

Australian Ethical Super Annual Report Year Ended 30 June 2015



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Important...

Interests in the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743) are offered by Australian Ethical Investment Limited (ABN 47 003 188 930, AFSL 229949) and issued by the Trustee of the Fund, Australian Ethical Superannuation Pty Limited (ABN 43 079 259 733) USI AET0100AU.

The information in this Annual Report is up-to-date at the time of preparation. However, information in this Annual Report is subject to change from time to time. Updated information can be obtained by contacting your financial adviser, going to our website or calling us on **1300 134 337**. You may request a paper copy of this Annual Report and any updated information at any time, free of charge.

Information in this Annual Report is general information only and does not take into account your personal financial situation or needs. You should consider obtaining financial advice that is tailored to suit your personal circumstances.

A message from our CEO

Paris Agreement A Great Start

We have an agreement! After 21 years we have a legally binding commitment for countries to recognise the risks of climate change and reduce their emissions. The result in the end was far better than many expected. Its significance in my mind lies in the following:

1. Having an agreement at all. Having a global, legally binding framework to guide our politicians is critical and witnessing the process up close gave me a healthy appreciation of the challenges of securing agreement. The fact that an agreement, any agreement was secured, is an amazing achievement;
2. The level of ambition. Since Copenhagen the world has focused on keeping the level of warming below 2 degrees above pre-industrial levels. Given that a 2 degree world would be a disaster we had given ourselves a false sense of security that this was a target that we could run the risk of overshooting. To secure the goal of "well below 2 degrees" was an achievement in itself. The inclusion of a further ambition of 1.5 was a very welcome addition and we owe a gratitude to those nations that championed it;
3. An acknowledgment that current pledges are weak. From day one this provides a strong basis for challenging the ambition of government policies;
4. 5 yearly reviews. The agreement to review the commitments every 5 years provides flexibility to ramp up the pressure;
5. Transparency and accountability. The system of measurement and transparency provides a mechanism to hold our governments to account.

So while many will argue that it doesn't go far enough, we are far better off with it than without it. But it is insufficient on its own. Change will still only come with domestic political, corporate and investor will.



As far as political will goes, we know our current domestic policies are woeful. Perhaps this agreement is what is needed for the current government to have greater influence over the more conservative forces within their ranks. With a legally binding agreement, a higher ambition, increased transparency and five yearly reviews, there are less places to hide and perhaps (dare we dream it) it serves as a framework and a catalyst for a more bipartisan commitment to a stable, long term set of policies. One of my favourite quotes from the conference came from the Executive Director of the International Energy Agency, "while variability of renewable energy is a challenge ... variability of policies poses a far greater risk".

Beyond the policy settings, ultimately it is capital that provides the solution. We need capital to flow from financing the old economy to the new. And, we need lots of it to move and we need it to move fast but in a managed and orderly way. Here's where the real challenge lies. To illustrate the challenge it is useful to break the investment market down into three categories:

"The blind". These investors take no account of climate risk in managing their portfolios and will only shift capital when there are clear, explicit incentives imposed on them by government. It is difficult to say how large this part of the market is but if the recent Benchmark Report of the Responsible Investment Association of Australia is any guide, 50% of Australian Institutional Investors actively take account of Environmental, Social and Governance issues in some way. So this potentially means that 50% don't. That's a large part of the market that is exposed to a potential shock when change occurs and a large part of the market to be a drag on the shift that's required.

A message from our CEO cont...

"The risk managers". These investors are aware of the risks of climate change and are actively managing their portfolios to take account of that risk. They are doing this to varying degrees and in varying ways including progressively tilting their portfolios to low carbon assets and encouraging the companies in which they invest to evolve their business models to lessen their exposure to climate change. This group will possibly be influenced by the Agreement to take more aggressive action as they incorporate a higher degree of certainty that political action will occur into their assumptions but any change to their actions are likely still largely to be subject to future domestic policy settings.

"The future managers". These investors are fast forwarding and actively managing their portfolios in a way that it should be managed in a 2-D world either through exclusions or explicitly committing to de-carbonise their portfolios. They are not waiting to assess the political risk but just getting on with it. Australian Ethical falls into this latter camp in that we have excluded fossil fuels AND committed to decarbonise the rest of our portfolio by 2050.

To make the rapid shift, the markets need to move rapidly from 1 through to 3. At the Paris conference there were a number of significant pledges and commitments made by the investment community and evidence that capital is flowing in the right direction including:

The Montreal Pledge – investors representing \$10 trillion in funds under management have committed to disclose their carbon footprint;

The Portfolio Disclosure Coalition – investors representing \$600 billion have committed to not only disclose but to reduce their exposure in line with staying within the level of warming;

RE100 – a coalition of investors have called on some of the largest companies to commit to sourcing their energy 100% from renewable sources;

Green bonds – there was \$37 billion of issuance in Green Bonds in 2014 with estimates that it could be \$1 trillion of flows by 2020.

But there were also serious disconnects. At one session on carbon disclosure, comment was made that an imposition of emissions reduction targets directly on companies was out of the question because it posed problems with Director duties. It struck me as odd that here we have a conference with 45,000 delegates from 198 countries including world leaders trying to work out a way to save the planet from extinction and they don't feel they are in a position to change the laws of directors duties to accommodate a solution? Until we move past the point where we realise that that kind of thinking is obscene then we haven't really solved the issue.



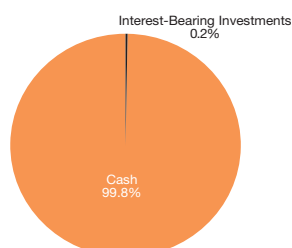
Phil Vernon
Chief Executive Officer

Investment options

Asset Allocations(%) to 30 June 2015*

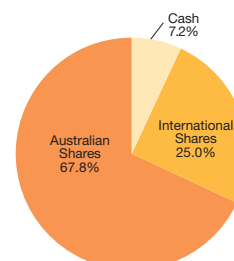
Defensive

Risk measure^:
Low



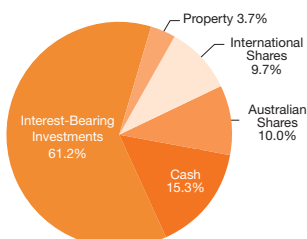
Advocacy

Risk measure^:
High



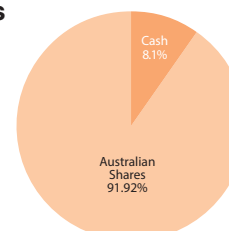
Conservative

Risk measure^:
Low to medium



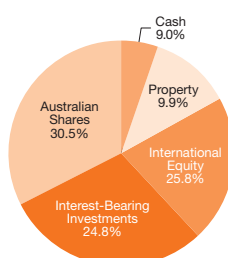
Smaller Companies

Risk measure^:
High



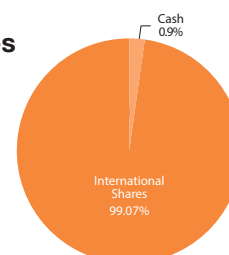
Balanced (accumulation)

Risk measure^:
Medium to high



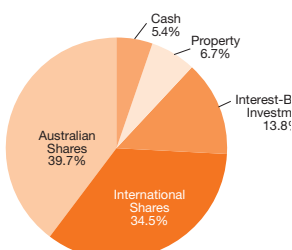
International Shares

Risk measure^:
High



Growth

Risk measure^:
Medium to high



* The strategic asset allocation for the Accumulation and Pension options are the same, however the actual asset allocations do vary. Please refer to the Australian Ethical website for the asset allocations for the Pension options. Some asset allocations do not total 100% due to rounding.

^ Risk measures are based on the Standard Risk Measure Guidelines issued by the FSC and ASFA.

Returns to 30 June 2015

Super	1 year return (%)	3 year return (%p.a.)	5 year return (%pa)	10 year return (%pa)	Since inception (%pa)
Defensive	1.4	2.0	2.9	3.4	3.6
Conservative	4.9	4.8	4.5	n/a	4.4
Balanced (accumulation)	10.1	11.0	7.1	4.2	6.1
Growth	11.7	14.1	7.5	4.1	7.6
Advocacy	13.2	17.6	10.4	n/a	9.8
Smaller Companies	19.9	19.2	12.0	9.1	9.8
International Shares	14.4	21.3	7.2	n/a	0.0
Pension	1 year return (%)	3 year return (%p.a.)	5 year return (%pa)	10 year return (%pa)	Since inception (%pa)
Defensive	1.7	2.5	3.5	4.1	4.4
Conservative	5.3	5.1	4.7	n/a	4.3
Balanced (pension)	10.1	11.6	7.8	4.7	6.6
Growth	14.5	16.5	9.3	4.9	7.3
Smaller Companies	22.4	21.6	14.1	10.4	10.4
International Shares	12.3	21.2	6.5	n/a	-1.4

Calculating Returns

- Net investment returns are calculated using exit prices.
- Net investment returns have been calculated using prescribed standard methods and assumptions, and take into account administration and investment fees, taxes and other costs.
- The standard calculations are based on a member with an account balance of \$50,000, which will not be relevant to all members.
- The standard calculations do not allow, for example, for the effect of contributions to an account, insurance fees from an account or various other matters.

Past performance is not an indicator of future performance. Performance is not guaranteed.



Community Grants

Community grants to the value of \$300,000 were awarded to 18 charities and social businesses working on Australian and international causes this month. The projects are varied, and include animal welfare, conservation, women's empowerment, renewable energy, addressing homelessness and alleviating poverty.

Phil Vernon, Australian Ethical's managing director said, "Our company Charter isn't simply a guide for screening investments – it is the basis of our company culture. Underpinning it is a belief that we have a responsibility to do more than just make money, but to improve the world around us. The grants program is one way we are achieving this goal".

"Whether it's supporting Indigenous health in the outback, caring for donkeys in Afghanistan, or creating jobs for refugees – there are so many inspiring people working hard to make a difference. We are proud to support these organisations and the great work they are doing," said Mr Vernon.

Australian Ethical's Community Grant Recipients 2015:



ENVIRONMENTAL DEFENDERS OFFICE INC

Improving access to environmental justice in the Northern Territory (NT)

The Northern Territory's environmental and planning legislation has repeatedly failed to adequately protect the NT's pristine and world-renowned environment. In October 2014, the NT established the NT Civil and Administrative Tribunal to pave the way for ordinary Territorians to challenge government decisions. The NT Environmental Defenders Office is conducting a law reform and advocacy project focussing on any changes needed to allow the Tribunal to hear challenges under environmental, mining, petroleum, and planning laws. Australian Ethical's \$20,000 grant will help to provide community education – including in remote indigenous communities – about how the Tribunal can improve access to environmental justice. www.edont.org.au

Animalia Wildlife Shelter

Renewable energy for a wildlife rescue centre in Victoria

Animalia Wildlife Shelter provides emergency and short and long term care for injured, sick and orphaned Australian wildlife, releasing them back into the wild once rehabilitated. In a truly admirable goal, the centre has decided it's not only desirable but absolutely necessary for them to switch to renewable energy, and effectively take their organisation off-the-grid. Water and energy is currently costing Animalia Wildlife Shelter around \$10,000 per year due to the amount of heat pads, heat lamps, and the constant need of electricity and water to provide care for the wildlife needing rehabilitation. Our \$20,000 grant will allow the shelter to build a solar system, meaning they can put other monies fundraised solely into the care, feeding and rehabilitation of Australian native wildlife. www.animaliawildlife.org.au



Green Connect

Growing sustainable jobs and food in the Illawarra region of NSW
The Illawarra has one of the highest unemployment rates in Australia (9.8%). This number doubles for young people, and for refugees only 31% have a job 5 years after resettlement. Green Connect is a social enterprise that creates jobs that help the environment for resettled refugees and young people. Last year Green Connect employed 122 resettled refugees and young people, kept over 2,000 tonnes of waste out of landfill, and grew and distributed over 2,000 kilograms of vegetables. Green Connect will use our \$20,000 grant to develop a further 5,000m² of their urban chemical-free farm to increase employment, food production and financial sustainability.

www.green-connect.com.au



Angel Place

A social enterprise to support homeless families

The Angel Place Project aims to open a 100-room not-for-profit social hotel, which will provide more than 18,000 hotel rooms per year to homeless young children and their families. The hotel will provide a safe and welcoming place to stay for newly homeless families while they seek professional support and help to work through their next steps. The Room-for-a-Room business model releases one 'free' room to a newly homeless family as each prepaid room is booked, with the goal of becoming a financially self-sustaining business model. This idea has great potential to help break down the negative perceptions of 'The Homeless' and the dichotomy of 'Them' and 'Us'. As a result of our \$20,000 grant, Angel Place will soon be able to develop a pilot for their innovative approach to crisis accommodation at a mainstream 3-4 star hotel either in Sydney or Melbourne. www.angelplaceproject.com



The 2015 recipients continued

Organisation	Project	Grant
Animal Aid Abroad	Working Donkey Welfare Program in Afghanistan	\$20,000
Abundant Water	Clean water to empower women in Laos	\$15,000
East Gippsland Rainforest Conservation Management Network	Rainforest recovery via Indigenous engagement in Victoria	\$15,000
Australian Red Cross with the Royal Flying Doctors Service	The Healthy Living Outreach Program for Aboriginal Communities	\$10,000
Alternative Technology Association	Solar electrician for Atauro Island, East Timor	\$10,000
Assisi Aid Projects	Financial independence for widowed women in rural India	\$10,000
Sleepy Burrows	Expanding Wombat Manor for injured wombats in NSW	\$10,000
Indigo Foundation	Cooperative gardens in Indonesia to seed women's empowerment	\$10,000
Free to Shine	Scholarship program for girls at risk of sex-trafficking in Cambodia	\$10,000
The Orangutan Project	Wildlife Protection Units in Sumatra, Indonesia	\$10,000
With Compassion & Soul	Sun Bear sanctuary in Borneo	\$10,000
A Girl & Her World	Income-generating project for women in Fiji	\$5,000
The Incredible Tip Shop	Stable jobs for the marginalised in Mackay, Queensland	\$5,000

Running for over 25 years, the Community Grants program is a result of Australian Ethical's commitment to donate 10% of its pre-tax profits to organisations making a positive difference in the world – one of the highest rates of corporate giving in Australia. Since the program began, Australian Ethical has donated over \$2 million to organisations working for charitable, benevolent, and conservation purposes.

Accounts

The Australian Ethical Retail Superannuation Fund's financial statements for the year ended 30 June 2015 are shown in abridged form below. A copy of the full accounts and the auditor's report is available to members upon request. Please phone 1300 134 337 if you would like a copy mailed to you.

Operating statement

for the year ended 30 June 2015

Investment revenue	2015 \$	2014 \$
Interest income	195,429	270,336
Trust distributions	26,426,184	13,200,465
Changes in net market value of investments	41,313,069	51,995,821
Total investment revenue	67,934,682	65,466,622

Contribution revenue		
Employer contributions	46,619,682	37,516,322
Member contributions	19,385,592	9,329,550
Transfers in	99,816,574	58,653,998
Total contribution revenue	165,821,848	105,499,870

Other revenue		
Management fee rebate	14,854,262	8,763,408
Other revenue	1,088,918	2,401,984
Total other revenue	15,943,180	11,165,392

Total Revenue	249,699,710	182,131,884
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Less:		
General administration expenses	16,921,654	15,130,142
Direct investment expense	12,258	11,354
Surcharge tax expenses	-	1,568
Total expenses from ordinary activities	16,909,396	15,117,220

Benefits accrued as a result of operations before income tax	232,765,798	166,988,820
Less income tax expense	11,347,330	8,184,613
Benefits accrued as a result of operations after income tax	221,418,468	158,804,207

Statement of financial position

as at 30 June 2015

Investments	2015 \$	2014 \$
Investments	759,997,344	580,470,619
Total Investment Assets	759,997,344	580,470,619

Other Assets		
Cash held for operating expenses	6,610,461	10,771,021
Trade and other receivables	23,502,271	11,525,503
Deferred tax asset	32,501	29,241
Total Other Assets	30,145,233	22,325,765

Total Assets	790,142,577	602,796,384
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Liabilities		
Trade and other payables	998,463	1,167,827
Unsettled Investment Trades	-	4,343,394
Current Tax Liabilities	3,897,111	1,697,791
Deferred Tax Liabilities	9,720,725	5,799,697
Total Liabilities	14,616,299	13,008,709

Net assets available to pay benefits	775,526,278	589,787,675
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Liabilities for Accrued Benefits		
Allocated to members accounts	772,614,473	587,299,167
Unallocated to members' accounts	1,428,216	1,718,174
Operational risk financial reserve	1,483,589	770,334
	775,526,278	589,787,675

Things you should know

Indemnity insurance

The Trustee is covered by indemnity insurance to protect it from losses arising from claims against it. The insurance has been provided by QBE Insurance (Australia) Ltd throughout the 2014–15 financial year.

The Trustee and its Directors have not been subject to any penalties under the SIS legislation. The Trustee is not aware of any matters that would cause it to lose its complying status.

Investment managers

The Trustee uses Australian Ethical Investment Ltd as its investment manager. More than 5% of the Fund's assets were invested in Australian Ethical's funds during the year.

Derivatives

The Australian Ethical Retail Superannuation Fund does not directly use derivatives. It invests in collective investment funds managed by Australian Ethical Investment Ltd, which may use derivatives to reduce the impact of large adverse movements in currency exchange rates (foreign currency hedging). The collective investment funds may also use derivatives to manage interest rate and duration risk in fixed interest and property portfolios.

Enquiries and complaints

We welcome your enquiries and comments.

If you have an enquiry or complaint please phone 1300 134 337 or email us at members@australianethical.com.au.

We aim to resolve your concerns at the time of your call. If this is not possible we will respond to any complaint within five working days, and seek a resolution of the complaint as soon as possible, certainly within 90 days.

If you are not satisfied with our handling of your complaint or our decision, you may contact the Superannuation Complaints Tribunal. The Tribunal is an independent body established by the Government to assist members and beneficiaries to resolve certain types of complaints with fund trustees.

The Tribunal may be able to assist you to resolve your complaint. If you wish to find out whether the Tribunal can handle your complaint and the type of information you would need to provide, phone the Tribunal on 1300 884 114 or by email at info@sct.gov.au.

Allotment of earnings

The Australian Ethical Retail Superannuation Fund uses unit prices for its investment options. Once a week a unit price is struck for each investment option and members' funds are updated in line with the movement in their investment option unit price. Movements in unit price reflect movements in the value of an investment option's assets as well as amounts payable by the investment option for fees and expenses.

The Trustee

The Trustee of The Australian Ethical Retail Superannuation Fund is Australian Ethical Super Pty Ltd. The role of the Trustee is to operate the Fund in accordance with its Trust Deed and relevant law. The Fund is regulated by various pieces of legislation including the Superannuation Industry (Supervision) Act 1993 (SIS) and the Corporations Act 2001.

The Australian Ethical Retail Superannuation Fund is managed by a board of five Directors. All Trustee Board Directors undertake ongoing education and training relevant to their duties. Details about each Director can be found on the Australian Ethical website.

Directors receive a Director's fee and reimbursement for their expenses. Remuneration details for Directors and Senior Management are disclosed on the Australian Ethical website.

Advisors to the Trustee

The Trustee has appointed the following specialist independent organisations to assist with the key operations of the Fund.

- Administration - Link Market Services Limited
- Custodian - National Australia Bank Limited
- Investment Adviser - Australian Ethical Investment Ltd
- Group Life Insurer - MetLife Insurance Limited
- External Auditor - KPMG
- Internal Auditor - Deloitte



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The information contained in this report is general information only, and does not take into account your individual investment objectives, financial situation or needs. Before acting on it, you should consider seeking independent 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 (www.australianethical.com.au).

The content of this report is intended to provide a summary and general overview concerning matters of interest and is correct as at the date of publication. It has not been subject to auditor review. Australian Ethical Superannuation Pty Ltd does not accept any liability, either directly or indirectly, arising from any person relying, either wholly or partially, upon any information shown in, or omitted from, this report. Under no circumstances will Australian Ethical Superannuation Pty Ltd be liable for any loss or damage caused by your reliance on information obtained from this report. You should consider seeking independent advice from a legal or other professional adviser before acting in response to the content of this report.