



Australian Ethical Retail Superannuation Fund Outcomes Assessment

30 JUNE 2020



About this report

The Trustee of the Australian Ethical Retail Superannuation Fund regularly reviews the performance of the Fund with quarterly checks of how key measures are being met and whether initiatives are being delivered.

Each year the Trustee conducts an Outcomes Assessment that considers all aspects of the Fund including fees, returns, insurance, and the ethical impact of its investments. Set out below is a summary of the Assessment for the year to 30 June 2020 with an overall determination set out at the end.

The Assessment 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.

This document has been prepared by Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733, RSE L0001441, AFSL 526055) ('Trustee') which is the trustee of the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743, USI AET0100AU) ('the Fund' or 'Australian Ethical Super').

Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) ('Australian Ethical') arranges offers for the issue of interests in the Fund, pursuant to an arrangement between Australian Ethical and the Trustee. The Trustee issues interests in the Fund in accordance with such offers, where the offer is accepted.

The information provided in this document is general information only and does not take account of your personal financial situation or needs. You should obtain financial advice tailored to your personal circumstances. Before acting on it, you should consider seeking financial advice that is tailored to suit your personal circumstances and should refer to the Financial Services Guide, Product Disclosure Statements and Additional Information Booklets available on our website (australianethical.com.au).

Past performance is not a reliable indicator of future performance.



Assessment Determination

MySuper product

The Outcomes Assessment of the Australian Ethical Retail Superannuation Fund's MySuper product consists of a comparison against other MySuper products in terms of fees and costs, investment returns and investment risk.

Overall, the Trustee's review noted that fees are higher than median. When the total fee for a \$50,000 MySuper account balance is compared to other MySuper products, provided by SuperRatings at 30 June 2020, it is in the third quartile of those products. The Trustee reviews fees regularly and implements reductions where possible and fees have reduced steadily in previous years due to the increase in member accounts and total funds under management. The strategy is to continue to grow the Fund's membership and FUM.

Investment returns are above median for all periods apart from 10 years, and more recently returns have been in the top 3 of MySuper Funds measured by SuperRatings¹. In addition, investment risk measurements are at median compared to other MySuper products.

The insurances offered by the Fund are competitive and are unlikely to inappropriately erode the retirement outcomes of members who take up insurance. The offering was reviewed and updated in October 2020, improving on the premiums and terms and conditions previously provided.

The Fund's growth has been significantly above the industry over the past numbers of years, with increased FUM to match member growth². The Trustee is comfortable that members are not disadvantaged by the scale and size of the Fund.

Choice product

The Outcomes Assessment of the Australian Ethical Retail Superannuation Fund's Choice Product consists of a comparison of each of the investment options offered against similar investment options available, in terms of fees and costs, investment returns and investment risk.

The review noted that fees are higher than median, but generally lie within the third quartile when compared to similar options. The Trustee reviews fees regularly and implements reductions where possible and fees have reduced steadily in previous years.

Investment returns vary across the options with the Australian Shares, Growth and Conservative options being the better performers. The International Shares, Defensive, and Advocacy options are under review by the Trustee to determine how member outcomes can be improved.

The insurances offered by the Fund are competitive and are unlikely to inappropriately erode the retirement outcomes of members who take up insurance. The offering was reviewed and updated in October 2020, improving on the premiums and terms and conditions previously provided.

The Fund's growth has been significantly above the industry median over the past three years, with increased FUM to match member growth. The Trustee is comfortable that members are not disadvantaged by the scale and size of the Fund.

Pension Product

The Outcomes Assessment of the Australian Ethical Retail Superannuation Fund's Pension Product consists of a comparison of each of the investment options offered against similar investment options available, in terms of fees and costs, investment returns, and investment risk.

The Trustee's review noted that fees are higher than median, but generally lie within the third quartile when compared to similar options. The Trustee reviews fees regularly and implements reductions where possible and fees have reduced steadily in previous years.

Investment returns vary across the options with the Australian Shares, Growth, Balanced, and Conservative options being the better performers. The International Shares and Defensive options are under review by the Trustee to determine how member outcomes can be improved.

The Fund's growth has been significantly above the industry median over the past three years, with increased FUM to match member growth. The Trustee is comfortable that members are not disadvantaged by the scale and size of the Fund.

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

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.

Over the year we have met these principles and our impact highlights are as follows;

INVESTMENT PORTFOLIO



Share investments produced
75% less CO2
than benchmark³



Nil
investment in fossil
fuel companies⁴



Nil
investment in nuclear



Nil
investment in tobacco



Engaged with
**over 400
companies**
for people, planet & animals



**Over 70
companies**
we engaged with have
committed to
positive change⁵



**Best for
the World**

status by B Corps⁶



**3.8 times
more impact**

to achieve the Sustainable
Development Goals⁷



**5 times more
investment**

in renewable power generation
than the global share market⁸

The Fund also won multiple awards during the year;



Finder 2020
Green superannuation
fund of the year



**WINNER SuperRatings
Infinity Award**
Best sustainable
super fund



SuperRatings GOLD
For MySuper, MyChoice Super and Pension⁹

The SuperRatings Infinity Award recognises super funds that lead the industry in sustainable behaviour and genuinely commit to responsible investment principles.

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

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
 - o Growth
 - o Conservative
 - o Defensive
 - o Australian Shares
 - o International Shares
 - o Advocacy
- A Pension Product consisting of several investment options
 - o Growth
 - o Balanced
 - o Conservative
 - o Defensive
 - o Australian Shares
 - o International Shares
- Insurances which can be adjusted to meet members' needs
- The ability for members to make additional contributions for themselves and their spouses

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.



Fees Assessment

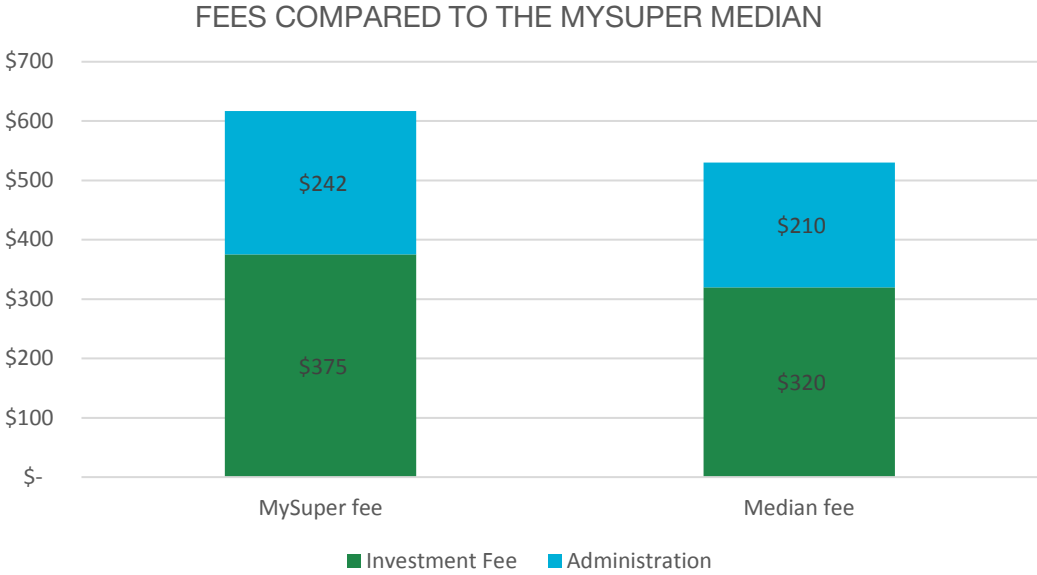
The fees charged by the Fund are separated into administration and investment fees. The administration fee is the same across all products, however the investment fees differ for each option due to the complexities in managing the underlying investment portfolios.

The Fund charges an administration fee of \$97 per year plus 0.29% of your account balance. For an account balance of \$50,000 this equates to \$242 per year. This fee is a set amount to cover the cost of the administration of the Fund.

We have been on a path of fee reduction and have recently reduced the percentage administration fee by 12 basis points to 0.29% per annum, equating to a reduction of \$60 per year for a \$50,000 account balance.

MySuper Product Fees

Below is a comparison of total fees for the MySuper option against other MySuper products included in the APRA Heatmap (June 2020), as a percentage of a \$50,000 account balance.

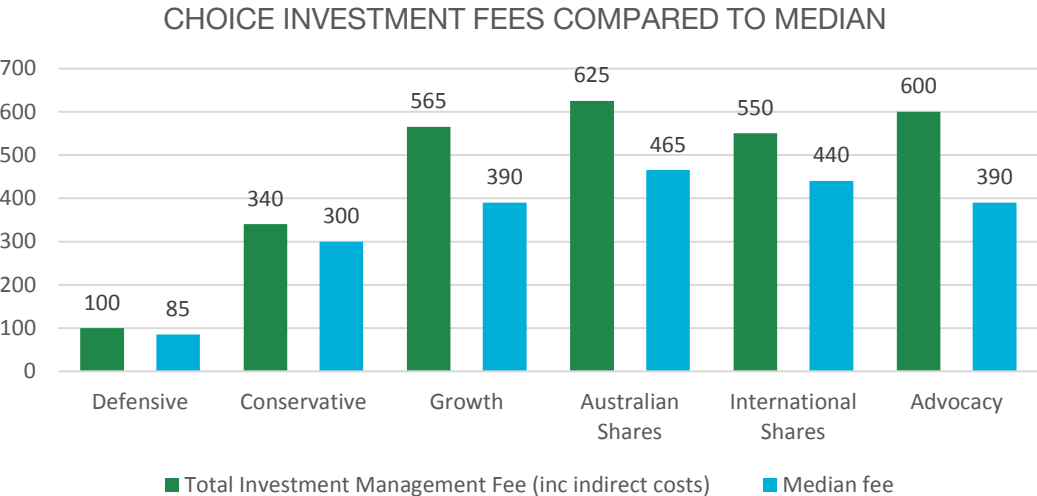


Our administration and investment fees are higher than the median when compared to other MySuper products.

Australian Ethical uses unique ethical investment processes in the management of the investment portfolios. The investment team takes a hands-on, deep green approach to ethical investing by using an in-house team of experts. We don't cut corners when it comes to ethics which is why our fees are slightly higher than the median.

Choice Product Investment Fees

The chart below compares the investment fees for each of the Choice Product investment options against the median fee as calculated by SuperRatings (Fund Profiles June 2020). This is based on an account balance of \$50,000.

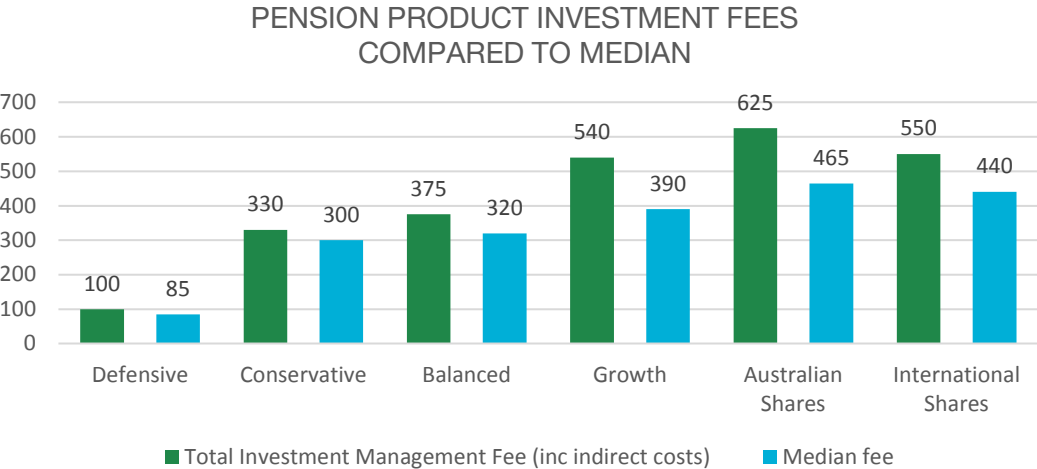


Our investment fees are higher than the median. However, as described above, the ethical investment processes incur an additional cost to the management of the investment portfolios.

The Trustee seeks to reduce fees where appropriate and has recently reduced the fees for the Defensive, Advocacy, and International Shares options.

Pension Product investment fees

The chart below compares the investment fees for each of the Pension Product investment options against the median fee as calculated by SuperRatings (Fund Profiles June 2020). This is based on an account balance of \$50,000.



The Trustee noted that investment fees are higher than the median. However, as described above, the ethical investment processes are an additional part of the management of the investment portfolios, and fee reductions have been implemented across several options in the past year.

Investment Performance Assessment



Investment philosophy and process
robust & resilient
through COVID-19 economic deterioration



Continued focus on returns from clean, "future-building" industries that deliver
positive impact



No.1
(out of 50)

Australian Shares super option over 5, 7 and 10 years¹⁰

Top 3

MySuper Balanced option one year FY20¹¹

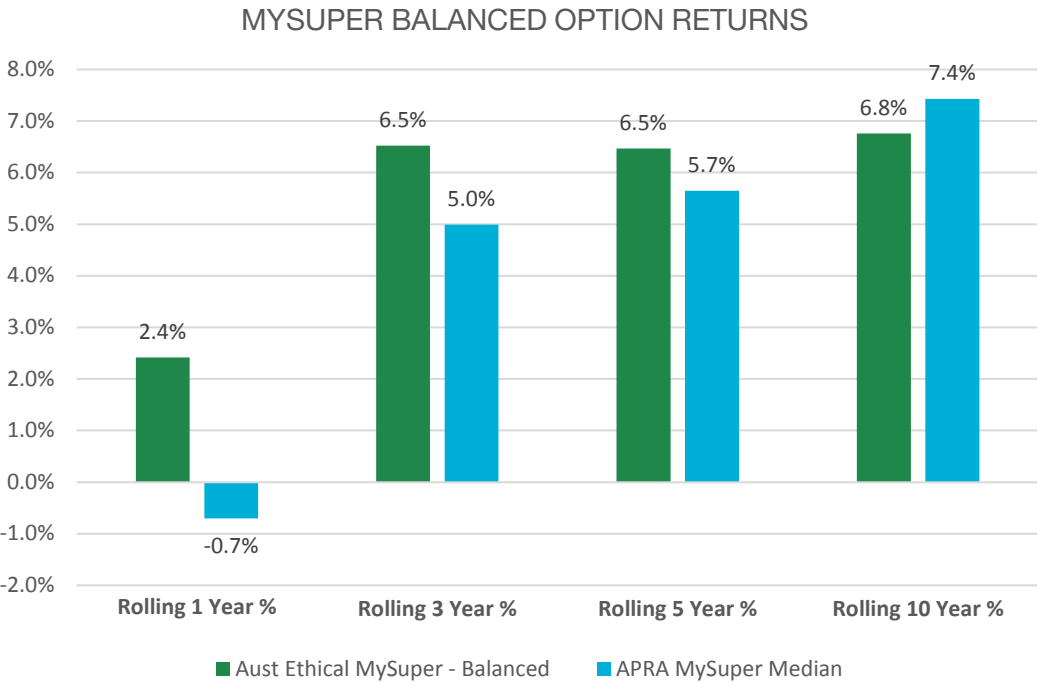
+

1 of only 15

MySuper options to finish the year in positive territory¹²

MySuper Product Investment Returns

The returns for our MySuper product, the Balanced investment option, are compared to the median MySuper option return in the graph below. Data sourced from APRA Quarterly MySuper Statistics at 30 June 2020. These values are net of fees, costs, and taxes.



The Balanced option was one of a handful of funds that achieved a positive return for the year to 30 June 2020, ranking third in the SuperRatings Balanced option survey, with a return 3.1% above the median.

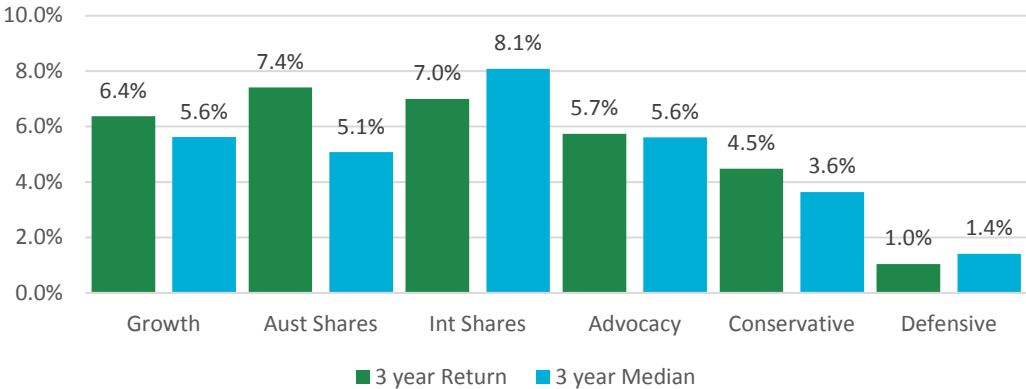
Returns for all periods measured are above the median, except for the 10-year period. This is due to underperformance during 2011 to 2013 which was corrected by changes to the investment strategy, resulting in better than median returns in the prevailing periods.

Important note: Past performance is not a reliable indicator of future performance.

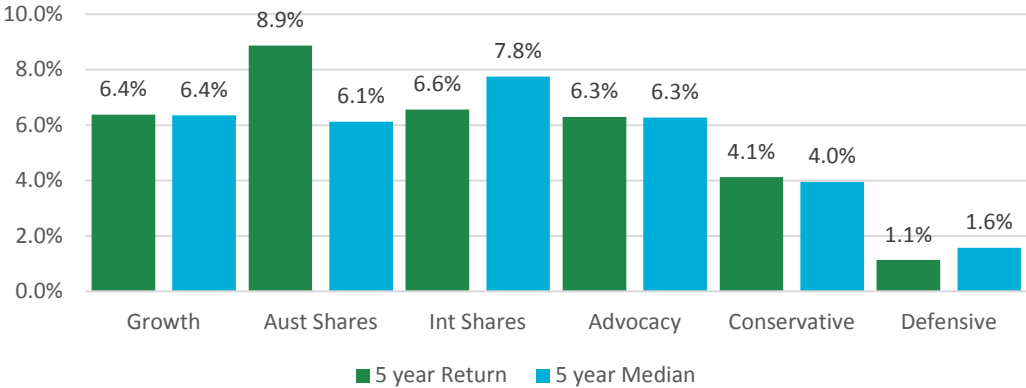
Choice Product Investment Returns

The returns for each of the Choice Product’s investment options are shown below for both the 3-year, 5-year, and 10-year periods using data sourced from the SuperRatings Fund Crediting Rate Survey at 30 June 2020.

CHOICE PRODUCT 3-YEAR RETURNS COMPARED TO MEDIAN

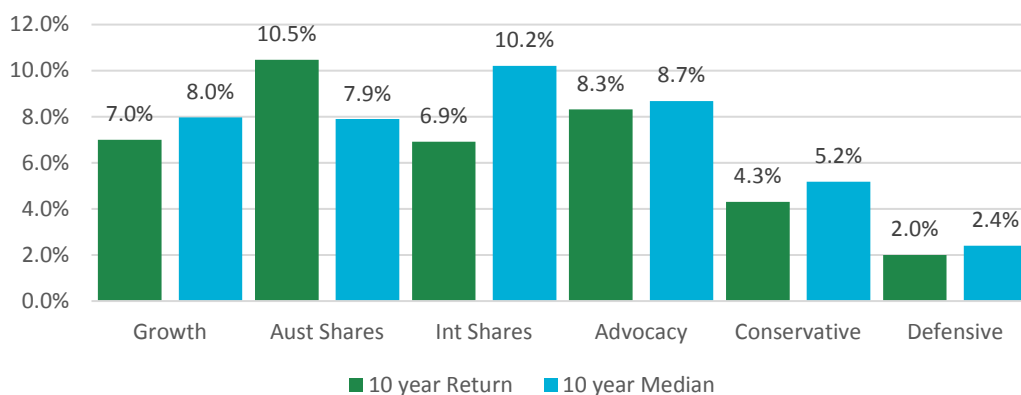


CHOICE PRODUCT 5-YEAR RETURNS COMPARED TO MEDIAN



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CHOICE PRODUCT 10-YEAR RETURNS COMPARED TO MEDIAN



The Australian Shares investment performance has been a highlight for the Fund and this option has been in the top 3 in the SuperRatings survey for all periods.

The Choice Product investment returns have been at or above median for all options, apart from International Shares and Defensive, in the 3- and 5-year periods. The underperformance noted in the MySuper Product section for the 10-year period affected the diversified options.

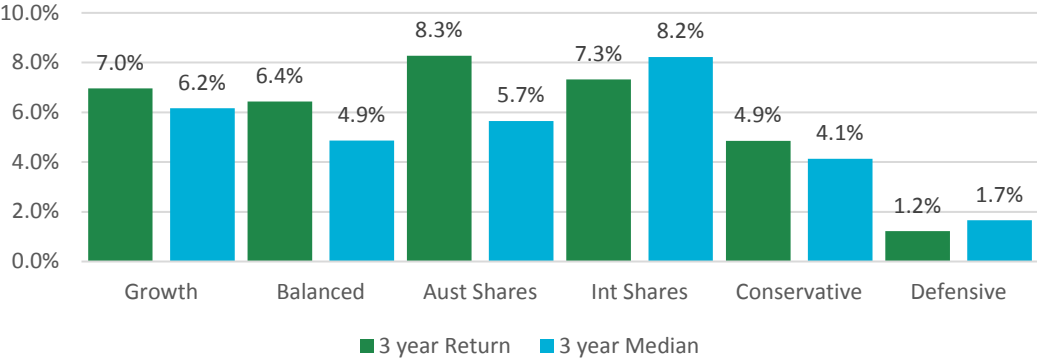
The investment strategies of the International Shares and Defensive investment options are currently under review by the Trustee.

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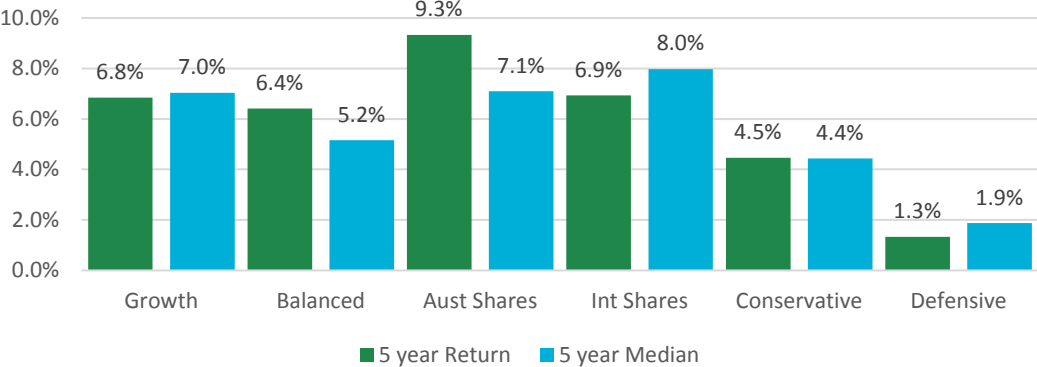
Pension Product Investment Returns

The returns for each of the Pension product’s investment options are shown below for the 3-year, 5-year and 10-year periods using data sourced from the SuperRatings Pension Fund Crediting Rate Survey at 30 June 2020.

PENSION PRODUCT 3-YEAR RETURNS COMPARED TO MEDIAN

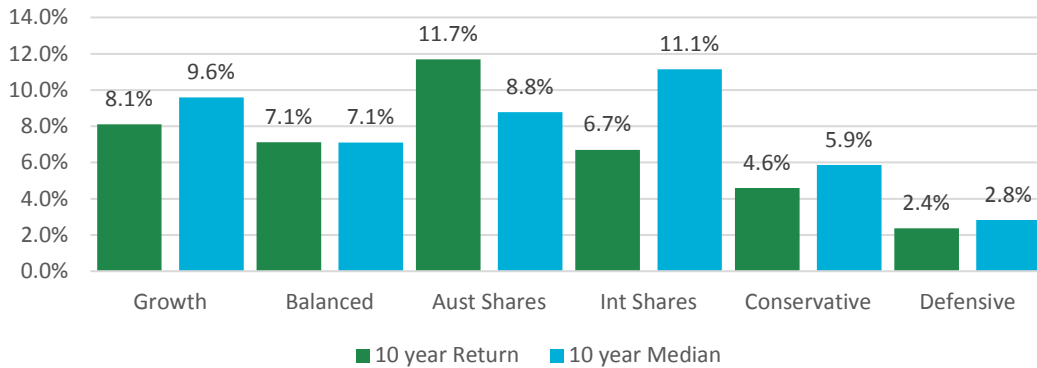


PENSION PRODUCT 5-YEAR RETURNS COMPARED TO MEDIAN



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PENSION PRODUCT 10-YEAR RETURNS COMPARED TO MEDIAN



The Pension Product investment returns have been at or above median for the 3- and 5-year periods for all options apart from International Shares and Defensive. The underperformance in the 10-year period noted above also affected the Pension Product and previously noted, the investment strategies of the International and Defensive options are currently under review.

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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 meets the investment risk strategy set by the Trustee.

In comparison, the MySuper options included in the APRA Quarterly MySuper Statistics at 30 June 2020 have a median period of negative net investment returns of 3.9 years over a 20-year period and 58% have a level of risk label of 'Medium to High'. This shows that investment risk for the MySuper option is similar to peers.

Investment risk data analysis confirms that the level of risk of the MySuper product is close to the median when compared to similar MySuper products in the SuperRatings Volatility and Risk Adjusted Return Survey at 30 June 2020.

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 2020 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 2020 show that the risk-adjusted returns for the Pension product's investment options are comparable to the SuperRatings median for the 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

The Fund's insurance offering was recently benchmarked against similar superannuation funds. As a result, the Trustee implemented changes to the offering to reflect members' life stages and characteristics, and most members with insurance benefited from reduced premiums. These changes were implemented in October 2020.

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 high-level review of available data conducted in the financial year to 30 June 2020 concluded that premiums charged to members were 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. In addition, this is likely to still be relevant as the premiums for most members reduced in October 2020.

Overall size and scale

FASTEST GROWING super fund over 5 years reaching **\$2.77 BILLION** in FUM.¹³

Member numbers up

↑ **20%**

Record net inflows
\$0.66bn

↑ **100%**

Funds under management
\$2.77bn

↑ **19%**

Data in the APRA Heatmap published December 2020 showed that the Fund has high account number growth along with high levels of rollovers and contributions. The Fund is in the top three of all funds in the Heatmap for 3-year average growth. The Trustee is confident that the Fund is an excellent position for growth.

The Trustee has a strategy to maintain this growth to increase the Fund's size and scale to provide better outcomes for all its members.

On 30 June 2020 funds under management (FUM) was \$2.72 billion and has grown to \$3.3 billion at 31 December 2020 - an increase of over 20% in just six months. Member numbers are also growing at the same rate.

The Fund's operating costs have averaged 1.20% for the past four years, reducing each year 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 its operating costs and 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.



Footnotes

¹3rd in SuperRatings SR50 Balanced Index options over 12 months to end June 2020.

²By both members and funds under management - KPMG 2020 Super Insights Report – published May 2020, using statistics published by APRA and ATO as at 30 June 2019

³Carbon 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.

⁴We don't invest in companies whose main business is fossil fuels, or in diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel).

⁵A commitment to positive change means the company made a positive change or commitment to change on the engagement issue during the year. We're not claiming credit for all this change, but we're doing our bit.

⁶B Corps 'Best for the World Honouree' Governance 2019. This relates to the Australian Ethical entity, not the investment portfolio.

⁷Based on value of selected 'sustainable impact' products and services sold annually by companies we hold shares in, compared to the blended benchmark. Shareholdings as at 31 December 2019.

⁸Proportion of our share investments in renewable power generation compared to global share market.

⁹SuperRatings does not issue, sell, guarantee or underwrite this product. Go to www.superratings.com.au for details of its ratings criteria.

¹⁰SuperRatings SR50 Australian Shares Index - 5 years 8.9%, 7 years 10.7%, 10 years 10.5% as at 30 June 2020.

¹¹3rd in SuperRatings SR50 Balanced Index options over 12 months to end June 2020.

¹²SuperRatings SR50 MySuper Index for 1 year performance - 2.4% as at 30 June 2020.

¹³By both members and funds under management - KPMG 2020 Super Insights Report – published May 2020, using statistics published by APRA and ATO as at 30 June 2019.

SuperRatings does not issue, sell, guarantee or underwrite this product. Go to www.superratings.com.au for details of its ratings criteria. SuperRatings performance figure is net of percentage based administration and investment fees. It does not include the \$97 annual fee.

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