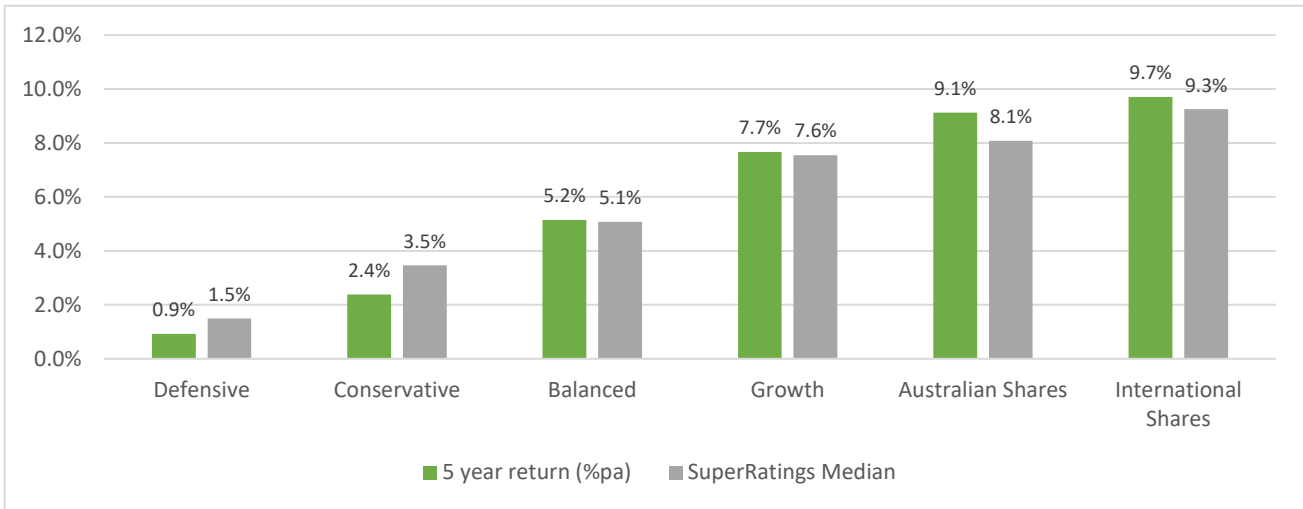
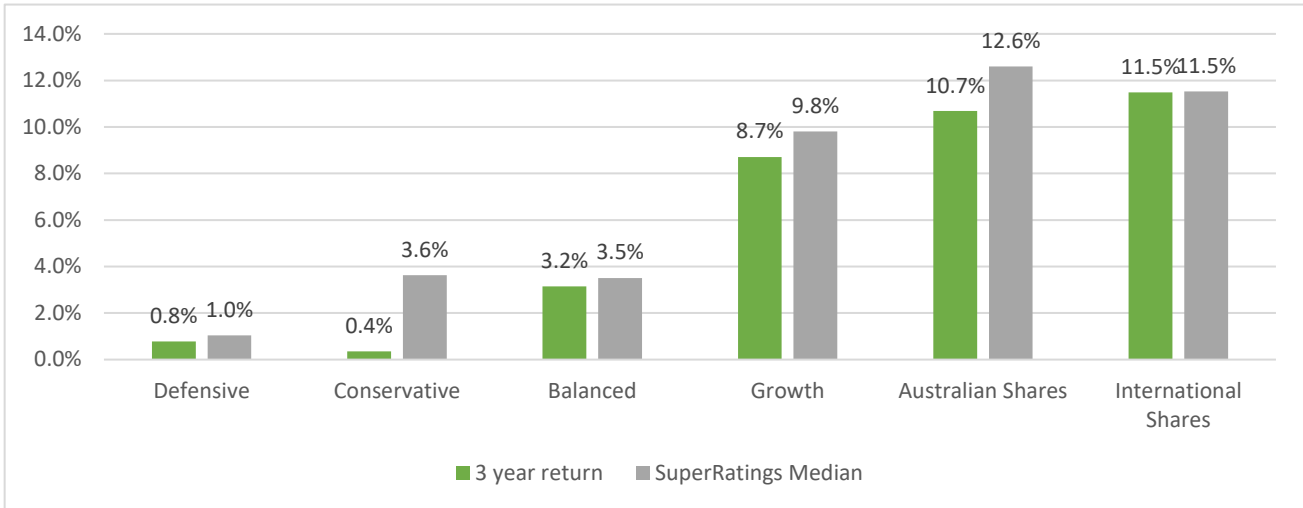
Three year returns have been at or below median for all investment options highlighting the impact of the volatile period in 2021 and 2022. Our low exposure to the energy sector, due to our position on fossil fuels, and high exposure to the technology sector has led to volatility in performance against the market.

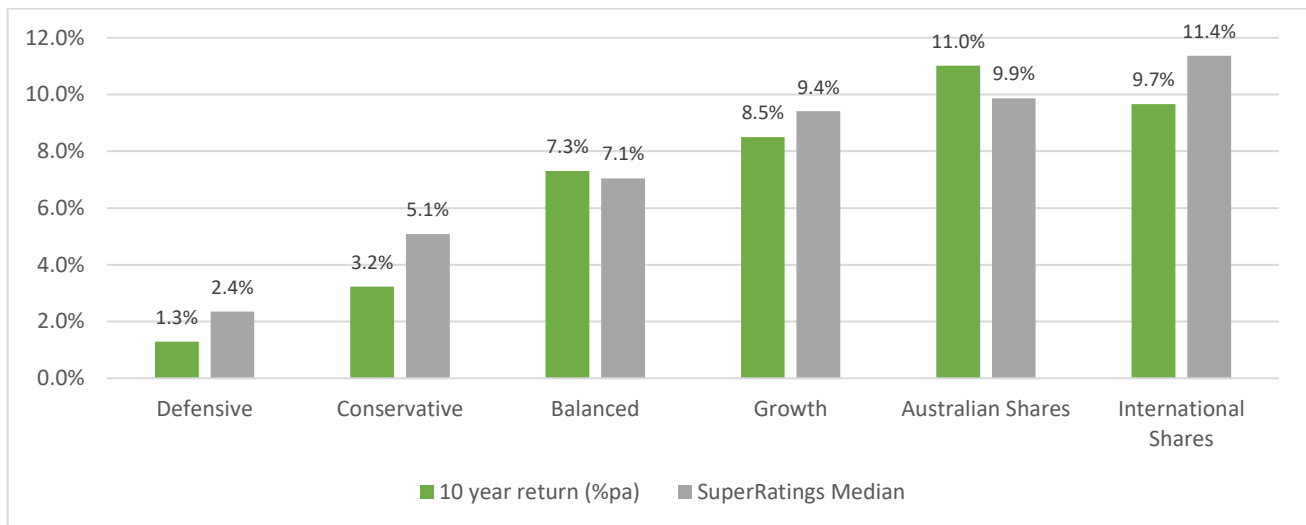
Similar to the Balanced MySuper option, the Choice investment options have been impacted over the last year by the significant volatility in investment markets and the relatively better performance of industry sectors that Australian Ethical does not invest in because of our commitment to invest to make the world a better place through the Australian Ethical Charter.

Longer term results shows that the Australian Shares investment performance has been a highlight for the Fund and this option is number 1 the SuperRatings survey for 10 year returns to 30 June 2023.

## Pension Product Investment Returns

The returns for each of the Pension product’s investment options are shown below for the 3, 5 and 10 periods using data sourced from the SuperRatings Pension Fund Crediting Rate Survey at 30 June 2023.





Similar to the Choice options, three year returns have been at or below median for all investment options highlighting the impact over the last two years of significant volatility in investment markets and the relatively better performance of industry sectors that Australian Ethical does not invest in because of our commitment to invest to make the world a better place through the Australian Ethical Charter.

Longer term results shows that the Australian Shares investment performance has been a highlight for the Fund and this option is number 2 the SuperRatings pension survey for 10 year returns to 30 June 2023.

## Investment Risk

Our ethical investing approach aims to identify, understand and manage investment risk and opportunity at company, portfolio and systemic level which we believe can help construct better investment portfolios.

The calculation of investment risk is based on industry guidance and can be used to compare investment options that are expected to deliver a similar number of negative annual returns over any 20 year period. It is not a complete assessment of all forms of investment risk and does not take in to account the impact of administration fees and tax on the likelihood of a negative return, the size of potential positive and negative returns, or whether the likely returns will meet your individual needs. The level of risk is shown on a scale from Very Low to Very High. The “Medium to High” risk classification applies to funds with an estimated likelihood of “3 to less than 4” negative returns over any 20 year period.

Our ethical approach produces investment portfolios which are different to market portfolios constructed without ethical constraints. Our ethical exclusions mean that there will be no or lower investment in some sectors (e.g. fossil fuels and mining) which may offer higher or lower returns than the investments we include. This increases the likelihood of differences between investment performance of our funds and of market benchmarks, particularly over shorter time frames. We believe our ethical investment approach has the potential to contribute to stronger risk return characteristics and performance of our portfolios. Further information is available in our Ethical Investment Guide.

## MySuper Product Investment Risk

The minimum investment timeframe for the MySuper Balanced option is 5 years, and the risk level is 'Medium to High' with an estimated 3.5 years of negative net investment returns over a 20-year period. This measure is unchanged from last year. This meets the investment risk strategy set by the Trustee. In comparison, the MySuper options included in the APRA Quarterly MySuper Statistics at 30 June 2023 have a median period of negative net investment returns of 4.2 years out of 20.

Investment risk data analysis confirms that the level of risk of the MySuper product is below median when compared to similar MySuper products in the SuperRatings Volatility and Risk Adjusted Return Survey at 30 June 2023.

The Trustee is comfortable that the level of risk is appropriate for the MySuper product.

## Choice Product Investment Risk

Comparisons available from the SuperRatings Volatility and Risk Adjusted Returns Survey dated 30 June 2023 show that the risk-adjusted returns for the Choice product's investment options are comparable to the SuperRatings median for most of the options.

The Trustee is comfortable that the level of risk it has set for each of the Choice product investment options is appropriate.

## Pension Product Investment Risk

Comparisons available from the SuperRatings Pension Volatility and Risk Adjusted Returns Survey at 30 June 2023 show that the risk-adjusted returns for the Pension product's investment options are comparable to the SuperRatings median for all options.

The Trustee is comfortable that the level of risk it has set for each of the Pension product investment options is appropriate.

## Insurance Assessment

In February 2023 the Fund's insurance offering was benchmarked against a range of other superannuation funds. In summary the Fund's current default insurance design continues to address members' insurance needs with competitive premium rates.

The Trustee concluded from the results of this benchmark review that the Death and Total and Permanent Disability premium rates introduced in October 2020 are either better or in line with competitors. In addition, the benchmark review gave the Trustee comfort that the insurer's offerings and capabilities are competitive and appropriate for the Fund members.

A review of available data conducted in February 2023 concluded that premiums charged to members are well below 1% of member salaries. Based on this review the Trustee is confident that members' account balances are not being inappropriately eroded by insurance premiums.

## Overall Size and Scale

Data in the APRA Heatmap published December 2022 showed that the Fund has high account number growth along with high levels of rollovers and contributions. The Fund is in the top two of all funds in the Heatmap for 3-year average growth. The Trustee is confident that the Fund is in an excellent position for further growth, especially following the SFT of Christian Super members into the Fund bringing in just under \$2 billion in FUM and almost 30,000 members.

On 30 June 2023 funds under management (FUM) was \$7.2 billion, an increase of 63% since 30 June 2022. Member numbers have grown by 67% over the same period, with almost 115,000 funded members in the Fund at 30 June 2023.

The Fund's management expense ratio has decreased over time as the number of members in the Fund and the value of superannuation monies has increased.

As the Fund grows, the Trustee's strategy is to use this scale to continue to reduce fees charged to members. This has been demonstrated over the years with incremental reductions in costs and fees. The agreement in place with the Fund's administrator includes a stepped reduction in cost as the number of members increases, so gaining scale is an important part of the strategy to reduce member fees.