

**Australian
Ethical**



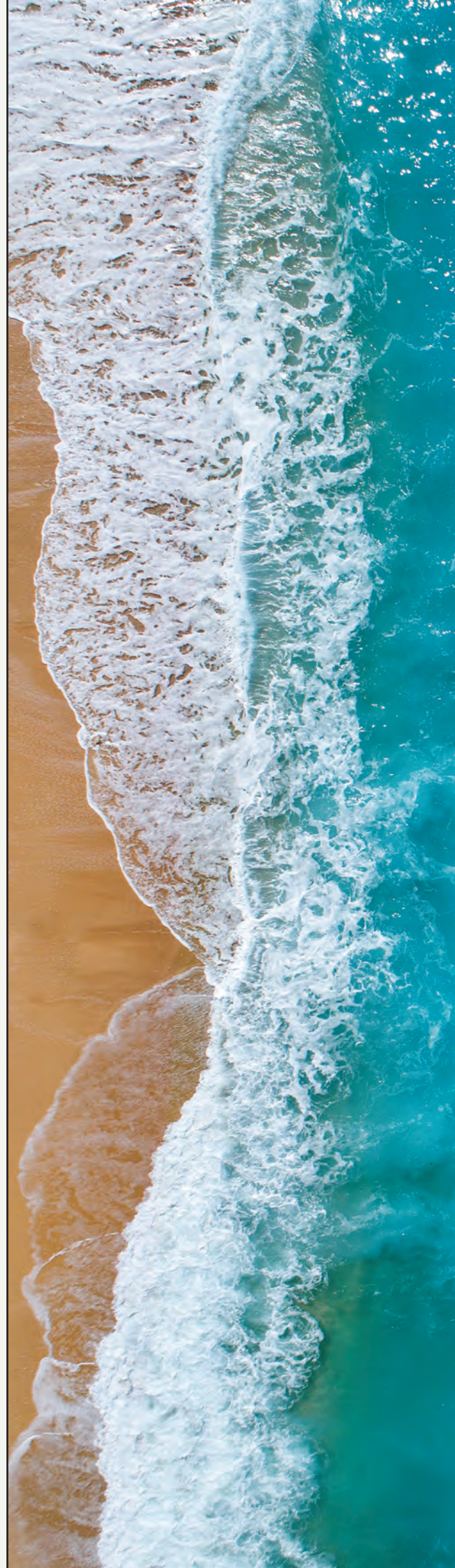
AUSTRALIAN ETHICAL SUPER

Annual Report 2021

30 JUNE 2021

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Important

This Annual Report has been prepared by Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733, RSE L0001441 AFSL 526 055) (Trustee) which is the trustee of the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743, USI AET0100AU) (Fund). Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) (Australian Ethical) offers to arrange 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 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 1800 021 227. 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.

You may wish to consult an adviser before making a decision.

The information may represent our interpretation of the law in some instances and should not be relied upon as legal advice.

Please note that the value of investments can go up and down. Past performance is not a reliable indicator of future performance. Product ratings are only one factor to be considered when making a decision.

Before making a decision you should read the Product Disclosure Statement and Target Market Determination on our website australianethical.com.au and consider any relevant risks.

Neither the Trustee nor its advisers accept responsibility for any error or misprint, nor for anyone acting on this information.

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Join online	australianethical.com.au/join-now

Overview

Australian Ethical Super has recorded another year of milestones which have cemented our position as Australia's original and leading pure play ethical super fund. ESG has always been in our DNA.

The pandemic has ushered in a new way of thinking for many investors, forcing more people to confront the global threat of climate change and how it will impact their lives. It has shown how global risks have cascading effects, and seldom manifest in an isolated manner.

In response Australians are embracing ethical super in record numbers as they seek to drive positive action using all available levers. We have seen our addressable market explode as people realise that a better world is not just possible, but that they're the ones who can help make it happen through how they invest.

As a result, we have seen record member flows into our products as Australians continue to seek us out to make their money matter. We ended the financial year with \$3.9 billion in funds under management. This growth in FUM is of course supported by the outstanding investment returns delivered for our members by our award-winning investments team, who added several local and global accolades to their already impressive credentials.

In November 2020, Australian Ethical Investment was recognised by Morningstar as one of just six global leaders for its commitment to ESG. The report singled out the Australian Shares Fund as "setting the ESG standard for Australian domestic-equity strategies." In the report, the Morningstar ESG Commitment Level: Our first assessment of 100-plus strategies and 40 asset managers, it said: "Unquestionably, Australian Ethical Investment is true to its ethical label, evidenced by the robust integration of ESG principles into the investment processes, activism, advocacy, and memberships undertaken by the firm."

Global recognition for our authenticity is especially important as ESG becomes the biggest buzzword in investing and even the most cynical of investment managers jump on the bandwagon, new products are launched, and older funds are rebadged as sustainable.

Today people can now choose between plenty of super funds that claim to offer the chance to do the right thing by the planet, but they need reassurance that their super meets their ethical standards rather than just being packaged attractively.

Our investment team have delivered another year of strong investment performance for our members. Our Balanced option (MySuper) delivered a 17.5% return, with our Australian Shares super option delivering a 38.8% return for the financial year. Our Australian Shares super option has been ranked first over 1, 3, 5, 7 and 10 years¹.

As ever, we remain committed to making ethical super as accessible and competitive as possible, which includes making strategic fee reductions as we pass the benefits of our growth onto our members. In October 2020, we reduced the fee on the Defensive option, then in June 2021, we reduced the fee on the Australian Shares and International super options.

And while ensuring we have competitive fees is important for our members, we think returns and impact are equally important. Our fee reduction strategy focuses on ensuring there is an equitable balanced share in the success of our growing Fund, while delivering competitive returns and meaningful real-world outcomes for people, planet and animals.

¹ SuperRatings Fund Crediting Rate Survey – SR50 Australian Shares Index as at 30 June 2021.

Highlights of the year

Financial year 2021 highlights



\$3.9 billion in funds under management,
46% up on prior year



Record net inflows of over **\$600 million**

59,480 members, an increase of **21%**
on prior year

Outstanding returns on
investment options

Winner **SuperRatings Infinity** award

AE recognised by Morningstar
as one of **six global leaders** for our
commitment to ESG²

Multiple investment excellence awards¹



Fastest growing super fund over 5 years
by FUM and members³

¹ In addition to the global recognition from Morningstar, local accolades included Money Magazine, Finder.com, Financial Standard and Money Management. Canstar gave its top 5-star rating to our Diversified Shares and Emerging Companies Funds while consumer comparison site Mozo named us 'most recommended' for superannuation.

² In November 2020, Morningstar named Australian Ethical as one of just six global leaders, out of 40 asset managers assessed for ESG commitment. Australian Ethical was the only Australian asset manager to achieve this rating. Based on the second assessment (May 2021), one further asset manager was added as a "leader", who was an Australian asset manager. *Inaugural ESG assessment: The Morningstar ESG Commitment Level: Our first assessment of 100-plus strategies and 40 asset managers, Second assessment: The Morningstar ESG Commitment Level: Our second assessment of 140 strategies and 31 asset managers.*

³ KPMG 2021 Super Insights Report – published May 2021, using statistics published by APRA and ATO as at 30 June 2020.



Finder Green
Superannuation Fund
of the Year 2021



Responsible Investment Leader 2021



SuperRatings GOLD
For MySuper and MyChoice

Investment performance

Our investment team have delivered another year of strong investment performance for our customers.

Strong stock selection and active portfolio management drove the outperformance. For the Australian Shares option during what was another volatile year for equity markets.

Our Balanced option (MySuper) delivered a 17.5% return, with our Australian Shares super option delivering a 38.8% return for the financial year. Our Australian Shares super option has been ranked first over 1, 3, 5, 7 and 10 years¹.

Meanwhile, industry recognition for our investments team was both global and local. In addition to the global recognition from Morningstar, local accolades included Money Magazine, Finder.com, Financial Standard and Money Management while consumer comparison site Mozo named us 'most recommended' for superannuation.

¹ Australian Ethical Super's Australian Shares option ranks no.1 over 1 year, 3 years, 5 years, 7 years and 10 years according to the SuperRatings Fund Crediting Rate Survey – SR50 Australian Shares Index as at 30 June 2021.

⁺⁺ SuperRatings does not issue, sell, guarantee or underwrite this product. See the website for details of its ratings criteria. SuperRatings performance figure is net of percentage based administration and investment fees. Past performance is not a reliable indicator of future performance.



Investment Philosophy

Our investment philosophy is centred around the 23 principles in our Ethical Charter. This is based on the belief that by investing in assets that have a positive impact on the world around us and avoiding investments with negative impacts, we can have a positive influence on the future of the planet and all its inhabitants. We believe that the power of money can be harnessed to deliver both competitive returns and positive change for society and the environment.

We believe that incorporating ethics screening into the investment process does not detract from long term performance and, in fact, can assist in identifying investment risks and opportunities earlier because of the analysis required to determine if an investment meets our ethical criteria.

The risk factors of our portfolios are similar to non-screened portfolios and provide similar risk/return characteristics over the long-term.



Investment Strategy

The Trustee remains the responsible entity for all the money held and invested on behalf of the members of the Fund, and determines the overall strategy for the Fund. We invest in a range of assets across various asset classes – Australian Equities, International Equities, Property, Alternatives, Australian Fixed Interest, International Fixed Interest and Cash.

The Trustee's investment strategy for the whole of the Fund is:

- The Australian Shares, International Shares, Growth and High Growth investment options all offer suitable risk/reward profiles for members with a longer-term investment timeframe and those comfortable with a higher level of risk. The Balanced (accumulation) also offers a suitable, well diversified investment option for relatively long-term investment.
- For those members with a shorter term investment timeframe or who seek a more conservative risk/return profile, the Conservative investment option (suitable for both before and after retirement) as well as the Balanced (pension) investment option may be appropriate.
- The Defensive investment option is designed to minimise volatility in a member's retirement income stream and/or returns. It is most suitable for members with no tolerance for risk.

The objective and asset allocation for each of the Fund's investment options is given in the next section. The objective is not a guarantee of a particular return or benefit but it is used by the Trustee to measure the investment option's performance. Asset allocations may vary from time to time for various reasons.

You should consider the likely investment returns, risk and your investment timeframe when choosing an investment option.



Super investment options

Asset allocations (%) to 30 June 2021

Super (accumulation)

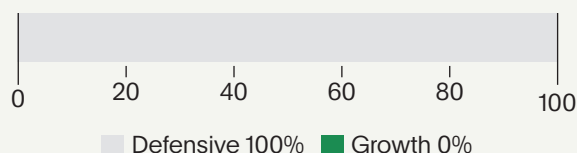
Further information regarding the investment objectives and strategic asset allocations of each of the investment options can be found in the Additional Information Booklet which is located at australianethical.com.au/super/pds or by calling us to request a free copy.

Defensive option

■ Cash 100%



Asset type	Range %
Interest-bearing investments	90-100
Cash	0-10



Investment objective

To provide members with a portfolio focused on preservation of capital through low risk income generating investments.

Investors that the option may suit

Members wanting a low risk of capital loss and low volatility with a short investment timeframe.

Recommended minimum investment timeframe

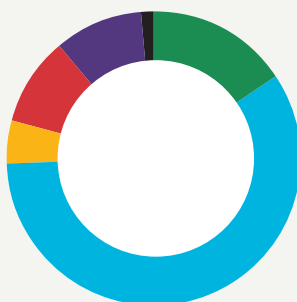
1 year

Risk Level^

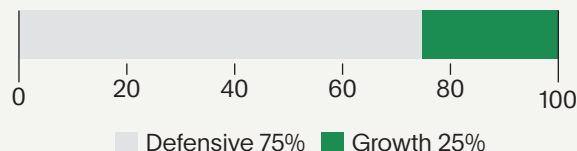
Very low

Conservative option

■ Cash 15.67%
 ■ Interest-bearing securities 58.84%
 ■ Property 4.91%
 ■ International Shares 9.61%
 ■ Australian & New Zealand Shares 9.82%
 ■ Alternatives 1.16%



Asset type	Range %
Interest-bearing investments & Cash	20-100
Property	0-15
Australian and New Zealand Shares	0-20
International Shares	0-20
Alternatives	0-15



Investment objective

To provide members with returns only moderately above inflation over a medium time horizon with low to medium levels of investment risk.

Investors that the option may suit

Members closer to, or in retirement, who need to protect their retirement savings and keep up with inflation or members who want a low volatility option.

Recommended minimum investment timeframe

3 years

Risk Level^

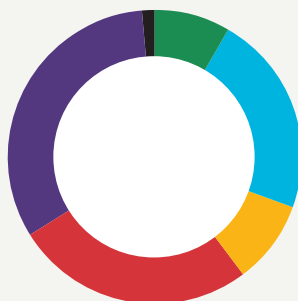
Low to medium

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

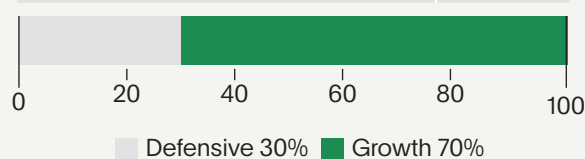
Super (accumulation)

Balanced (accumulation) option

■ Cash 8.58%
■ Interest-bearing securities 22.16%
■ Property 9.04%
■ International Shares 26.32%
■ Australian & New Zealand Shares 32.58%
■ Alternatives 1.13%



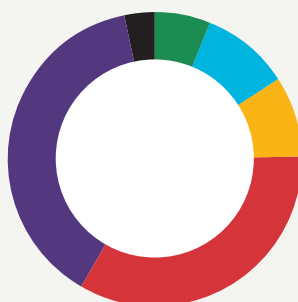
Asset type	Range %
Interest-bearing investments & Cash	10-50
Property	0-20
Australian and New Zealand Shares [^]	10-50
International Shares	5-40
Alternatives	0-20



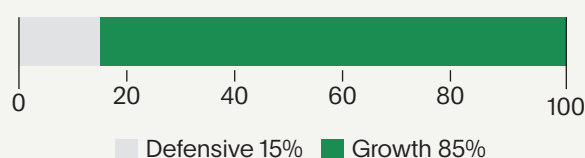
Investment objective	To provide a diversified portfolio that has an appropriate balance between income and capital growth investments with medium to high levels of risk. It aims to achieve returns of 3.5% p.a. above inflation over the medium to longer terms.
Investors that the option may suit	Members comfortable with a medium to high level of risk that have an investment timeframe of at least 5 years.
Recommended minimum investment timeframe	5 years
Risk Level [^]	Medium to high

Growth option

■ Cash 6.30%
■ Interest-bearing securities 9.69%
■ Property 8.75%
■ International Shares 33.63%
■ Australian & New Zealand Shares 38.54%
■ Alternatives 3.08%



Asset type	Range %
Interest-bearing investments & Cash	0-45
Property	0-20
Australian and New Zealand Shares [^]	15-55
International Shares	10-50
Alternatives	0-20



Investment objective	To provide long term growth accompanied by high levels of risk through holding mostly growth assets.
Investors that the option may suit	Members who have a longer timeframe to accumulate retirement savings and who are comfortable with short-term market fluctuations.
Recommended minimum investment timeframe	6 years
Risk Level [^]	High

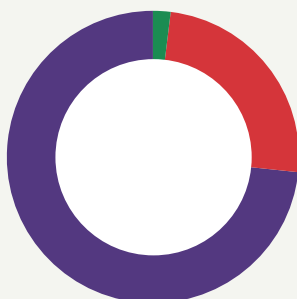
[^]Risk measures are based on the Standard Risk Measure Guidelines issued by the FSC and ASFA

Super investment options

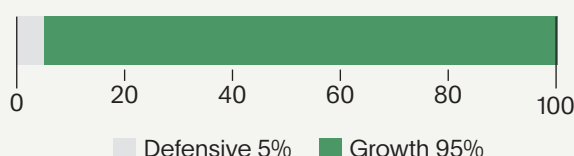
Asset allocations (%) to 30 June 2021 continued

Advocacy*

- Cash 2.04%
- International Shares 24.77%
- Australian & New Zealand Shares 73.19%



Asset type	Range %
Cash	0-15
Australian and New Zealand Shares^	55-85
International Shares	10-40



Investment objective

To provide long term growth accompanied by high levels of risk through investment in listed companies on Australian and international stock exchanges.

Investors that the option may suit

Members seeking capital growth through long term investments who have a higher tolerance for risk.

Recommended minimum investment timeframe

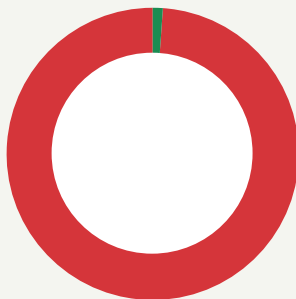
7 years

Risk Level^

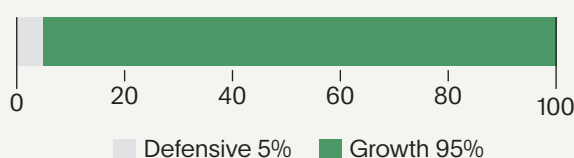
High

International shares option

- Cash 1.19%
- International Shares 98.81%



Asset type	Range %
Cash	0-15
International Shares	85-100



Investment objective

To provide long-term growth accompanied by high levels of risk through investment in overseas companies.

Investors that the option may suit

Members seeking an exposure to international companies who are comfortable with short term volatility. It is suited for members with a longer investment timeframe and a higher risk tolerance.

Recommended minimum investment timeframe

7 years

Risk Level^

High

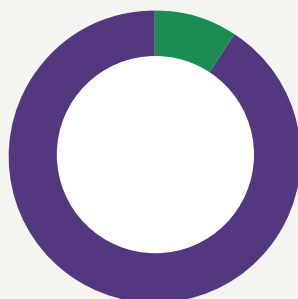
^Risk measures are based on the Standard Risk Measure Guidelines issued by the FSC and ASFA

* the Advocacy Fund has been renamed to the High Growth Fund from 1 October 2021.

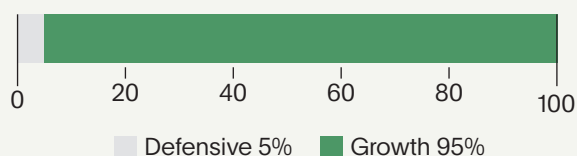
Super (accumulation)

Australian shares option

- Cash 9.41%
- Australian & New Zealand Shares 90.59%



Asset type	Range %
Cash	0-20
Australian and New Zealand Shares [^]	80-100



Investment objective

To provide long-term growth accompanied by very high levels of risk through investment in Australian and New Zealand companies with a bias to smaller companies.

Investors that the option may suit

Members seeking capital growth through long-term investments who have a higher tolerance for risk.

Recommended minimum investment timeframe

7 years

Risk Level[^]

Very high

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

Pension investment options

Asset allocations (%) to 30 June 2021

Pension

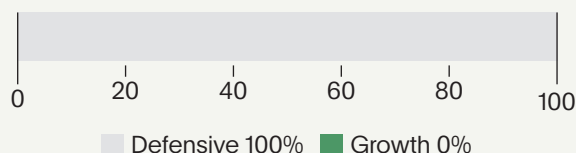
Further information regarding the investment objectives and strategic asset allocations of each of the investment options can be found in the Additional Information Booklet which is located at australianethical.com.au/pensions/pds or by calling us to request a free copy.

Defensive option

■ Cash 100%



Asset type	Range %
Interest-bearing investments	90-100
Cash	0-10



Investment objective

To provide members with a portfolio focused on preservation of capital through low risk income generating investments.

Investors that the option may suit

Members wanting a low risk of capital loss and low volatility with a short investment timeframe.

Recommended minimum investment timeframe

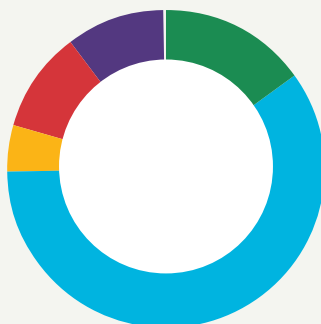
1 year

Risk Level^

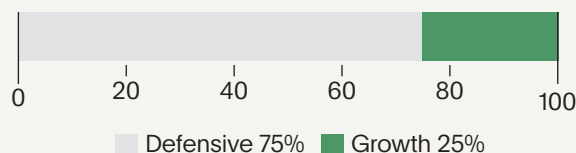
Very low

Conservative option

■ Cash 15.04%
 ■ Interest-bearing securities 59.90%
 ■ Property 4.56%
 ■ International Shares 10.25%
 ■ Australian & New Zealand Shares 10.26%



Asset type	Range %
Interest-bearing investments & Cash	20-100
Property	0-15
Australian and New Zealand Shares	0-20
International Shares	0-20
Alternatives	0-15



Investment objective

To provide members with returns only moderately above inflation over a medium time horizon with low to medium levels of investment risk.

Investors that the option may suit

Members closer to, or in retirement, who need to protect their retirement savings and keep up with inflation or members who want a low volatility option.

Recommended minimum investment timeframe

3 years

Risk Level^

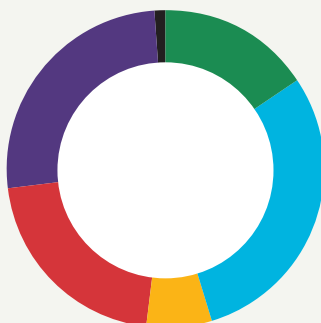
Low to medium

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

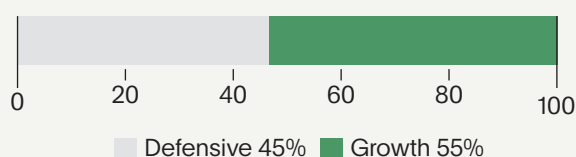
Pension

Balanced (pension) option

■	Cash 15.83%
■	Interest-bearing securities 29.64%
■	Property 6.71%
■	International Shares 20.98%
■	Australian & New Zealand Shares 25.85%
■	Alternatives 0.97%



Asset type	Range %
Interest-bearing investments & Cash	30-60
Property	0-20
Australian and New Zealand Shares [^]	10-35
International Shares	5-30
Alternatives	0-20



Investment objective

To provide a diversified portfolio that has an appropriate balance between income and capital growth investments with medium to high levels of risk.

Investors that the option may suit

Members comfortable with a medium to high level of risk that have an investment timeframe of at least 5 years.

Recommended minimum investment timeframe

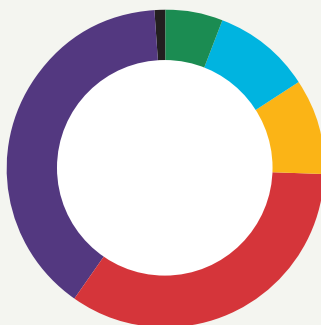
5 years

Risk Level[^]

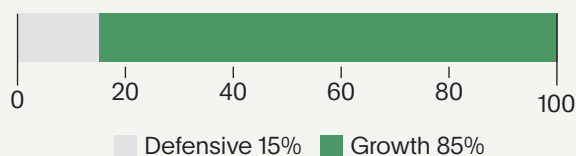
Medium to high

Growth option

■	Cash 6.08%
■	Interest-bearing securities 9.80%
■	Property 9.92%
■	International Shares 34.03%
■	Australian & New Zealand Shares 39.32%
■	Alternatives 0.85%



Asset type	Range %
Interest-bearing investments & Cash	0-45
Property	0-20
Australian and New Zealand Shares [^]	15-55
International Shares	10-50
Alternatives	0-20



Investment objective

To provide long term growth accompanied by high levels of risk through holding mostly growth assets.

Investors that the option may suit

Members who have a longer timeframe to accumulate retirement savings and who are comfortable with short-term market fluctuations.

Recommended minimum investment timeframe

6 years

Risk Level[^]

High

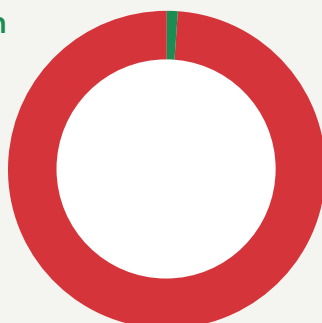
[^]Risk measures are based on the Standard Risk Measure Guidelines issued by the FSC and ASFA

Pension investment options

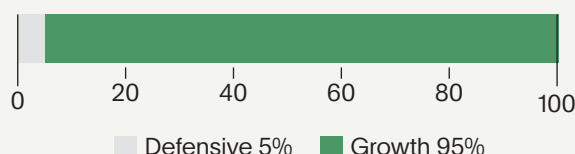
Asset allocations (%) to 30 June 2021 continued

International shares option

- Cash 1.12%
- International Shares 98.88%



Asset type	Range %
Cash	0-15
International Shares	85-100



Investment objective

To provide long-term growth accompanied by high levels of risk through investment in overseas companies.

Investors that the option may suit

Members seeking an exposure to international companies who are comfortable with short term volatility. It is suited for members with a longer investment timeframe and a higher risk tolerance.

Recommended minimum investment timeframe

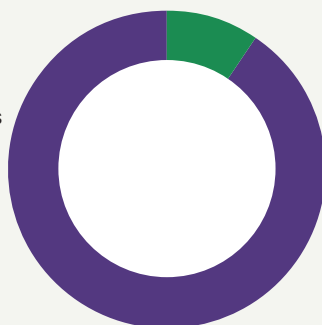
7 years

Risk Level[^]

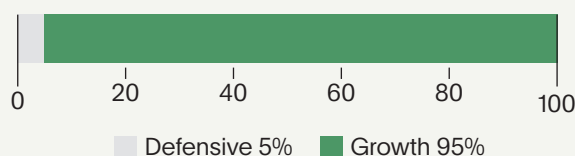
High

Australian shares option

- Cash 9.55%
- Australian & New Zealand Shares 90.45%



Asset type	Range %
Cash	0-20
Australian and New Zealand Shares [^]	80-100



Investment objective

To provide long-term growth accompanied by very high levels of risk through investment in Australian and New Zealand companies with a bias to smaller companies.

Investors that the option may suit

Members seeking capital growth through long-term investments who have a higher tolerance for risk.

Recommended minimum investment timeframe

7 years

Risk Level[^]

Very High

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

Investment performance

Superannuation options returns to 30 June 2021

Our super fund's default MySuper option, the Balanced (accumulation) option, has outperformed its benchmark over the time periods where shown below.

Accumulation options	1 year %	2 year % p.a.	3 year % p.a.	5 year % p.a.	7 year % p.a.	10 year % p.a.	15 year % p.a.
Defensive	0.0	0.1	0.5	0.8	0.9	1.5	2.3
Bloomberg AusBond Bank Bills Index	-0.2	0.1	0.5	0.7	1.0	1.7	3.0
Conservative	4.3	3.4	4.8	4.1	4.2	4.1	n/a
SuperRatings SR50 Capital Stable Index	7.6	3.8	4.2	3.9	3.8	4.4	n/a
Balanced (accumulation)	17.5	9.6	9.9	9.2	8.4	8.2	5.5
SuperRatings SR50 Balanced (60-76) Index	17.9	8.1	7.6	7.8	6.7	6.8	5.2
Growth	20.4	9.8	10.3	10.0	9.0	9.0	5.2
SuperRatings SR50 Growth (77-90) Index	22.1	9.6	8.7	9.6	8.0	8.2	5.8
Australian Shares	38.8	19.6	16.1	14.3	14.3	13.2	10.6
ASX 300 Monthly Index (Accum)**	25.2	8.3	7.4	9.0	7.6	0.9	2.7
International Shares	25.3	13.1	12.6	12.6	10.1	9.8	n/a
MSCI World ex Australia**	24.1	13.8	12.6	12.6	10.7	13.7	n/a
Advocacy	28.4	11.1	11.8	11.1	10.2	10.5	n/a
Melded Benchmark (ASX 200 Monthly Index (Accum) & MSCI World ex Australia)**	24.6	9.8	9.7	9.8	8.8	9.7	n/a

Pension options – returns to 30 June 2021

Pension options	1 year %	2 year % p.a.	3 year % p.a.	5 year % p.a.	7 year % p.a.	10 year % p.a.	15 year % p.a.
Defensive	-0.1	0.1	0.6	0.9	1.0	1.7	2.7
Bloomberg AusBond Bank Bills Index	-0.2	0.1	0.5	0.9	1.1	1.8	3.1
Conservative	5.0	3.6	5.2	4.6	4.5	4.5	n/a
SuperRatings SRP50 Capital Stable Index	8.3	4.3	4.7	4.4	4.2	4.9	n/a
Balanced (pension)	14.7	8.6	9.0	8.4	8.0	8.1	5.5
SuperRatings SRP50 Balanced (60-76) Index	13.6	6.5	6.2	6.3	5.8	6.4	5.0
Growth	23.2	11.0	11.5	11.1	10.1	10.2	6.0
SuperRatings SRP50 Growth (77-90) Index	24.1	10.5	9.6	10.4	8.6	8.9	6.2
Australian Shares	42.6	21.7	17.5	15.7	15.4	14.5	11.6
ASX 300 Monthly Index (Accum)^	28.1	9.0	8.0	9.8	8.4	1.5	3.3
International Shares	27.3	14.0	13.4	13.5	10.3	9.7	n/a
MSCI World ex Australia^	27.1	15.4	14.1	14.3	12.0	14.6	n/a

Please note: Past performance is not an indicator of future performance. Performance is not guaranteed.

** Gross index performance is adjusted down for tax and administration fees. The effective tax rate of the investment option is used to estimate tax.

^ Gross index performance is adjusted down for administration fees.

Note: Where benchmarks have changed, we have melded them together

MSCI data is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI assumes no liability for or in connection with the data. For full disclaimer, please see australianethical.com.au/sources

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.

Ethics and advocacy

Climate change

For more than 30 years, Australian Ethical has been investing to protect our planet. During these three decades, the scientists with the Intergovernmental Panel on Climate Change (IPCC) have been issuing major reports about the state of the climate, gradually expressing more certainty about what is happening and why.

The latest report, released on 9 August 2021, confirmed what we expected: "It is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred."

In other words, the climate crisis is not just a threat to future generations; it is a threat that we are already feeling the consequences of today. If we continue the current global trajectory, the crisis will only worsen, deepening the impact of irreversible changes to our world.

The principal direct impact of climate change on Australian Ethical's business is its effect on our investment portfolios. The prospects and value of the businesses we invest in are exposed to risks and opportunities flowing from the many effects of climate change.

Physical impacts like sea level rise and extreme weather are already changing where and how buildings and infrastructure can be safely built.

Changes in temperature and rainfall are affecting the productivity and viability of different types of agriculture.

Achieving the Paris goals of limiting the increase in the global average temperature to well below 2°C above pre-industrial levels is essential, but not easy. The scientists in the latest IPCC report showed that if humans make immediate, rapid and widespread cuts in emissions, warming could be limited to 1.5°C, with the climate stabilising after the middle of the century. It will require a complete transformation of the way the world produces and consumes energy, as well as radical measures to cut emissions from other key sources such as transport, land use and agriculture. It will also require ambitious climate policies from governments.

We identify, assess and manage material climate-related investment risks through our ethical investment process. All investments are screened according to the 23 principles of our Ethical Charter which is embedded in our constitution. Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5 degrees. These companies are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all investment portfolios.

Our ethics research team monitors existing and emerging climate-related risks using diverse information sources. The team monitors developments in:

- scientific understanding of the rate and impacts of global warming
- domestic and international climate policy and regulation
- technological innovation in climate mitigation and adaptation.

Our ethical screening and engagement approach focuses on the need to reduce emissions to limit dangerous climate change, but also recognises it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

Investment portfolio management

Our ethical research defines our sustainable investment universe, guiding us to companies better positioned to manage many risks arising from a transition to net zero emissions. Our ethical assessment of the climate impacts of companies and industry sectors and their products and services can also assist us in identifying climate-related financial risks and opportunities and feed into our buy, sell and portfolio management decisions. For example, company prospects and valuations in the energy sector may be affected by our assessment of the future regulatory environment for the sector.

Influencing companies

We encourage better measurement and reporting of direct and indirect greenhouse gas emissions; emissions reduction target setting; and analysis of the resilience of the company's business strategy to different climate scenarios.

We aim to reduce companies' contribution to global warming as well as reducing climate related harm to their business prospects.

Through engagement we also build our own understanding of climate-related risk.

We exercise our influence through private engagement, voting at company meetings, public praise or criticism, shareholder resolutions and divestment.

The resilience of our real estate and infrastructure investment

Real estate and infrastructure are exposed to many physical impacts of different levels of global warming. Greater extremes of heat and cold raise operating costs and in some cases will threaten operational viability. Increased frequency and severity of wind, fire, storms and flooding mean many assets will suffer significant damage more often, increasing repair costs and the need for additional investment to protect them. Some buildings and infrastructure will no longer be capable of fulfilling their original function and will become liabilities rather than assets, with owners required to dismantle or decommission them. We rely heavily on the management of climate-related risks by our external property and infrastructure managers and describe some of their work and challenges in our annual climate reporting.

Targets

Our target of net zero emissions by 2050 for our investments is aligned with the emissions reduction needed to achieve a 1.5°C warming limit. We keep our climate objectives and actions updated against the growing impacts of climate change as well as growing opportunities to limit that change. This includes work setting interim emissions reduction targets under the latest criteria from the Science Based Targets Initiative. We are committed to setting targets which are evidence based and linked to specific and ambitious concrete action to drive a faster net zero transition.

Measurement, transparency, accountability

We measure and report annually on our climate performance following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Our reporting includes the emissions intensity of our share investments (carbon foot printing) and the level of our share investment in renewable energy. This helps us test the effectiveness of our management of climate transition risk and our progress towards our net zero emissions target. We also report on our operational emissions and the 100% offsetting of those emissions.

Accounts

The Australian Ethical Retail Superannuation Fund financial statements for the year ended 30 June 2021 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 1800 021 227, if you would like a copy mailed to you.

Statement of financial position

As at 30 June 2021

Assets	Note	2021 \$'000	2020 \$'000
Cash and cash equivalents	4	33,913	20,056
Investments	5	3,835,134	2,701,991
Receivables			
Receivables	6	161,150	60,841
Other assets			
Deferred tax assets	12	278	220
Total assets		4,030,475	2,783,108
Liabilities			
Payables	7	6,073	6,440
Current tax liabilities	13	21,429	6,700
Deferred tax liabilities	12	85,951	32,539
Total liabilities (excluding member benefits)		113,453	45,679
Net assets available for member benefits		3,917,022	2,737,429
Member benefits			
Allocated to members		3,901,027	2,724,265
Unallocated to members	14	7,147	6,434
Total member liabilities		3,908,174	2,730,699
Total net assets		8,848	6,730
Equity			
Operational risk reserve		8,848	6,730
Total reserves		8,848	6,730

Statement of changes in reserves

For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Opening balance of operational risk reserve		6,730	5,945
Net transfer to reserves		1,013	504
Operating result		1,105	281
Closing balance of operational risk reserve	3 (k)	8,848	6,730

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Trustee's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations. The objective of the Trustee of the Fund is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Trustee has assessed a target ORFR balance of 0.25% of funds under management as appropriate for the Fund, with a 0.20% to 0.33% range to allow for changes in market movements. As at 30 June 2021 the ORFR balance equates to 0.23% (2020: 0.25%) of funds under management.

Transfers in and out of the reserves are made only at the authorisation of the Trustee and in accordance with the Fund's Reserve Policy. The ORFR is funded out of the Trustee's administration fee entitlement. Earnings on invested amounts are retained within the ORFR.

The reserve is held separately to other Fund assets and is invested in a cash account and the Australian Ethical Balanced Fund.

Income statement

For the year ended 30 June 2021

Superannuation activities	Note	2021 \$'000	2020 \$'000
Distributions		187,338	91,491
Interest		3	69
Movement in fair value of investments	8	521,177	(37,779)
Other income		346	672
Net revenue		708,864	54,453
Expenses			
Investment expenses		26,618	21,125
Administration expenses		13,314	12,693
Other expenses		37	31
Total expenses		39,969	33,849
Profit from operating activities before income tax expense		668,895	20,604
Less: Income tax expense/(benefit)	11	59,745	(7,468)
Profit from operating activities after income tax expense		609,150	28,072
Less: Net benefits allocated to members' accounts		607,032	27,287
Profit after income tax		2,118	785

Statement of changes in member benefits

For the year ended 30 June 2021

	2021 \$'000	2020 \$'000
Opening balance of member benefits	2,730,699	2,265,094
Employer contributions	222,880	166,810
Member contributions	77,696	48,072
Transfers from other funds	456,218	411,355
Government co-contributions	2,969	2,604
Income tax on contributions	(35,272)	(25,665)
Net after tax contributions	724,491	603,176
Benefit payments	(152,325)	(161,040)
Insurance premiums charged to members' accounts	(8,147)	(8,036)
Death and disability benefits credited to member's accounts	6,424	4,218
Benefits allocated to members' accounts, comprising:		
Net investment income	611,577	30,169
Net direct administration fees	(4,545)	(2,882)
Closing balance of member benefits	3,908,174	2,730,699

Investments with a value greater than 5% of the total assets of the fund

Fund	Percentage of total fund assets	Amount \$'000
Australian Ethical Balanced Fund	55.0%	\$2,107,098
Australian Ethical Australian Shares Fund	16.7%	\$640,995
Australian Ethical Diversified Shares Fund	8.1%	\$309,359
Australian Ethical International Shares Fund	5.8%	\$222,489

Things you should know

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 four 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.

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 Chubb Insurance Australia Ltd throughout the 2020-2021 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 the Australian Ethical managed investment schemes where Australian Ethical Investment Ltd is the responsible entity (AFSL 229949).

Derivatives

The Australian Ethical Retail Superannuation Fund does not directly use derivatives. It invests in managed investment schemes 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 managed investment schemes may also use derivatives to manage interest rate and duration risk in fixed interest and property portfolios.

Complaints resolution

If you are not satisfied with any aspect of our service, please contact our Client Service team on 1800 021 227 or email members@australianethical.com.au.

We aim to acknowledge your complaint within 1 business day of receiving it, or as soon as practicable.

The legislated timeframe to resolve your complaint is 45 calendar days after receiving your complaint or for complaints about superannuation death benefit distributions, no later than 90 calendar days after the expiry of the 28 calendar day period for objecting to a proposed death benefit distribution.

If we do not resolve your complaint to your satisfaction, you can complain to the following external dispute resolution body at no charge to you:

The Australian Financial
Complaints Authority (AFCA)
w www.afca.org.au
e info@afca.org.au
t 1800 931 678

Unclaimed Super

If you are a lost Member and your account balance is less than \$6,000 we are required to transfer your account balance to the ATO.

Transferring your account to the ATO may affect your benefits because you will no longer be a member of the Fund and any insurance cover you hold through the Fund will cease. It is important you tell us when your address changes to avoid having your benefits sent to the ATO.

ASIC Statement

The Trustee relies on ASIC relief to the effect that the Trustee is not obliged to notify or give an exit statement to a non-resident in circumstances where the Trustee pays unclaimed superannuation to the Commissioner of Taxation under Division 3 of Part 3A of the Superannuation (Unclaimed Money and Lost Members Act) 1999.

Temporary residents

If you are, or have been, working in Australia on a temporary resident visa and you are not a permanent resident or an Australian or New Zealand citizen, then once you permanently depart Australia you may be able to apply for and be paid your benefit from the Fund subject to providing the Trustee with the required evidence and meeting other eligibility requirements for the Departing Australia superannuation payment (DASP).

If it has been six months or more since you left Australia, your visa has ceased to be in effect. If you have not claimed DASP, your super fund will transfer your super money to the ATO as unclaimed super money and you will need to claim your super benefit directly from the ATO.

For more information, visit the ATO website, www.ato.gov.au/super

Allotment of earnings

Australian Ethical Retail Superannuation Fund uses unit prices for its investment options. The investment options in the Fund are valued daily. This in turn determines the value of each member's account. 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.

Service providers

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

- Administration – Mercer Outsourcing (Australia) Pty Ltd
- Custody Services and Investment Administration – National Australia Bank Limited
- Investment Manager – Australian Ethical Investment Ltd
- Group Life Insurer – MetLife Insurance Limited
- External Auditor – KPMG
- Internal Auditor – PWC
- IT Infrastructure Services – Harbour IT Pty Ltd



Changes to superannuation

The 2021/22 Federal Budget announced some measures that directly impact super, including those outlined below.

Please note: all the measures below are proposed to take effect from 1 July 2022 pending the approval of the changes in Parliament.

1. Removing the \$450 per month income threshold for Superannuation Guarantee (SG)

The Government intends to remove the minimum income threshold of \$450 per month from 1 July 2022. This means that all employees will receive SG contributions. The SG rate will increase gradually to 12% by 2025.

2. Removing the work test for making super contributions

People aged 67 to 74 will no longer need to meet the work test to make non-concessional (after-tax) or salary sacrifice contributions to super, subject to existing contribution caps from 1 July 2021.

Currently, people aged 67 to 74 can only make voluntary contributions (both concessional and non-concessional) to their super or receive contributions from their spouse, if they've worked at least 40 hours over 30 consecutive days in the financial year, unless they meet an exemption.

The work test will still need to be met for people who wish to make personal deductible contributions to super.

3. Reducing the eligibility age to make downsizer contributions from age 65 to 60

The Government has proposed that anyone 60 years of age or older will be eligible to make a downsizer contribution to super. The downsizer contribution allows people to make a one-off after-tax contribution to super of up to \$300,000 from the proceeds of selling their home they have held for at least 10 years.

4. Increasing the maximum releasable amount to \$50,000 under the First Home Super Saver Scheme (FHSSS)

Under the FHSSS, a person can apply to have up to \$30,000 of their eligible voluntary contributions (plus a deemed earnings amount) released from

super to purchase their first home. The Government is proposing to increase the maximum releasable amount from \$30,000 to \$50,000.

5. Increase in Super Guarantee amounts

From 1 July 2021, the super guarantee rate has increased from 9.5% to 10.0%.

Other superannuation changes

The below superannuation thresholds have been set by the ATO for the 2021/22 financial year.

Thresholds	2020/21	2021/22
Concessional contributions cap ¹	\$ 25,000	\$ 27,500
Non concessional contributions cap ²	\$ 100,000	\$ 110,000
Concessional CGT tax concession ³	\$ 1,565,000	\$ 1,615,000
Transfer balance cap ⁴	\$ 1,600,000	\$ 1,600,000
Low-rate cap amount ⁵	\$ 215,000	\$ 225,000
Government co-contributions⁶		
Higher income threshold	\$ 54,837	\$ 56,112
Lower income threshold	\$ 39,837	\$ 41,112

1. Concessional contributions refer to your employer contributions (including salary sacrifice) and personal contributions claimed as a tax deduction. From 1 July 2018, if you have a total superannuation balance less than \$500,000 on 30 June of the previous financial year, you may be entitled to carry forward the unused amount for a maximum of five years.
2. Non-concessional contributions refer to contributions made from your after-tax income and contributions that are not taxed in your super fund.
3. The CGT cap amount is indexed in line with average weekly ordinary time earnings (AWOTE), in multiples of \$5,000.
4. Transfer balance cap amount is the limit on the total amount of superannuation which can be transferred into the retirement phase. This applies to all super accounts held and you can make transfers into income stream products as long as the limit is not exceeded.
5. Low rate cap amount is the limit set on the amount of taxable component of a amount which can receive a lower (or nil) tax rate and only applies to members that are below 60 but have reached preservation age. Low rate cap amount is indexed in line with average weekly ordinary time earnings (AWOTE), in multiples of \$5,000.
6. Low or middle income earners can benefit from government co-contributions, up to a maximum of \$500, if they make personal (after-tax) contributions into their super.

Preservation Age

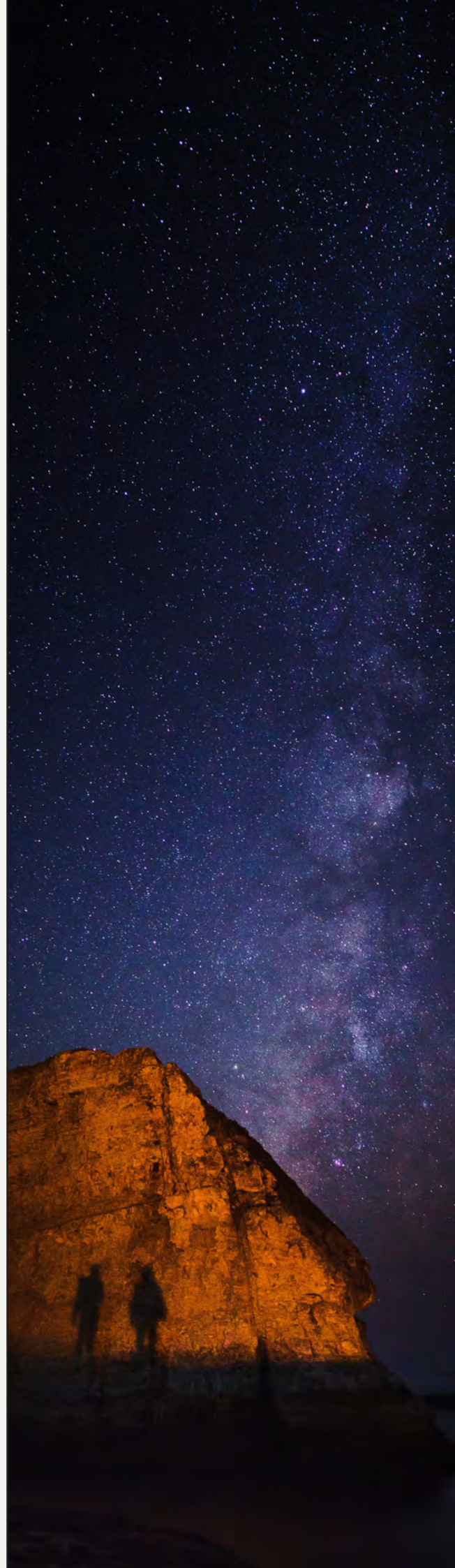
Date of birth	Preservation Age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Minimum pension amounts

Age	Percentage of account balance for 2019-20 to 2021-22 income years (inclusive)
Under 65	2%
65-74	2.5%
75-79	3%
80-84	3.5%
85-89	4.5%
90-94	5.5%
95 or more	7%

“Stapling” of superannuation

For new employment arrangements entered into from 1 November 2021, the super account that is receiving your Superannuation Guarantee contributions will be ‘stapled’ to you as you move through employment unless you choose otherwise. If you are receiving contributions for the first time, unless you make a choice, they will be placed in your employer’s default fund.



Directors

The following persons were directors of Australian Ethical Investment Superannuation Pty Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:



Steve Gibbs
Non-Executive Director
since 2012 and Chair
since 2013
BEcon, MBA

Steve is a member of the Audit, Risk and Compliance Committee and the

Insurance Benefits Committee. He is also Chair of Australian Ethical Investment Limited for which he Chairs the People, Remuneration and Nominations Committee, is a member of the Investment Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited Audit, Risk & Compliance Committee. He is Chair of Australian Ethical Foundation Limited.

Steve is also the Non-Executive Chair of Netlinkz Limited. Steve has extensive experience at both an executive and non-executive level in the investment and superannuation industries, including being a former CEO of the Australian Institute of Superannuation Trustees, a former CEO of what is now Commonwealth Superannuation Corporation and a non-executive director of Hastings Funds Management and Westpac Funds Management. Steve has been recognised for his commitment to, and expertise in, ethical and responsible investing.



Mara Bûn
Non-Executive Director
since 2013
BA (Political Economy),
GAICD

Mara is a member of the Audit, Risk and Compliance Committee. She is a

Director of Australian Ethical Investment Limited for which she is a Member of the People, Remuneration and Nominations Committee, the Investment Committee and Audit, Risk & Compliance Committee. She is a Director of Australian Ethical Foundation Limited.

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar. She is a Founder of The Salmon Project, specialist advisors to Climatetech and Agritech scale-ups advancing Series B venture funding through deep tech R&D. She is the Non-Executive Chair of four organisations: the Gold Coast Waterways Authority; Bowerbird Collective, a chamber music ensemble dedicated to nature conservation through performance; asset consultants Australian Impact Investments; and the Australian Conservation Foundation where Mara is also President.



Kate Greenhill
Non-Executive Director
since 2013
BEC, FCA, GAICD

Kate is Chair of the Audit, Risk and Compliance Committee and a Member of the Insurance Benefits

Committee, She is a director of Australian Ethical Investment Limited for which she is Chair of the Audit, Risk and Compliance Committee, and is a Member of the People, Remuneration and Nominations Committee and the Investment Committee. She is also a Director of Australian Ethical Foundation Limited.

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 25 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients. Kate is also the Treasurer of a not-for-profit organisation in the education sector and a Director and Chair of the Audit and Risk Management Group of Intersect Australia Ltd.



Michael Monaghan
Non-Executive Director
since 2017
BA, FIAA, FAICD

Michael a member of the Audit, Risk and Compliance Committee. He is a Director of Australian

Ethical Investment Limited for which is Chair of the Investment Committee and a member of the People, Remuneration and Nominations Committee, the Product Disclosure Statement Committee and the Audit, Risk & Compliance Committee. He is a director of the Australian Ethical Foundation Limited.

Michael has more than 30 years' experience in investment, consulting and leadership of financial services organisations both in Australia and internationally.

He was Managing Director of State Super Financial Services Australia Limited (StatePlus) from 2011 to 2016 and previously was a Partner in the actuarial practice of Deloitte Touche Tohmatsu, the CEO of Intech Investment Consultants and held senior executive positions at Deutsche Bank, IBM and Lendlease Corporation.

Michael is currently a Director of Flag Income Notes 3 Pty Ltd and Alpha Vista Financial Services Holdings Pty Ltd, a start-up global asset management business leveraging large scale data and computing capabilities and artificial intelligence.



**Australian
Ethical**



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