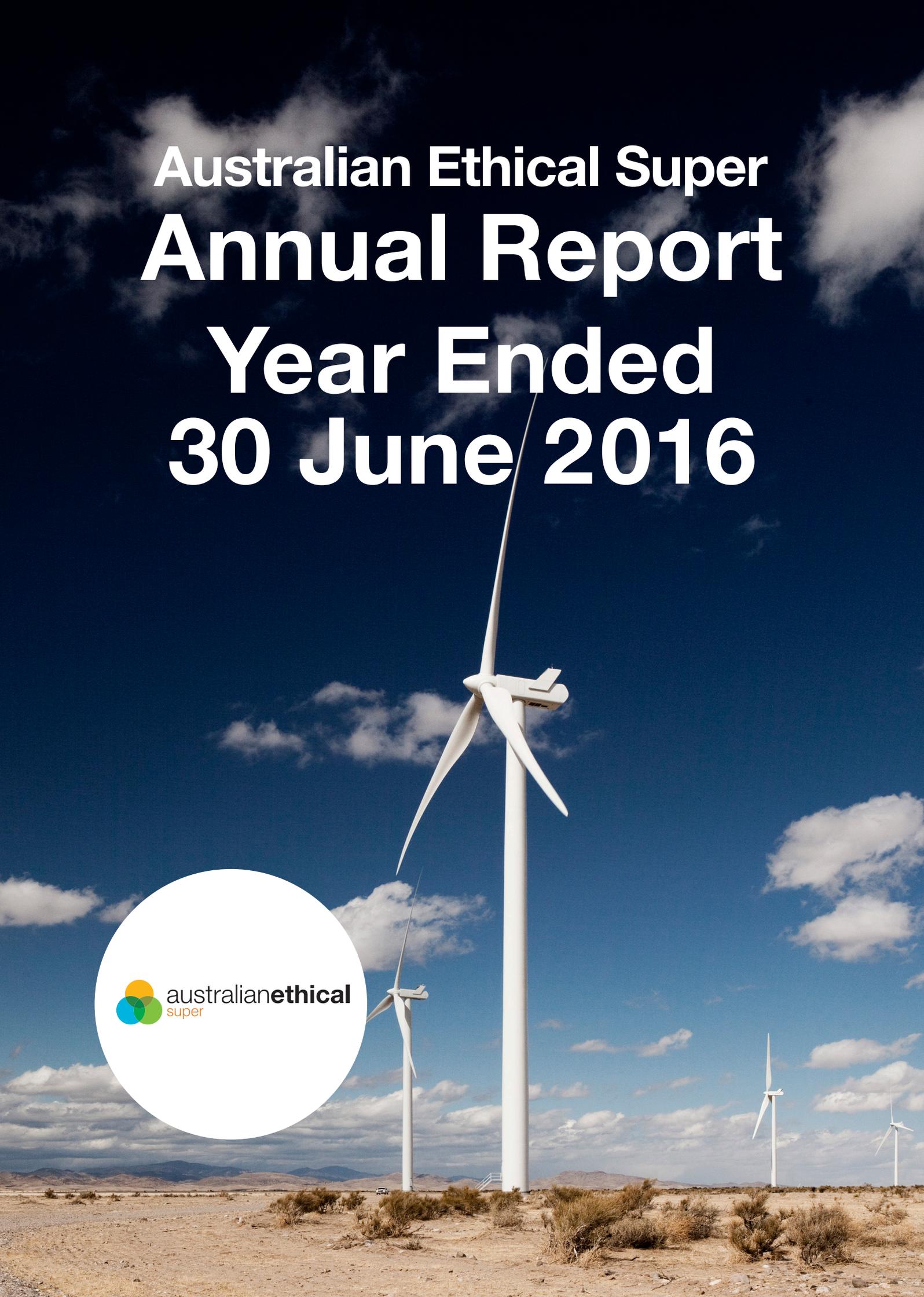


Australian Ethical Super Annual Report Year Ended 30 June 2016



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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.

Contact us

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Locked Bag 5125, Parramatta NSW 2124

Join online: australianethical.com.au/join-now

Our year in numbers

7,000+
members
reunited with
Lost Super

#1
'BEST RESPONSIBLE
INVESTMENT
REPORT' 2015¹

26,000+
Super members
24% increase
since FY15

\$395,314
provisioned for
community
projects²

60,259
TONNES LESS CO₂

OVER
\$1 billion
IN FUNDS UNDER
MANAGEMENT

- 1) Responsible Investor Reporting Awards
- 2) Emissions of Australian Ethical share investments compared to benchmark of S&P ASX 200 Index (for Australian share fund holdings) and MSCI World Index ex Australia (for international share fund holdings). Calculated as at 31 December 2015.

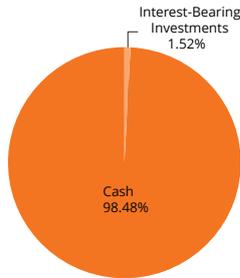
2

Investment Options

Asset Allocations(%)* to 30 June 2016

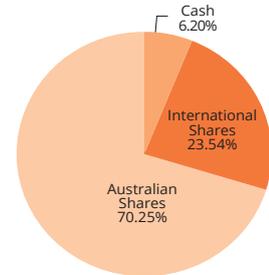
Defensive

Risk measure^: Very low



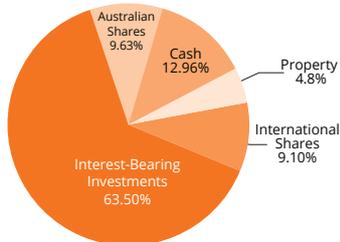
Advocacy Fund

Risk measure^: High



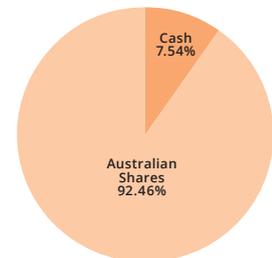
Conservative

Risk measure^: Low to medium



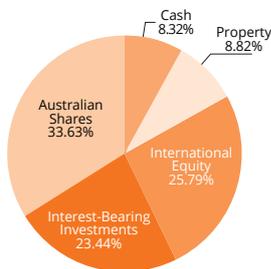
Smaller Companies

Risk measure^: High



Balanced (accumulation)

Risk measure^: Medium



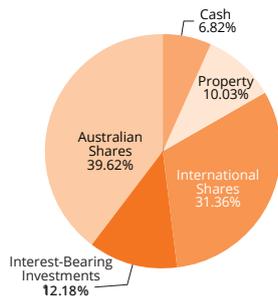
International Shares

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 don't 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 2016

Super	1 Year return (%)	3 Year return (%p.a)	5 Year return (%p.a)	10 Year return (%p.a)	Since inception (%p.a)
Defensive	0.9	1.6	2.3	3.1	3.4
Conservative	3.5	4.0	4.1	n/a	4.3
Balanced (accumulation)	2.6	7.1	7.1	3.7	6.0
Growth	0.8	7.5	7.8	2.8	7.2
Advocacy	2.4	10.6	10.0	n/a	8.6
International Shares	(5.7)	7.7	6.9	n/a	(0.7)
Smaller Companies	8.4	12.9	11.9	8.7	9.7

Pension	1 Year return (%)	3 Year return (%p.a)	5 Year return (%p.a)	10 Year return (%p.a)	Since inception (%p.a)
Defensive	1.1	1.6	2.6	3.7	4.2
Conservative	3.3	4.1	4.4	n/a	4.2
Balanced (pension)	3.4	7.4	7.8	4.0	6.4
Growth	0.1	8.1	9.0	3.3	6.9
International Shares	(6.3)	6.7	6.2	n/a	(1.9)
Smaller Companies	6.6	12.7	13.3	9.5	10.2

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.

Our commitment to the community

While ethical investing is our bread and butter, we know there are a lot of projects and organisations doing good that aren't traded on investment exchanges. These projects have a vital role to play in achieving a happy, healthy world, so each year we donate 10% of our pre-tax profits to organisations making a positive difference.

Since our community grants program began in 2000, we have donated over \$2 million to charitable organisations. In FY16, we received a total of 739 grant applications. These applications were reviewed internally for their ability to deliver tangible outcomes

that benefit the planet, people or animals. All our major stakeholder groups have a say in who receives a grant, employees and shareholders voting on the winner from a shortlist. This was the first year where even our clients had an opportunity to participate. In FY16, we distributed \$230,000 of community grants to 18 organisations through the Australian Ethical Foundation. The Foundation was granted charity registration with the Australian Charities and Not-for-profits Commission on 12 August 2015.

FY16 community grant recipients

\$20,000

grant recipients



The Humanitarian Group

Providing legal assistance for people seeking asylum in WA
<http://thehumanitariangroup.org.au/>



Taronga Conservation Society

'Plastic Free Oceans' campaign to protect and preserve wildlife and the environment
<https://www.taronga.org.au/>



RSPCA QLD

Installation of a solar system at the Brisbane Animal Care Campus
<https://www.rspcaqld.org.au/locations/brisbane>



Centre for Compassionate Conservation

Prevention of localised extinctions of wombats through early mange treatment
goo.gl/168DSY

\$15,000

grant recipients



The Orangutan Foundation

Reforestation of the Orangutan Legacy Forest in Indonesia

<http://orangutanfoundation.org.au/>



Wildlife Asia

Deploying a Sumatran rhino protection team in Sumatra

<http://www.wildlifeasia.org.au/>



Black Cockatoo

Infrastructure for the critically endangered white-tailed black cockatoo

http://www.ccwa.org.au/the_black_cockatoo_preservation_society

\$5,000

grant recipient

Days for Girls Australia

Postpartem and standard hygiene kits for 400 women in Tanzania

<http://www.daysforgirls.org/>

\$10,000

grant recipients

Animal Aid Abroad

Training and employing local vets to treat injured, abused and overworked animals in New Delhi, India

<http://animalaidabroad.org/>

OzGreen

Clean water and community garden for 2 villages in Timor

<http://www.ozgreen.org/>

Enterprise Learning Projects

Establishing an op-shop in Kalumburu, WA, to promote cultural enterprise

<http://elp.org.au/>

Motivation Australia

Providing wheelchairs and support for 20 kids in Fiji

<http://www.motivation.org.au/>

Green Connect

Internships for disadvantaged youth and refugees to grow and distribute fair food in Illawara

<http://www.green-connect.com.au/>

Enterprise Learning Projects

Establishing Speargrass Bike Tours, a social enterprise run by young Indigenous men in Katherine, WA

<http://elp.org.au/>

Where Pigs Fly

Constructing animal shelters at a sanctuary for rescued farm animals in NSW

<http://www.wherepigsfly.org/>

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Accounts

The Australian Ethical Retail Superannuation Fund financial statements for the year ended 30 June 2016 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 2016

Investment Revenue	2016 \$	2015 \$
Interest	179,295	195,429
Trust distributions	47,424,038	26,426,184
Changes in net market values	33,862,769	41,313,069
Total investment revenue	81,466,102	67,934,682
Contributions revenue		
Employer contributions	62,426,849	46,619,682
Member contributions	25,610,346	19,385,592
Transfers in	185,878,873	99,816,574
Total contribution revenue	273,916,068	165,821,848
Other revenue		
Management fee rebate	71,758	14,854,262
Other revenue	187,532	1,088,918
Total other revenue	259,290	15,943,180
Total revenue	355,641,460	249,699,710
Less		
General administration expenses	18,856,879	16,921,654
Direct investment expense	12,324	12,258
Total expenses from ordinary activities	18,869,203	16,933,912
Benefits accrued as a result of operations before income tax	336,772,257	232,765,798
Income tax expense	12,382,032	11,347,330
Benefits accrued as a result of operations after income tax	324,390,225	221,418,468

Statement of financial position

as at 30 June 2016

Investments	2016 \$	2015 \$
Investments	1,032,042,580	759,997,344
Total investment assets	1,032,042,580	759,997,344

Other Assets		
Cash held for operating purpose	14,256,315	6,610,461
Trade and other receivables	36,200,965	23,502,271
Deferred tax asset	44,118	32,501
Total other assets	50,501,398	30,145,233

Total assets	1,082,543,978	790,142,577
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Liabilities		
Trade and other payables	750,301	998,463
Current tax liabilities	5,034,058	3,897,111
Deferred tax liabilities	12,939,355	9,720,725
Total liabilities	18,723,714	14,616,299

Net assets available to pay benefits	1,063,820,264	775,526,278
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Liability for Accrued Benefits		
Allocated to members' accounts	1,058,646,895	772,614,473
Unallocated to members' accounts	2,492,059	1,428,216
Operational risk financial reserve	2,681,310	1,483,589
	1,063,820,264	775,526,278

Unleashing the power of tech: Investing in information

Mason Willoughby-Thomas,

Portfolio Manager at Australian Ethical, explains how we sort the signal from the noise.

Information Technology (IT) has been a successful hunting ground for Australian Ethical for many years. In today's society, the IT sector is one of the fastest moving and most dynamic segments of not only our investment universe, but the overall economy.

Our investments cover a broad range of areas such as IT outsourcing providers, IT consultants, hardware vendors, data centre operators, software developers and telecommunications companies. Many of the companies we invest in offer products, services or solutions that provide their customers with meaningful improvements in operating efficiency, productivity and waste reduction. We look for companies that provide new ways for their customers to access improved products and services at a competitive cost. The constantly growing IT sector is an attractive investment opportunity that fits well within the principles of our Charter – for example, through improving efficiencies and contributing to human education.

Keeping up with constant flux

It's no secret that technological obsolescence and disruptive forces pose a constant threat to most IT companies. These unruly forces can be highly destructive to conventional operating models and can rapidly degrade a company's competitive position. A prime example has been 'cloud' computing. Facilitated by the rapid evolution of high-speed data networks, cloud computing has become a real player against traditional computing networks. This has fostered a progressive shift away from capital intensive on-site IT infrastructure models with high upfront costs. It's now all about 'consumption' based IT models that only charge the customer for what they actually use, managed using outsourced infrastructure and remotely hosted software. This development has had a highly disruptive effect on traditional IT services providers that tend to just focus on servicing customers' in-house IT. These international IT service providers benefit from a new layer of competitiveness as greater global interconnectivity is supported by increasingly ubiquitous high-speed data networks. In essence, there's been a very rapid commoditisation of traditional IT services – and we aim to position our IT investments where we can gain from a positive change for society.



While a number of companies have suffered what we in the business call 'value erosion' as new entrants and new technologies have displaced old business models, there's also a big opportunity for the astute investor. Companies such as Perth-based ASG, who we've invested in, have taken advantage of the sudden shift towards cloud-based IT models and have quickly reinvented themselves as providers of 'new world' services. ASG has a strong base of multi-year contracted customers, which has given them stable earnings and cash flow to support the heavy investment needed to transform their business. We recognise that a key differentiator between the stronger and weaker performers in the IT sector is having contracted, recurring revenue streams – so this is another important key investment characteristic we target. We've also invested in IT services companies such as UXC and Oakton who are market-leaders in new technologies and service capabilities.

Disruption with purpose

The IT-disruption story is certainly influenced most by companies that benefit from change, or are themselves the source of the disruption. These kinds of companies often exhibit unique capabilities or technologies that are difficult to replicate, are market leaders in their particular field, operate globally, face limited competition, or provide products or services that are 'mission critical' for their clients. A prime example is construction collaboration software provider Aconex. Aconex provides a centralised platform for many of the world's largest construction contractors and asset owners to collaborate. The technology solution is a clear market leader, the addressable market exceeds US\$6bn with only modest saturation to date, the software is considered mission-critical, and the competition is modest at best.

Language services company Appen is another highly successful investment for Australian Ethical. It's a company that is benefiting from the rise of the online world and its disruptive influence. Appen is an Australian-owned and based company that provides access to a global army of linguistics specialists that help 'tune' computer algorithms that sit behind prominent internet search engines, social media platforms, and eCommerce websites. Appen also provides specialist language services for speech recognition – work that is ever-expanding with the popularity of software like Apple's Siri and Microsoft's Cortana.

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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 2015–16 financial year.

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.

Complaints resolution

If you have any inquiries or complaints you should address them in the first instance to the Trustee on 1300 134 337 or by writing to the Complaints Officer at the address on the back cover.

If you are dissatisfied with a decision of the Trustee relating to you as a member, you may be able to lodge a complaint about the decision with the Superannuation Complaints Tribunal. The tribunal's role is to act as conciliator on such matters and, where appropriate, make determinations (including determinations overturning decisions by trustees).

The Superannuation Complaints Tribunal may be contacted on 1300 884 114.

Allotment of earnings

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 Superannuation 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. It doesn't take into account your individual objectives, financial situation or needs. Before making any investment decisions you should assess whether the information is appropriate to your circumstances. Interests in the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743) are offered by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) and issued by the Trustee of the Fund, Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733). A product disclosure statement is available from our website australianethical.com.au or by calling 1300 134 337 and should be considered before deciding whether to acquire, or to continue to hold, interests in the Fund.