

**Australian
Ethical**



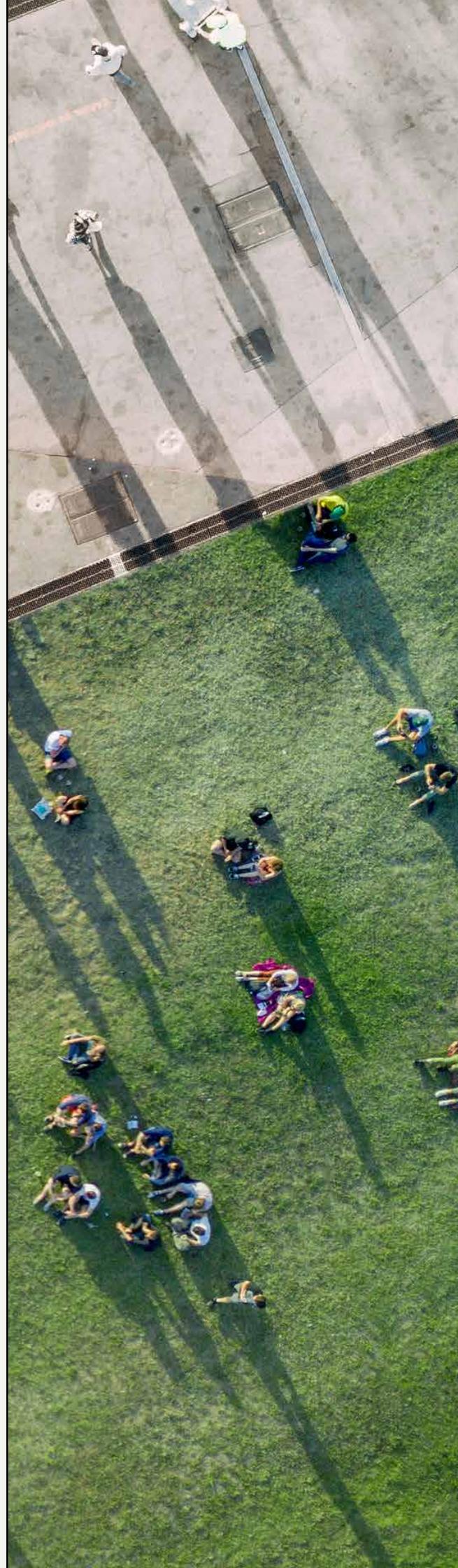
AUSTRALIAN ETHICAL SUPER

Annual Report 2023

30 JUNE 2023

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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/CHR0001AU) (**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 at www.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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Overview

It has been a significant year of growth for Australian Ethical Super with an increase of over 60% in funds under management (**FUM**) and membership since last year. This was through the successful implementation of the successor fund transfer (**SFT**) of Christian Super members into the Fund, and continued new member growth and positive netflows.

The SFT was completed in November 2022 and has increased FUM by approximately \$1.93 billion and added approximately 28,000 members to the Fund. We have been able to quickly pass on the benefits of our greater scale through fee reductions for all members, and the SFT will accelerate our ongoing growth and impact.

The retained Christian Super capability has boosted our alternative investment capability, supported high member engagement standards in the contact centre team, enhanced product management capability and investment administration to support increased transaction volumes, and strengthen risk management and governance. Though the volatility of the past year presented challenges for all super funds, it also provided us with the opportunity to seek out value in the future building sectors that we support. The SFT and the expansion of diversified asset classes also contributed to positive returns.

With the SFT complete we can now focus on our transition to GROW Technologies Services Ltd (GROW) who have been selected as our new administrator. This decision was based on a strong alignment of cultures and GROW's modern technology stack. This is a multi-year project and we expect to transition to GROW's platform during FY25. This change is expected to deliver an enhanced member experience and the flexibility to support the continued growth of the Fund.

While the past year has presented an array of investment challenges, it has reaffirmed our purpose and our commitment to doing good by people, animals and the planet. We are putting our increased scale to good use, as we help lead the charge towards a more sustainable future.

We stand at the forefront of ethical investing, driving change through the responsible allocation of your superannuation, and we remain resolute in our pursuit of a more sustainable and ethical future, one where our investments not only yield financial returns but also contribute to a world that will thrive for generations to come.

FUM and membership growth

We are pleased to report positive FUM growth over the 2023 financial year, ending the year with \$7.2 billion in funds under management which is 63% higher than last year and largely driven by the Christian Super SFT, and strong organic member growth. Membership has also grown significantly – at 30 June 2023 there were 115,369 members in the Fund, which is a 67% increase on last year. In addition, netflows of contribution and rollovers remain strong with \$605 million received during the year.

Investment performance

Our Australian Shares option ranks 1st of 45 funds rated over 10 years, with a return of 10.46% pa to 30 June 2023 in the SuperRatings SR50 Australian Shares Index, and has outperformed the same survey over 3 and 5 year periods to 30 June 2023.

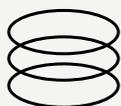
The Balanced (accumulation) option has outperformed its benchmark, the SR50 Balanced Index, over 1, 5 and 7 year periods to 30 June 2023.

Fees

As always, we remain committed to making ethical super as accessible and competitive as possible, which includes making fee reductions when we can pass on the benefits of our growing scale to our members.

In September 2022 we reduced the dollar-based administration fee for all our members with further reductions in November 2022 and December 2022 as part of the Christian Super SFT; these reductions are further detailed under the 'Additional information' heading. In addition, we reduced the fees of the Conservative, Growth, High Growth and Australian Shares options across our Super and Pension products.

Highlights of the year 2023



+63% growth in FUM

to reach a record of \$7.2bn funds under management



Positive super net flows¹ **\$0.60 billion**

115,000² members,

67% growth

The Christian Super SFT delivered

+28,000 members

+\$1.93bn in FUM

Accolades*

Financial Newswire Fund Manager of the Year 2022 – Responsible Investments (ESG) for International Shares Fund

Finder – Green Superannuation Fund of the Year 2020-2023

Morningstar – 1 of only 8 asset managers globally to achieve 'ESG Commitment Level: Leader'³

RIAA – Responsible Investment Leader (2019-2023)⁶

RIAA – Responsible Super Fund Leader 2023⁷

B Corp – Highest scoring Certified B Corporation in Australia & Aotearoa NZ as at 13 July 2023⁴

Top 10

NPS for super⁵

#4

for customer advocacy⁵

70%

employee engagement

* These awards relate to Australian Ethical Investment Ltd as the investment manager or the Fund directly.

1 Represents organic net flows. Excludes Christian Super uplift of \$1.93bn

2 Includes funded super members and managed fund customers

3 The Morningstar ESG Commitment Level: Our assessment of 108 asset managers' white paper.

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4 We achieved a record score of 168.5 in our reassessment making us the highest scoring of the 560+ Certified B Corps in Australia and Aotearoa New Zealand as at 13 July 2023.

5 Investment Trends Super Member Engagement Report 2023. Independent research with 25 major super funds

6 Australian Ethical is recognised as a Responsible Investment Leader 2023 by the Responsible Investment Association Australasia (RIAA). We are placed in the top 20% of organisations assessed, demonstrating leading practice in our commitment to responsible investing; our explicit consideration of environmental, social and governance factors in investment decision making; our strong and collaborative stewardship; and our transparency in reporting activity, including the societal and environmental outcomes being achieved.

7 Australian Ethical Super is recognised as a Responsible Super Fund Leader 2023 by the Responsible Investment Association Australasia (RIAA). This acknowledges our commitment to good governance and accountability; implementation and measurement of responsible investment approaches through activities such as engagement and voting and ESG integration; proper measurement of outcomes; and our high degree of transparency.

Investment overview

The year was a demanding one for investors as ballooning interest rates impacted equity valuations and dampened the bond market. Of all sectors, fossil fuels and resources performed better than others, making the first half of the year a challenging one for ethical investors.

Through these challenging times we, as always, remain firmly focused on our key principles. Ethical investing is all we do, and we've been investing this way since 1986, through all market cycles.

Our long-term performance helps demonstrate the power of this conviction. Our MySuper option (Balanced accumulation) outperformed its benchmark¹ over 1, 5, 7 and 10 years, while our Australian Shares accumulation option met or exceeded its benchmark² for all periods of three years or greater.

Meanwhile, industry recognition for our investment process continued, with the Responsible Investment Association of Australasia (RIAA) identifying Australian Ethical investment Ltd (our Investment Manager) in their elite list of Responsible Investment Leaders in 2022 and 2023. Further awards included the Finder Awards Green Superannuation Fund of the Year 2023 (for the fourth year in a row); productreview.com.au's Best Retail Super Fund 2023 and one of the Financial Review Sustainability Leaders 2022. In addition, SQM Research provided the Australian Ethical Balanced Fund (one of the managed funds Australian Ethical Super invests in) with a 'Superior' Four-Star rating.

1 SuperRatings SR50 Balanced (60-76) Index

2 S&P/ASX 300 Accumulation Index



Investment philosophy

Our inhouse Ethics Research team assess possible investments according to the 23 principles of our Ethical Charter, using our ethical evaluation process and applying a mix of rules and judgement to bring these to life. This process identifies companies we believe can influence progress towards a better future for people, animals, and the environment, and restricts investment in those that we believe are a threat to that progress. This research defines our universe of potential ethical investments.

Our investment team then constructs portfolios suitable for the investment strategies and objectives of the investment options of Australian Ethical Super. We don't just set and forget. Monitoring our investee companies and engaging to influence companies, governments and others is an important part of our process.

You can read more about how our investment decisions are shaped in the Guide to our Ethical Investment Process at australianethical.com.au/why-ae/ethics.



Investment strategy

We invest in a range of assets across various asset classes including:

- Australian & New Zealand Shares;
- International Shares;
- Alternatives;*
- Interest-Bearing Investments; and
- Cash.

Australian Ethical Superannuation Pty Ltd is the trustee for all money held and invested on behalf of the members of the Fund and determines the investment strategy for the Fund. The current strategy for the whole of the Fund is:

- The Fund will offer investment options for members with a longer term investment time-frame, or who are comfortable with a higher level of risk. These options currently include the Australian Shares, Growth, International Shares, and High Growth investment options.
- The Fund will offer a default investment option that is well diversified for members with a relatively longer term investment time-frame. The current default investment option is the Balanced (accumulation) investment option.
- The Fund will offer investment options for members with a shorter-term investment time-frame, or who seek a more conservative level of risk. These options currently include the Conservative (suitable for both before and after retirement), and the Balanced (pension) investment options.

- The Fund will offer investment options that minimise volatility for members who have a very low tolerance for risk within their superannuation. The current investment option for this profile is the Defensive option.

The objectives and asset allocation for each of the Fund's investment options as at 30 June 2023 is given in the next section. The objective is not a guarantee of a particular return or benefit, but 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. You can find more information within the Product Disclosure Statement or relevant Target Market Determination found at australianethical.com.au/super/pds-forms.

Note: the disclosed investment objectives and asset allocation ranges have changed as of 29 September 2023. Please refer to the Product Disclosure Statement found at australianethical.com.au/super/pds-forms for more information.

* Examples of Alternatives include private equity, core infrastructure, and micro-finance.



Super investment options

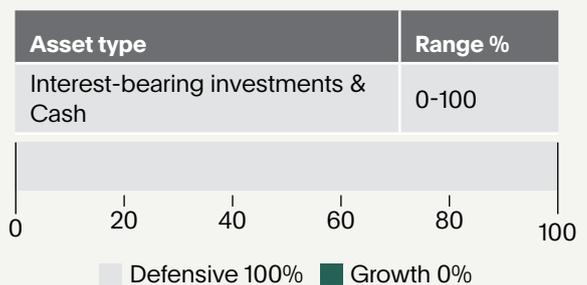
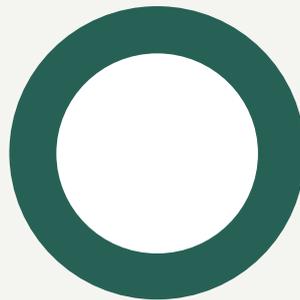
Asset allocations (%) to 30 June 2023

Super (accumulation)

The information below outlines the investment objectives, minimum investment timeframes, risk levels, and asset allocations of each of the investment options as at 30 June 2023. On 29 September 2023, we updated and reissued the PDS for our Superannuation and Pension product which included changes to our investment objectives, minimum investment timeframes, and asset allocations; please refer to the PDS and Super Additional Information Booklet at australianethical.com.au/super/pds-forms for more information.

Defensive option

- Interest-bearing securities & Cash 100%



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

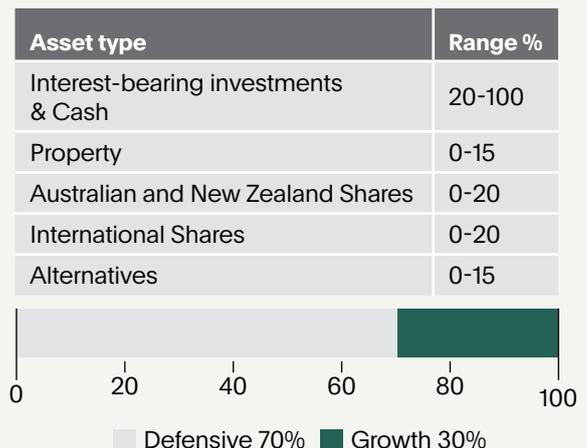
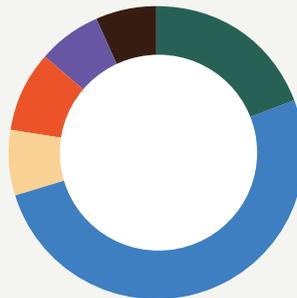
1 year

Risk Level[^]

Very low

Conservative option

- Cash 19.42%
- Interest-bearing investments 50.87%
- Property 7.42%
- International Shares 8.91%
- Australian & New Zealand Shares 6.95%
- Alternatives 6.43%



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[^]

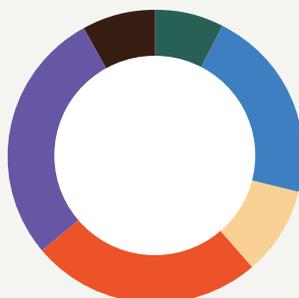
Low to medium

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

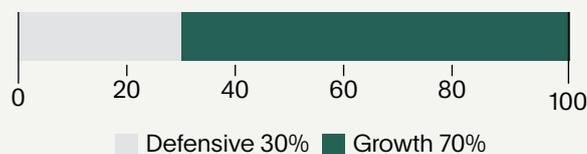
Super (accumulation)

Balanced (accumulation) option

- Cash 7.63%
- Interest-bearing investments 21.40%
- Property 9.67%
- International Shares 25.20%
- Australian & New Zealand Shares 28.12%
- Alternatives 7.98%



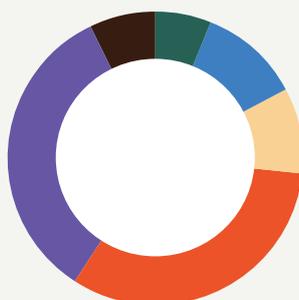
Asset type	Range %
Interest-bearing investments & Cash	10-50
Property	0-20
Australian and New Zealand Shares [^]	10-50
International Shares	5-40
Alternatives	0-20



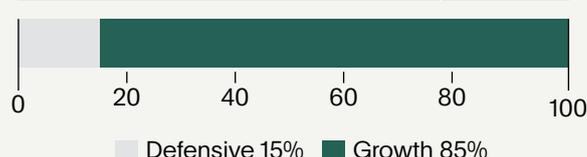
Investment objective	To provide a diversified portfolio that has an appropriate balance between income and capital growth investments with medium to high levels of risk. It aims to achieve returns of 3.5% p.a. above inflation over the medium to longer terms.
Investors that the option may suit	Members 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 6.17%
- Interest-bearing investments 11.11%
- Property 9.49%
- International Shares 32.46%
- Australian & New Zealand Shares 33.68%
- Alternatives 7.09%



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



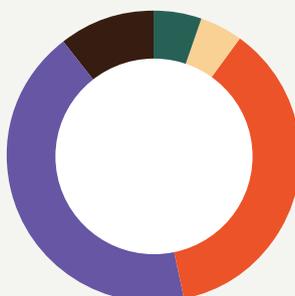
Investment objective	To provide long term growth accompanied by high levels of risk through holding mostly growth assets.
Investors that the option may suit	Members who have a longer timeframe to accumulate retirement savings and who are comfortable with short-term market fluctuations.
Recommended minimum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

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

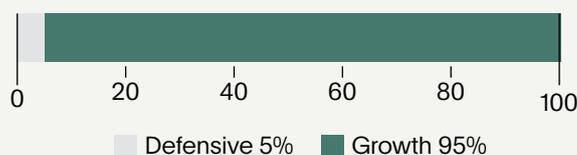
Super (accumulation)

High Growth

- Cash 5.30%
- Interest-bearing investments 0.22%
- Property 4.67%
- International Shares 36.61%
- Australian & New Zealand Shares 42.70%
- Alternatives 10.50%



Asset type	Range %
Interest-bearing Investments & Cash	0-10
Australian and New Zealand Shares [^]	40-60
International Shares	20-60
Property	0-20
Alternatives	0-20



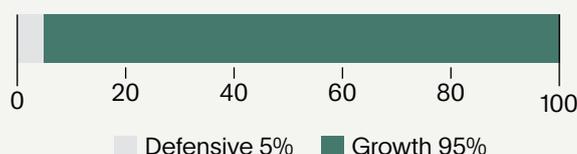
Investment objective	To provide long term growth accompanied by high levels of risk through holding growth assets. It aims to achieve returns of 4.5% p.a. above inflation (after investment fees and indirect costs) over the long term.
Investors that the option may suit	Members seeking capital growth through long term investments who have a higher tolerance for risk.
Recommended minimum investment timeframe	10 years
Risk Level [^]	High

International shares option

- Cash 0.10%
- International Shares 99.90%



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



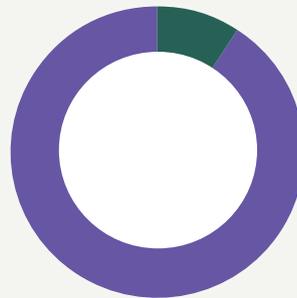
Investment objective	To provide long-term growth accompanied by high levels of risk through investment in overseas companies.
Investors that the option may suit	Members seeking an exposure to international companies who are comfortable with short term volatility. It is suited for members with a longer 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

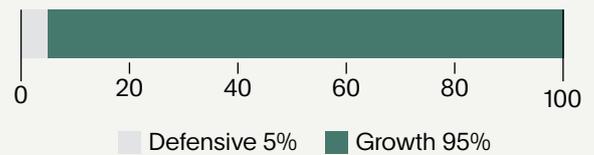
Super (accumulation)

Australian shares option

- Cash 9.30%
- Australian & New Zealand Shares 90.70%



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 2023

Pension

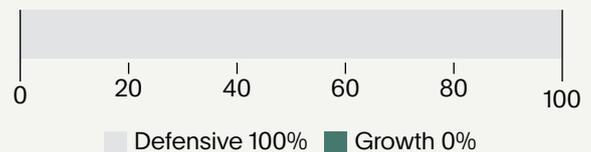
The information below outlines the investment objectives, minimum investment timeframes, risk levels, and asset allocations of each of the investment options as at 30 June 2023. On 29 September 2023, we updated and reissued the PDS for our Superannuation and Pension product which included changes to our investment objectives, minimum investment timeframes, and asset allocations; please refer to the PDS and Pension Additional Information Booklet at australianethical.com.au/super/pds-forms for more information.

Defensive option

- Interest-bearing securities & 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

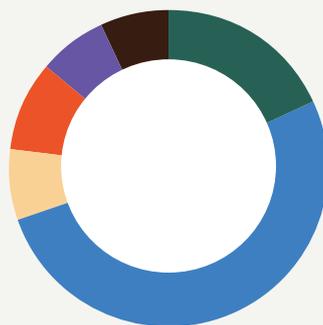
1 year

Risk Level[^]

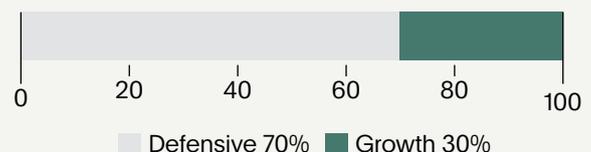
Very low

Conservative option

- Cash 18.25%
- Interest-bearing securities 51.52%
- Property 7.18%
- International Shares 9.27%
- Australian & New Zealand Shares 7.03%
- Alternatives 6.75%



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[^]

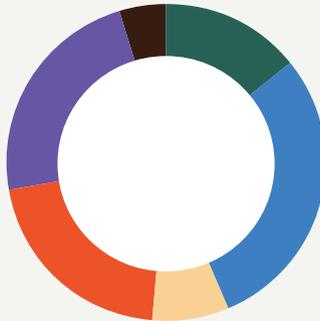
Low to medium

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

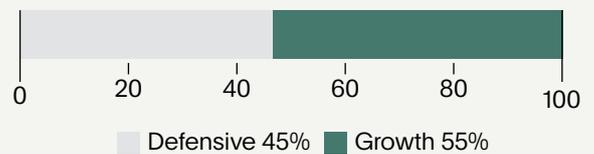
Pension

Balanced (pension) option

- Cash 14.20%
- Interest-bearing securities 29.62%
- Property 7.64%
- International Shares 20.97%
- Australian & New Zealand Shares 23.00%
- Alternatives 4.57%



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

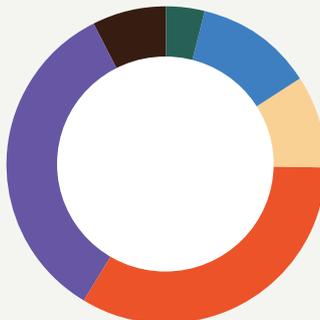
5 years

Risk Level[^]

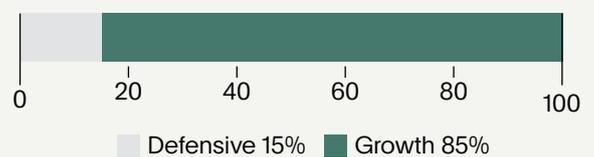
Medium to high

Growth option

- Cash 3.90%
- Interest-bearing securities 12.16%
- Property 9.37%
- International Shares 33.45%
- Australian & New Zealand Shares 33.77%
- Alternatives 7.35%



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[^]

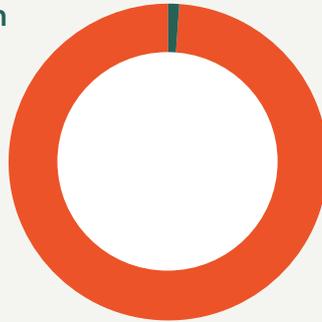
High

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

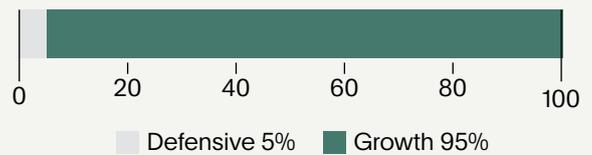
Pension

International shares option

- Cash 1.37%
- International Shares 98.63%



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

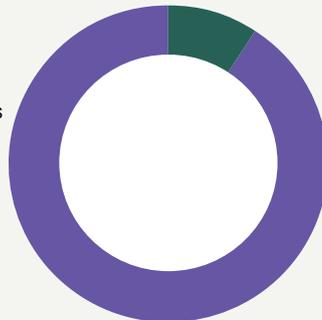
7 years

Risk Level[^]

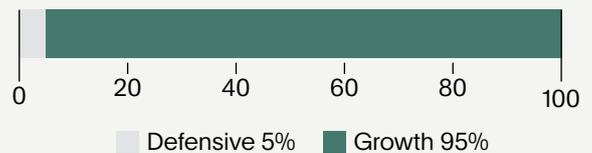
High

Australian shares option

- Cash 9.31%
- Australian & New Zealand Shares 90.69%



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

Super and pension returns to 30 June 2023**

Our MySuper option (Balanced accumulation) outperformed its benchmark⁵ over 1, 5, 7 and 10 years, while our Australian Shares accumulation option met or exceeded its benchmark³ for all periods of three years or greater.

Accumulation options performance	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 year % p.a.s	10 years % p.a.	15 years % p.a.	20 years % p.a.
Defensive	2.4	0.8	0.5	0.6	0.8	1.0	1.8	2.5
Benchmark ¹⁻	2.3	1.1	0.6	0.7	0.8	1.2	2.2	3.2
Conservative	4.0	(1.8)	0.2	2.1	2.4	2.9	n/a	n/a
Benchmark ⁴	5.0	1.2	3.3	3.0	3.1	3.6	n/a	n/a
Balanced (accumulation)	9.2	1.1	6.3	6.3	6.9	7.0	5.6	5.9
Benchmark ⁵	9.0	2.6	7.5	5.6	6.3	6.1	5.3	5.7
Growth	11.0	2.2	8.0	7.0	7.7	7.8	5.8	6.8
Benchmark ⁶	10.6	2.8	8.9	6.3	7.6	7.3	6.0	6.5
Australian Shares	12.5	(2.4)	9.8	8.3	9.3	10.4	9.0	9.8
Benchmark ³⁻	12.6	2.8	9.8	5.5	7.2	6.5	1.5	n/a
International Shares	17.2	4.0	10.7	9.1	10.1	9.5	5.4	n/a
Benchmark ²⁻	19.7	6.1	11.8	9.9	10.7	11.0	9.1	n/a
High Growth	13.5	2.2	10.3	7.9	8.5	9.2	n/a	n/a
Benchmark ⁷	13.2	3.1	9.8	7.0	7.9	8.8	n/a	n/a

Pension options	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Defensive	2.7	0.9	0.6	0.7	0.9	1.1	2.2	2.9
Benchmark ^{1c}	2.6	1.2	0.7	0.8	1.0	1.3	2.3	3.3
Conservative	4.3	(2.1)	0.2	2.2	2.6	3.1	n/a	n/a
Benchmark ⁸	5.1	0.8	3.3	3.1	3.3	3.9	n/a	n/a
Balanced	8.5	0.2	4.9	5.4	6.0	6.5	5.5	6.0
Benchmark ⁹	7.8	1.8	5.6	4.5	5.0	5.5	5.0	5.6
Growth	12.7	1.9	8.6	7.5	8.4	8.4	6.6	7.5
Benchmark ¹⁰	12.2	3.1	9.6	6.9	8.2	7.9	6.5	7.0
Australian Shares	13.8	(2.7)	10.5	9.0	10.1	10.9	9.8	10.7
Benchmark ^{3c}	14.1	3.0	10.8	6.0	7.8	7.2	2.1	n/a
International Shares	19.1	4.1	11.3	9.6	10.8	9.6	4.9	n/a
Benchmark ^{2c}	22.3	6.8	13.2	11.1	12.1	12.0	9.8	n/a

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

** Super and Pension returns are calculated in compliance with APRA SRS702. It is the return that would have been achieved for a representative member with a \$50,000 balance and no contributions, after all administration and investment fees, taxes and other costs. Past performance is not a reliable indicator of future performance.

After fees performance

1 Bloomberg AusBond Bank Bills Index

2 MSCI World ex Australia (NET)

3 S&P/ASX 300 Accumulation

4 SuperRatings SR50 Capital Stable (20-40) Index

5 SuperRatings SR50 Balanced (60-76) Index

6 SuperRatings SR50 Growth (77-90) Index

7 SuperRatings SR25 High Growth (91-100) Index

8 SuperRatings SRP50 Capital Stable (20-40) Index

9 SuperRatings SRP25 Conservative Balanced (41-59) Index

10 SuperRatings SRP50 Growth (77-90) Index

~ Net of tax and % administration fees

< Net of % 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 is provided 'as is' without any warranties. MSCI assumes no liability for or in connection with the data. For the full disclaimer, please see australianethical.com.au/sources

Using our voice

Advocates for a better world

In FY23 we delivered more than 250 engagements for people, animals, and the planet. We provide a detailed account of our stewardship activities in our dedicated Stewardship Report. This report details the work we were doing to help:

- turn off finance for unsustainable expansion of fossil fuels
- stop livestock driven deforestation in Australia
- reduce building sector emissions
- advance alternatives to animal research

In FY23 we continued our engagement with Lendlease regarding its housing development at Mt Gilead and its impact on one of the last healthy koala colonies in NSW. Over this multi-year engagement, Lendlease made some important commitments. However, we did not have sufficient certainty that Lendlease was taking the necessary steps to protect the local koala colony. We therefore announced our divestment from Lendlease in March 2023.¹

This announcement reached a potential audience of 8.5 million Australians through 110 unique pieces of earned media coverage, including the ABC, Channel 9 News, the Guardian, the Australian and Bloomberg. Following our request for support, 1,795 people copied us in on their letters to the then NSW Minister for Environment and Heritage, James Griffin, requesting a public consultation regarding the proposed koala corridors at Mt Gilead. We have continued to engage on the issue post divestment, including with the new NSW Government.

We believe divesting from Lendlease so publicly, at the time we did it, has had the following impact:

- The new NSW Minister for Environment has said publicly she will closely review Lendlease's plans for its Mount Gilead development, with particular focus on the corridors.
- NSW government approvals have been delayed, and we believe this has resulted in a costly delay of the development project (prior to our divestment it seemed approval was on track for July).
- Anecdotally we have heard from NGOs that our public divestment has helped them in their conversations with relevant authorities.
- We have given briefings to other investors who have wanted to understand the issues for the purposes of their own engagements.

We commissioned the research 'A little goes a long way' with the UTS Business School and Lonergan Research to uncover Australians' perceptions of the carbon challenge and to help identify effective ways to contribute to a reduction of an individual's carbon footprint. Coverage generated by the research reached a potential audience of four million Australians through 153 articles and mentions including the front page of the Money section of the Sydney Morning Herald / the Age. The associated marketing campaign reached a total of two million people, across YouTube and social media.

The first Australian Ethical Reconciliation Action Plan ('RAP') was submitted to and approved by Reconciliation Australia in the financial year. This largely wraps form and structure around a number of activities that we have been carrying out for many years.

During the period, Australian Ethical Investment, our Investment Manager and group company, was also able to provision \$1.1 million for the Australian Ethical Foundation, to enable its future work supporting innovative and effective charities combatting climate change in Australia and overseas. Utilising funding provisioned in FY22, the Foundation made 20 strategic grants totalling over \$1 million and 12 Visionary Grants totalling \$500,000 during the period. These grants were made to a variety of projects across the Foundation's focus areas: Stopping Sources of Carbon, Supporting Carbon Sinks and Empowering Women and Girls.

¹ We will also sell our investment in an unlisted property trust, the Australian Prime Property Fund – Retail, which is managed by Lendlease, at the first available opportunity.

Our approach to climate change

All of our investments are made considering our Ethical Charter, which is embedded in our Constitution and overseen by our Board. The Charter's 23 principles are applied using our ethical frameworks, policies and measurement systems. These ensure we prioritise action to avoid dangerous climate change and its serious impacts on the planet, people, and animals. This priority is pursued through the way we invest, including through negative and positive screening, engagement and advocacy, and climate performance measurement and reporting.

Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit climate change consistent with the global goals set out in the Paris Agreement. We believe these investments are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. Our approach can also strengthen specialist investment capabilities to navigate technological change associated with climate disruption and transition.

While our investment approach focuses on the need to reduce emissions to limit dangerous climate change, we also recognise it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

Real estate and infrastructure are particularly exposed to many physical impacts of climatic change. 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 across the globe 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.

Awards and accolades

In addition to the industry recognition Australian Ethical received for our investments team highlighted in the 'Investment performance' section, Australian Ethical was honoured to again receive one of the highest accolades for a responsible investor: the 'Leader - ESG Commitment' by Morningstar. Australian Ethical was one of only eight chosen from the long list of 94 global asset managers that were assessed¹. As a founding B Corporation ('B Corp') member and the first listed B Corp in Australia in 2014, we were delighted to achieve a record score of 168.5 in our reassessment in 2023. This made AEI the highest scoring Certified B Corp in Australia and Aotearoa New Zealand as at 13 July 2023.

Leadership and innovation

Our purpose is investing for a better world – helping to support a sustainable future where people and nature thrive, by investing in companies and assets that we believe are part of the solution for a sustainable economy, and restricting investments in companies that aren't².

For many, it stands to reason that there is a compelling investment thesis for companies that are well positioned for this transition. By creating, as well as meeting, increased demand for responsible investing, we believe we can help set in motion a cycle that continuously reinforces and amplifies positive results for investors and planet, driving long-term prosperity and sustainable outcomes.

As temperature records are broken all over the world, and thousands of people have been affected by fires and floods globally, this shift can't come soon enough. Australian Ethical therefore continues to build our capability and scalability to continue to take a leadership position in terms of our investment approach, including the influence we can create outside our FUM through our advocacy with markets, companies, governments and the general public.

1 Morningstar Manager Research and Morningstar Direct at 30 November 2022

2 Our investment restrictions include some thresholds. Thresholds may be in the form of an amount of revenue that a business derives from a particular activity, but there are other tolerance thresholds we can use depending on the nature of the investment. We apply a range of qualitative and quantitative analysis to the way we apply thresholds. For example, we may make an investment where we assess that the positive aspects of the investment outweigh its negative aspects. For information on how we make these assessments for a range of investment sectors and issues such as fossil fuels, nuclear power, gambling, tobacco, human rights, and many others, please read our Ethical Criteria on our website at australianethical.com.au/why-ae/ethics/.

Accounts

The Australian Ethical Retail Superannuation Fund financial statements for the year ended 30 June 2023 are shown in abridged form below. A copy of the full accounts and the auditor's report is available to members at australianethical.com.au/super/governance. Please phone 1800 021 227, if you would like a copy mailed to you.

Statement of financial position

As at 30 June 2023

	2023 \$'000	2022 \$'000
Assets		
Cash and cash equivalents	50,859	33,218
Investments	7,185,871	4,081,374
Receivables		
Receivables	110,768	184,266
Other assets		
Deferred tax assets	680	331
Total assets	7,348,178	4,299,189
Liabilities		
Payables	25,857	6,800
Current tax liabilities	14,519	21,659
Deferred tax liabilities	80,559	27,661
Derivative liabilities	433	-
Total liabilities (excluding member benefits)	121,368	56,120
Net assets available to pay benefits	7,226,810	4,243,069
Member benefits		
Allocated to members	7,202,543	4,227,635
Unallocated to members	5,152	5,704
Total member benefits	7,207,695	4,233,339
Total net assets	19,115	9,730
Equity		
Operational risk reserve	19,115	9,730
Total equity	19,115	9,730

Income statement

For the year ended 30 June 2023

	2023 \$'000	2022 \$'000
Superannuation activities		
Distributions	153,572	216,524
Interest	1,211	22
Movement in fair value of investments	486,770	(586,685)
Other income	4,467	306
Net revenue/(loss)	646,020	(369,833)
Expenses		
Investment expenses	43,980	34,019
Administration expenses	18,777	16,091
Other expenses	75	53
Total expenses	62,832	50,163
Profit/(loss) from operating activities before income tax expense	583,188	(419,996)
Less: Income tax expense/(benefit)	42,251	(55,768)
Profit/(loss) from operating activities after income tax expense	540,937	(364,228)
Less: Net benefits/(loss) allocated to members' accounts	536,365	(365,110)
Profit after income tax	4,572	882

Statement of changes in member benefits

For the year ended 30 June 2023

	2023 \$'000	2022 \$'000
Opening balance of member benefits	4,233,339	3,908,174
Employer contributions	481,669	306,663
Member contributions	110,705	107,254
Transfers from other superannuation funds	331,918	497,322
Government contributions	4,702	3,101
Successor fund transfer	1,924,245	-
Income tax on contributions	(77,579)	(50,496)
Net after tax contributions	7,008,999	863,844
Benefit payments	(329,626)	(167,051)
Insurance premiums charged to members' accounts	(14,927)	(9,695)
Death and disability benefits credited to member's accounts	6,884	3,177
Benefits allocated to members' accounts, comprising:		
Net investment income/(losses)	541,788	(360,017)
Net direct administration fees	(5,423)	(5,093)
Closing balance of member benefits	7,207,695	4,233,339

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	59.41%	4,252,767
Australian Ethical Australian Shares Fund	9.22%	660,142
Australian Ethical High Growth Fund	7.95%	569,296

Information on all investments can be found in the Financial Statements for the year ended 30 June 2023 at australianethical.com.au/super/governance.

Statement of changes in reserves

For the year ended 30 June 2023

	2023 \$'000	2022 \$'000
Opening balance of operational risk reserve	9,730	8,848
Net transfers to reserves	2,934	2,059
Successor fund transfer*	4,813	-
Movement in fair value of investments	1,638	(1,177)
Closing balance of operational risk reserve	19,115	9,730

* Transfer from Christian Super and does not form part of the Income Statement.

The Fund maintains an Operational Risk Financial Reserve (ORFR) in accordance with the requirements established by the Australian Prudential Regulatory Authority under Prudential Standard SPS 114 Operational Risk Financial Requirement.

The purpose of the ORFR is to provide protection to the Fund in the event that a loss is incurred from an operational risk event occurring. The use of the ORFR is governed by the requirements of SPS 114, which is applicable to all APRA regulated funds.

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 2023 the ORFR balance equates to 0.27% (2022: 0.23%) of funds under management.

On the 25 November 2022 the Christian Super ORFR balance of \$4.8m was transferred into the Fund's ORFR. The balance was equal to 0.25% of the Christian Super funds under management.

Transfers in and out of the ORFR 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 fully invested in the Australian Ethical Balanced Fund.

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 throughout the 2022-2023 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 may use derivatives to reduce the impact of large adverse movements in currency exchange rates (foreign currency hedging), or to manage interest rate and duration risk in fixed interest and property portfolios.

Derivatives are not used for gearing purposes or speculative activity.

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 (because you are uncontactable or inactive) 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 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 at ato.gov.au/super.

Allotment of earnings

The 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.

Related parties

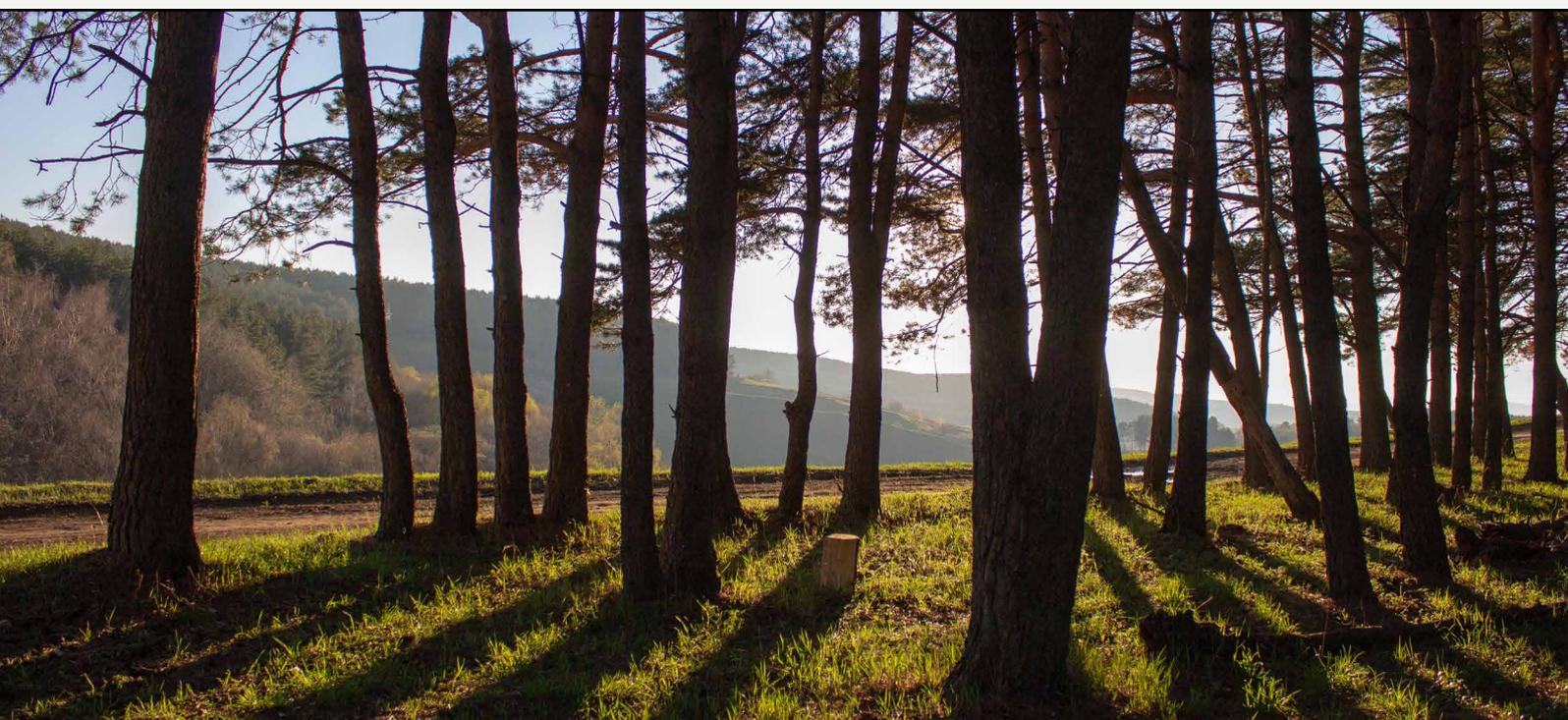
Related party disclosures are contained in the Fund's audited financial statements and auditors reports at australianethical.com.au/super/governance or by calling us on 1800 021 227.

Service providers

The Trustee has outsourced some of its functions to the following organisations to assist with the key operations of the Fund:

- **Administration** –
Mercer Outsourcing (Australia) Pty Ltd
ABN 83 068 908 912
Australian Administration Services Pty Ltd
ABN 62 003 429 114
- **Custody Services and Investment Administration** –
National Australia Bank Limited ABN 12 004 044 937
- **Investment Manager** –
Australian Ethical Investment Ltd ABN 47 003 188 930
- **Group Life Insurer** – MetLife Insurance Limited
ABN 75 004 274 882
- **External Auditor** – KPMG Australia Pty Ltd
ABN 47 008 644 728
- **Internal Auditor** – PricewaterhouseCoopers
ABN 52 780 433 757
- **IT Infrastructure Services** – Canon Business Services
Australia Pty Ltd ABN 42 063 577 739

You can find a full list of material service providers at australianethical.com.au/super/governance.



Additional Information

Contribution eligibility changes

A number of changes to enhance super outcomes for members were introduced and applied from 1 July 2022.

These changes include:

- Removal of the work test requirements for voluntary contributions for those aged 67 to 74. However those in this age group will still need to meet the work test to claim personal super contribution deductions.
- 3 year bring forward rule (for non-concessional contributions) extended to members aged 67 to 74
- Removal of the \$450 monthly minimum income threshold for Superannuation Guarantee (SG) contributions
- Increasing the maximum releasable amount for the First Home Super Saver Scheme (FHSSS) from \$30,000 to \$50,000
- Reducing the minimum age for eligibility to make downsizer contributions from age 65 to age 60. From 1 January 2023, the age was further reduced from age 60 to age 55.

Increase to the concessional tax on accounts above \$3 Million

In the 2023/24 Federal Budget, the Government confirmed its intention to increase the concessional tax applied to future earnings on total superannuation balances that exceed \$3 million. This reform intends to increase the tax rate for earnings on balances above \$3 million to 30%. Any earnings related to an individual's balance below the \$3 million threshold will remain at 15%.

Subject to the passage of legislation, this change is intended to apply from 1 July 2025.

Increased payment frequency for superannuation guarantee contributions

The Government announced in the 2023/24 Federal Budget, that from 1 July 2026, it will seek to amend the payment frequency of Superannuation Guarantee (SG) contributions by requiring employers to pay SG contributions at the same time that they pay their employee's salary or wages. This will increase

the minimum frequency for the payment of SG contributions from the existing quarterly requirement and will allow employees to have better visibility over their SG contributions. Receiving contributions earlier will also see contributions invested for a longer period giving a greater potential for compounding returns.

Superannuation Guarantee (SG) increases

As at 1 July 2022, the Superannuation Guarantee rate increased from 10% to 10.5%. This was increased to 11% on 1 July 2023.

Christian Super Successor Fund Transfer (SFT)

APRA (one of the regulators for super funds) placed a number of licence conditions upon Christian Super which led Christian Super to consider whether transferring their members to another super fund was in the best financial interests of those members.

Christian Super considered a number of possible funds with Australian Ethical being deemed the strongest candidate with our purpose-driven approach to investing ethically being a key factor in this decision.

On 25th November 2022, members of Christian Super were transferred to Australian Ethical Super.

The SFT with Christian Super did not change how we invest our members' money or how we run our company. Our Ethical Charter remains unchanged. We are still the same inclusive company we have always been, investing and advocating for positive change, respecting, and promoting equality and diversity. We believe welcoming these new members into Australian Ethical Super is in the best financial interests' of the existing Australian Ethical Super members, helps to amplify our impact as pioneers of ethical and responsible investment in Australia and enables us to share the benefits of our increasing scale, through continued fee reductions and improvements to member experience.

If you became a member of Australian Ethical Super as a result of this SFT, you should specifically note that this report covers the period from 25 November 2022 to 30 June 2023. Any information about your account from 1 July 2022 to 24 November 2022 can be found in the exit statement you received from Christian Super following the SFT.

Increased transfer balance cap

The transfer balance cap is a limit on the total amount of superannuation that can be transferred into the retirement phase. All your super account balances (regardless of how many you have) will be included to calculate this amount.

As at 1 July 2022, the general transfer balance cap was \$1.7 million. From 1 July 2023, this increased to \$1.9 million.

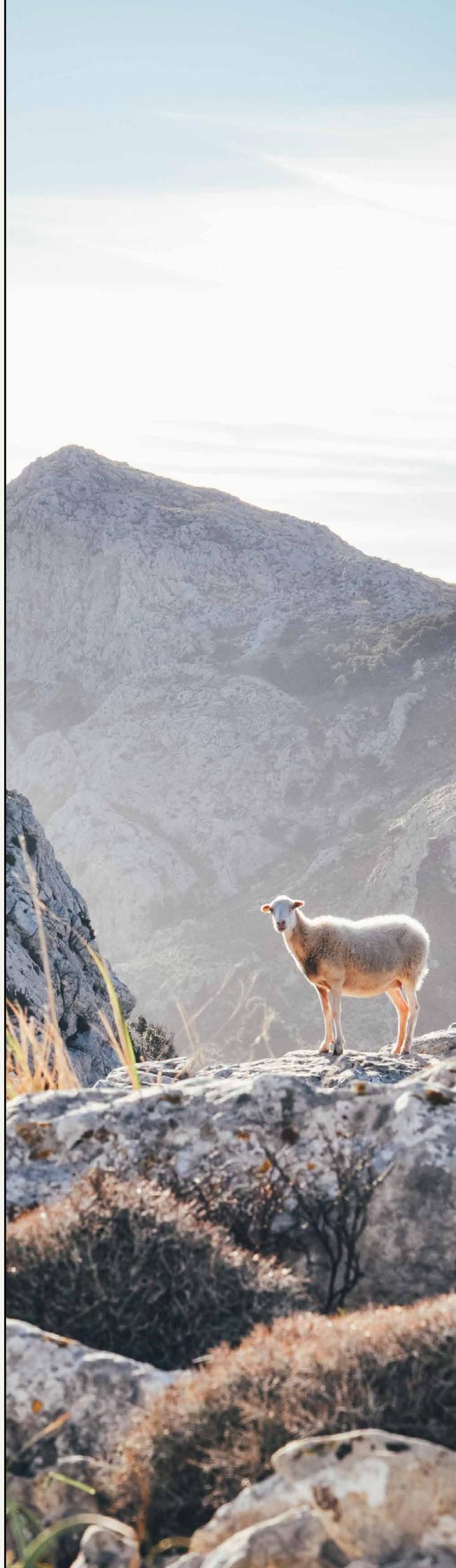
Administration fee reductions

There were a number of administration fee reductions during the 2023 financial year:

- On 1 September 2022, the dollar-based administration fee was reduced from \$97 to \$74 per annum
- On 25 November 2022, the percentage-based administration fee was reduced from 0.29% to 0.26% per annum
- On 1 December 2022, the dollar-based administration fee was reduced from \$74 to \$68 per annum

Other superannuation changes

Any changes to key rates and thresholds for the 2023/24 financial year can be found on the Australian Taxation Office's website at www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/.



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 two organisations: Bowerbird Collective, dedicated to nature conservation through performance, and asset consultants Australian Impact Investments.



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 Chairs 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
from 2017-2023
 BA, FIAA, FAICD

Michael was a member of the Audit, Risk and Compliance Committee.

Michael was also a Director of Australian Ethical Investment Limited and a Director of Australian Ethical Foundation Limited. He left the Board on 31 March 2023.

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 Anderson
Non-Executive Director
since 2022

BEc, FIAA, MAICD

Michael is a member of the Investment Committee.

Michael has been a director of financial services,

community services and church organisations with roles focussing on strategy, investments, ethics and leadership. He is currently Chair of Wesley Mission and Chair of Synod Board NSW/ACT, Uniting Church of Australia. He has been a member of the ethics and stakeholder advisory committees at other organisations.

In the funds management industry, Michael had experience spanning senior investment and general management roles. These roles have included leadership of a large Australian Sustainable Investment Fund and being a company spokesperson on corporate governance issues.

Executive leadership

The executive leadership team consists of the following people:

- John McMurdo, Chief Executive Officer
- Ross Piper, Chief Executive Superannuation
- Mark Simons, Chief Financial Officer
- Karen Hughes, Chief Risk Officer & Company Secretary
- Madeleine Bandfield, Executive Officer Superannuation

Further information about the executive leadership team and executive remuneration can be found at australianethical.com.au/super/governance.



**Australian
Ethical**



Contact us

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