

Wednesday, 23 November 2022

Australian Ethical 2022 AGM Speeches & Presentation slides

ASX Announcement

The Chair and Managing Director's speeches and presentation slides (including details of proxy votes received) are attached.

This announcement is authorised by Tom May, Company Secretary.

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About Australian Ethical

Australian Ethical is Australia's leading ethical investment manager. Since 1986, Australian Ethical has provided investors with investment management products that align with their values and provide competitive returns. Investments are guided by the Australian Ethical Charter which shapes its ethical approach and underpins both its culture and its vision. Australian Ethical has over \$6.2 billion in funds under management across managed funds and superannuation.

Visit: www.australianethical.com.au

Stephen Gibbs, Chair

Financial year 22 was a challenging year for Australian Ethical as it was for almost all investment managers and superannuation funds.

We saw the breakout of the Ukraine war with the resulting energy crises, and knock-on impacts to the financial markets in terms of market volatility, increasing inflation and rising interest rates.

These challenges have continued into the first part of financial year 2023.

Australian Ethical's managed investment schemes and super fund options have underperformed in many cases mainly because industries, sectors and individual companies that we do not invest in because of our Ethical Charter have done comparatively better.

This will happen from time to time particularly if one looks at short time periods.

Our medium to long term investment performance for most schemes and super options remains good, both in absolute terms and compared with benchmarks and competitors.

And we believe the outlook for the long-term performance of our funds remains strong.

Current geopolitical events and natural disasters only serve to underscore the importance of energy security and tackling climate change.

Our ethical investment philosophy has a long-term strategic focus on future-building companies that will thrive in a low-carbon economy.

We also take comfort in our years of experience, and as I say strong long-term investment track record.

Times like these are difficult, but we expect the heightened volatility of the markets to lead to a renewed focus on solving urgent global problems, together with opportunities to invest wisely for the long term.

We are already well ahead of this curve and we will continue to be very true to label and invest in a way that protects people the planet and animals.

Despite these challenging conditions, Australian Ethical has made significant progress on our high growth strategy.

This includes strengthening our already strong investment team, and by adding three new Investment Committee members who bring with them a diverse range of experience and knowledge.

By Friday we will have also finalised our Successor Fund Transfer (SFT) deed with Christian Super, which our MD/CEO will have more to say about in his address. But I want to congratulate and thank everyone who has worked on bringing this to a successful conclusion- it has been an enormous task completed in what I think will be recognised as record time.

In 2021 we shared with you, our shareholders, our three-year investment strategy for the business that is building agility and scalability so we are in the best possible position to capitalise on the growing

cohort of Australian investors and super fund members that want to invest ethically in line with their values.

The money we are investing back into AEI is already leading to considerable benefits of scale and improved customer service.

It's no great secret that lots of investment companies and super funds are increasingly creating sustainable or ESG funds to try to capture the growing trend among Australians to invest responsibly.

I made mention of this in my address to last year's AGM.

Unfortunately, many fund managers are screening investments through an ESG integration model, which is today the fastest growing responsible investment category.

ESG integration does not of itself mean that companies that are doing harm to people the planet and animals are avoided.

So, while many investors may believe – quite understandably– that their money is going toward improving environmental and social solutions while earning returns, a fund using ESG integration may include harmful stocks in its portfolio – including fossil fuel investments, gambling, tobacco, deforestation, etc.

Australian Ethical continues to call for comprehensive Commonwealth climate legislation to bring about a fair and efficient economic transition to reduce climate risk and unlock climate opportunity.

We already voluntarily report using a best-practice standard produced by the International Task Force on Climate-related Financial Disclosures (TCFD), like we did on Modern Slavery before the Government introduced legislation making it mandatory in 2020.

We're hoping standardised sustainability reporting will be the next step the Federal Government takes to bring about greater transparency and minimise greenwashing.

And as I did say last year we will not hesitate to call out greenwashing and we welcome the increased focus of ASIC in this regard.

Better sustainability reporting will provide investors with confidence in and assurance of sustainability claims, enabling comparability between investment products and portfolios.

Our goal is for systemic change in the financial markets along with the much broader changes we want to see in the world.

I would like to thank you our shareholders for your support in a turbulent year for markets . We are the leaders in ethical investing in Australia, and we will continue to do what is right and advocate on behalf of our customers, people, animals and the planet, towards a better future.

I take this opportunity to thank my fellow Non-Executive Directors- Kate Greenhill, Mara Bun, Michael Monaghan and Julie Orr all of whom make extremely valuable contributions to the company and who exercise their responsibilities with care and commitment.

I want to acknowledge the contribution of all Australian Ethical Staff and to thank them on your behalf for the brilliant job that they do collectively.

Our senior leadership team have again both on an individual basis and as a team performed extremely well.

And our Managing director/CEO John McMurdo has provided the leadership and strategic thinking that, notwithstanding the difficult times, has seen the company grow not just in size but in influence.

John McMurdo, Managing Director

Thanks, Steve. I would also like to acknowledge the Traditional Owners of the Country on where we meet today, the Gadigal people of the Eora Nation, and pay my respects to their leaders – past and present and thank them for protecting Country since time immemorial.

Good morning to our shareholders who have joined us for our 2022 AGM today. I look forward to sharing with you my perspectives on the business and to answering your questions later in the proceedings.

I want to acknowledge and thank the entire Australian Ethical team, including our leadership group who are present this morning, for their tireless efforts over the past 12 months as we have undergone a period of significant change and growth, as we grow our business into one that is considerably larger, more capable and more resilient than we were even 2-3 years ago.

The customer perspective is always where I choose to begin. Just last week, I was speaking with one of our superannuation customers, a 58-year-old transport consultant. I was speaking about the impact that higher energy and mining stocks have had on the broader market, and the fact our returns had not been as great as in previous years and asked him how we thought about it. He paused, and he said “You know what, John? I reckon, like me, your other super members and investors wouldn’t want to profit off fossil fuel companies either.”

It was an encouraging reminder that our customers are invested because they have a genuine desire not only to grow their retirement savings and wealth, but to do so in a way that is ethical and aligns with their values.

There’s no doubt though - that 2022 has been a time of reckoning for ALL investment managers.

In addition to the loss of thousands of lives and the displacement of millions more, the war in Ukraine, and the flow-on effects have been a test for responsible investors, on at least two fronts.

First – would you believe that on the eve of Russia’s invasion of Ukraine, so called ESG funds collectively held a staggering US\$8.3 billion¹ in Russian assets, meaning many funds had been making substantial investments in Russia despite the human rights and other challenges in that market. Of course, most were forced to hurriedly divest.

ESG benchmarks and measuring tools didn’t necessarily pick up even the financial risks of having exposure to Russia within portfolios, let alone the clear ethical challenges. It revealed that the ESG considerations of many investors and fund managers had nothing to do with ethics at all.

Second and since then, Russia’s invasion has been delivering short-term windfall profits for fossil fuel companies. The subsequent outperformance of energy sector shares has become a challenge for responsible investors – that are typically underweight on oil and gas companies – and many, including AE, saw performance wane when compared with conventional funds.

¹ <https://www.bloomberg.com/news/articles/2022-03-08/esg-funds-had-8-3-billion-in-russia-assets-right-before-the-war>

While the invasion underlines the urgency of removing dependency on fossil fuels, it has also revealed the true colours of many so-called ESG funds who are re-investing in fossil fuel companies and easing demands on them.

Humans and organisations show their true colours when pressure mounts, and it's my clear conclusion that many of the new ESG managers have been proven to be at best ethically passive and often outright ethically blind.

Because this is an incredibly high stakes game. Every investment in energy is either backing a successful transition that would make investing in fossil fuel producers a very poor longer-term investment, or it's betting on a failed transition with the long-term devastation of the planet and then the financial devastation that will inevitably come with that outcome.

And while it's true that investing responsibly in the energy transition has become more complicated since Russia invaded Ukraine, it's time for long-term investors to shun fossil fuels. Even before the Russian invasion, the world was not on track to achieve most of the United Nations' sustainable development goals. And with many targets set back by the new geopolitical situation, even more capital will now be required to reach a low-carbon future.

The good news is that AE is facing into these headwinds by continuing to invest with heart in a virtuous cycle where profit and purpose combine to deliver financial returns while changing the world for the better, in line with our Ethical charter that has remained unchanged for more than 36 years.

COP27

The financial system has to take a leading role in a sustainable future and has again been a dominant topic at COP 27 in Egypt over the last two weeks.

The accountability of finance and markets, and underlying drivers of climate investment continue to receive attention. The Global Investors Statement was touted as a key guide and a way to communicate support for better policy on the financial disclosure of risks. Speakers pointed to the U.S SECs proposal for climate-related financial disclosure and the importance of the Task Force on Climate-related Financial Disclosures (TCFD) and International Sustainability Standards Board as key drivers to help investors define opportunities and track progress.

As Steve has mentioned, it's no surprise that Australian Ethical is ahead of the curve in already reporting to TCFD standards. Experts agree that data is the biggest tool investors have. We believe all investors deserve to see a lifting of the standards here to see more Australian companies reporting more consistently and transparently with their shareholders and customers alike.

Rise in responsible investing

Having spoken about the opportunity and the risks to the world, let me share how we see the opportunity for Australian Ethical.

The demand for responsible investing in Australia continues to grow – substantially - with research from RIAA² showing that more than five out of six Australians believe it is important that their super fund or bank commits to reducing greenhouse gas emissions. 81% of Australians want to see them pledge to achieve net zero by 2050.

The proportion of Australians with responsible investments has changed materially since 2020 to 17% as at 2021, mostly Gen Xers and Millennials. But here's the exciting news – a further 46% are considering investing in responsible investment products within the next five years, with 26% aiming to do so within the next year.

AE growth strategy

And so with 36 years' experience in responsible investing, we think that this growth in demand remains a massive opportunity for Australian Ethical. We have shared our strategy to continue to invest in the size and scalability of our business – balanced of course with careful cost management – to build a robust business capable of capturing new opportunities, accelerating existing growth opportunities, and effectively managing a business substantially larger than we are today.

In terms of highlights of the last year:

We made targeted strategic hires to bolster our capability to support future growth, including the appointment for the first time of a Chief Technology Officer, as well as expanding our Business Intelligence & Technology team to increase data analytics and further enhance our data-led decision making.

We had three new hires join our Investment team to strengthen our investment leadership and to grow and diversify our institutional channel. We have also grown our sales and customer services teams to support the increase in customer and adviser volumes and expanded our back-office infrastructure, including implementation of a new telephony system, which, along with team expansion and other process improvements has lifted the contact centre's customer service metrics, to better than industry standard.

And in addition to the enhanced contact centre capability, we have continued to build out our purpose-led customer experience. Central to our efforts has been understanding the customer journeys for different segments and mapping the different touchpoints and interactions through which customers engage with us. Using this research to inform us, we've launched new digital interfaces for customers, introduced an app to make it easier for customers to connect with us, and have entered the listed channel through the launch of our High Conviction Fund as an exchange traded fund with the ticker AEAE. This focus on customer experience has seen us lead market Net Promoter Scores for both super and managed funds for the first time.

Our annual engagement survey continues to reflect the strength of our culture. In a year where the impacts of COVID-19 continued to disrupt, we were particularly pleased by our continuing top quartile

² From Values to Riches 2022: Charting consumer demand for responsible investing in Australia

engagement score of 79% and the quality of the talent we are attracting to our business despite the competitive recruitment landscape.

We have added new acquisition channels through our recent partnerships with employer platforms, and remain the fastest growing super fund over 5 years³. We have also significantly scaled our adviser channel, which resulted in net flows growing by 46% to \$0.3 billion. We now manage more than \$1.3bn through this relatively new channel.

Australian Ethical had \$940 million of positive net flows last financial year. In terms of flows from our core retail customers, they were up 20% (on the previous year's then record flows) to a new record \$1.14 billion. Within that number – we saw super flows increase 22%.

And despite the challenging market conditions, unlike many of our competitors, we still recorded FUM and revenue growth for the year – FUM was up 2%, and operating revenue increased 21%.

We received many awards and accolades for our efforts – notably we continued to be recognised as a responsible investment leader by RIAA, but we were also recognised as an ESG leader by Rainmaker and a sustainability leader by the AFR.

But we want to have impact on markets far beyond FUM. Markets need systemic change, and we want to lead that change because it needs to happen now. In addition to our investments, we also pursue systemic change through our ethical stewardship and advocacy to improve the behaviour of companies, governments, consumers and citizens. Last year, Our Ethics Research team engaged with over 450 companies, with the investment community and government directly – on their own or with others – for the good of the planet, people and animals.

As a result of our advocacy, more than 25% of the companies we proactively engaged with, committed to making positive changes to their ambition and practices.

The Foundation is another way that we create impact. Every year Australian Ethical donates 10% of profits⁴ to the Australian Ethical foundation with a vision that includes directing as much philanthropy as possible to effective solutions addressing the climate emergency, by funding leading research, and analysis to unearth and support highly effective charities addressing climate change. 2022 was another high-impact year with \$1.6m allocated in funding support to over 25 charities fighting climate change.

As you have heard we have a highly capable business now able to grow organically in a number of channel and product domains, and with the additional and newly added capability to grow inorganically also.

A highlight of the year of course, was securing the opportunity to transfer Christian Super members to Australian Ethical. By close of business this Friday, our customer numbers are expected to have grown by another 30,000 on account of this initiative. This growth increases our impact and delivers on our

³ KPMG 2022 Super Insights Report – May 2022, using statistics published by APRA and ATO as at 30 June 2021. Fastest growing superfund over 5 years by members to June 2021

⁴ Profit before deducting bonus and grant expense

purpose. It enables us to grow our portfolio of good money, to further raise our voice as an active shareholder, and accelerate our contributions to the Australian Ethical Foundation.

We will be passing on benefits of scale to all super fund members through continued fee reductions and improvements to our member experience, and we look forward to welcoming these new members.

I am extremely proud of what our team has achieved this year and look forward to seeing the results of the next stage of the growth strategy that we are implementing in 2023.

In Concluding

We haven't been immune to the volatility in financial markets this year, and our lack of exposure to the energy sector has caused short-term challenges to investment performance

But, I want to be clear on one thing – as we have demonstrated for 36 years, ethical investing is not philanthropy. You do not have to sacrifice long-term returns to invest in line with your values. Whether you're an ethical investor or not, the smart money is on investing in companies that are trying to solve the world's problems in industries that are sustainable. I am confident that by investing in companies that have long-term futures we remain well positioned to deliver long-term performance.

To you, our shareholders, let me highlight the fact that in June 2019 we had 48,000 customers and \$3.4 billion in funds under management. Today, due to our record in-flows and market leading retention that figure stands at more than \$6 billion, and following the Christian Super transfer on Friday, we expect to have more than 110,000 customers and our funds under management will (markets permitting) be comfortably in excess of \$8bn. All of that while navigating market turmoil caused by global pandemics and international conflict.

I'm confident that our strategy to build the scalability of our business means we are in the best possible position to take advantage of the groundswell of Australians who want to use their money for good and enjoy strong returns in the process.

I'd like to conclude by again thanking you for your investment in Australian Ethical, and for joining us today.

Australian
Ethical


Annual General Meeting

John McMurdo, Managing Director & CEO

23rd November 2022

AE





ESG Funds Had \$8.3 Billion in Russia Assets Right Before War

- Actual number may be bigger, Bloomberg data analysis finds
- Money managers are already writing down Russia bets to zero

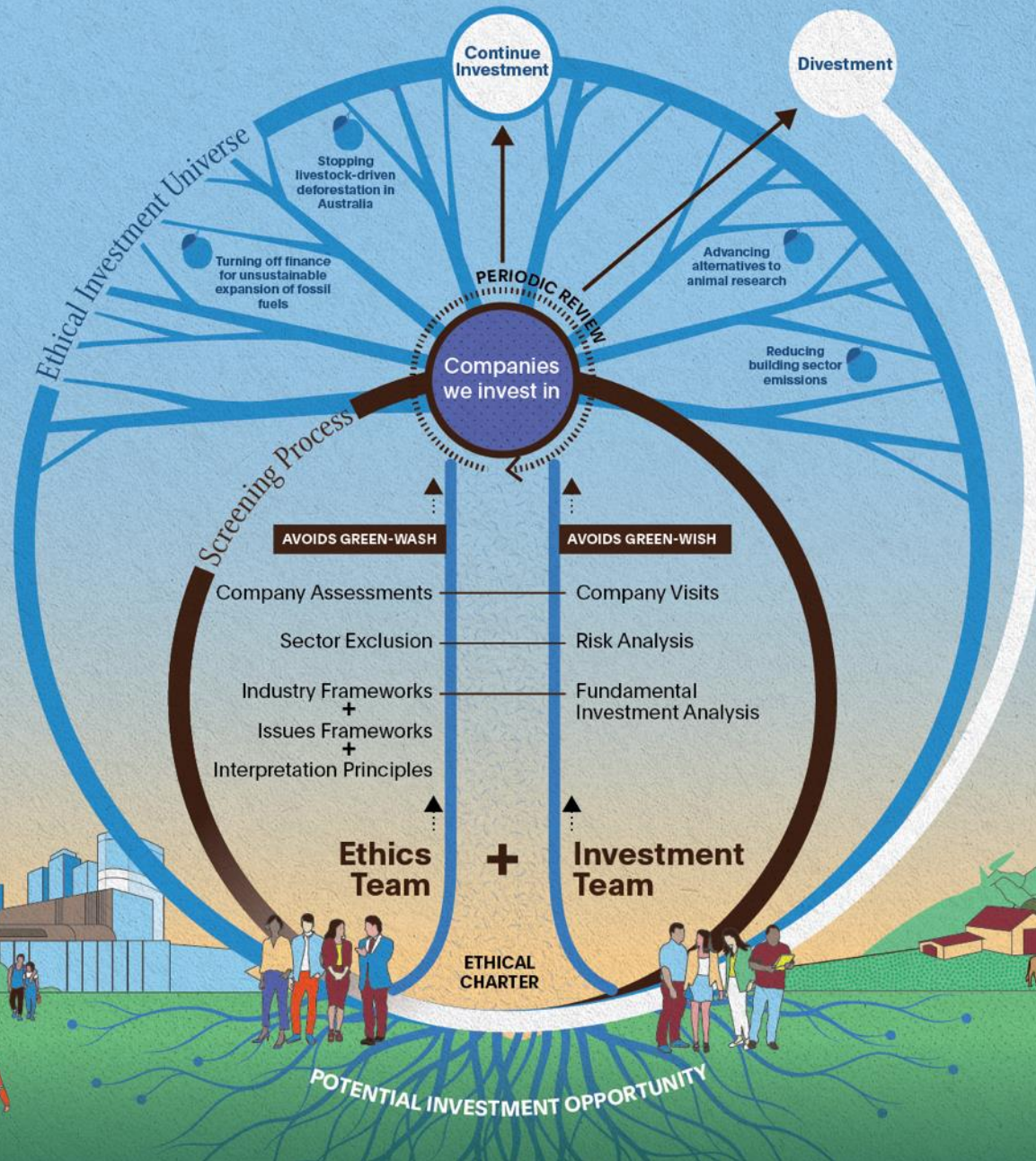
Super funds mix oil and gas with net zero

ANALYSIS

How to solve an inflation, deficit and energy crisis as Australia looks to break vicious cycle

Investing for a better world

BETTER FUTURE FOR PEOPLE, PLANET AND ANIMALS





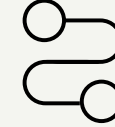
Rise in responsible investing



4 out of 5 Australians (83%) expect their bank account and their super to be **invested responsibly and ethically** and for over 80% of the population, this means that their investments deliver a positive impact to the world.



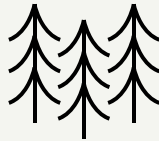
Almost **two-thirds (64%)** of Australians still agree that responsible and ethical super funds/investments **perform better in the long term**, similar to two years ago.



74% of Australians would **consider moving to another provider** if they found out their current fund was investing in companies engaged in activities not consistent with their values.



Australians are increasingly **concerned about social** and not just environmental issues when investing. For three-quarters (74%) of Australians, social issues are important when they think about investing their money. This is up from 64% in 2020.



The vast majority of Australians **want the finance sector to act on climate change. 5 out of 6** Australians believe it's important their super fund or bank commits to reducing greenhouse gas emissions (84%), sets targets for emissions reductions (83%), and 81% want to see them pledge to achieve net zero by 2050.



Consumers still demand **more transparency and more authentic** responsible investment practices. **4 out of 5 (79%)** Australians would like their super fund or investment provider to **communicate the impacts** their investment is having on the planet.

Source: RIAA consumer research 'From Values to Riches 2022: Charting consumer demand for responsible investing in Australia'

AE's growth strategy



FY22 highlights



BRAND

Brand familiarity increasing¹



SUPER

SFT deed with Christian Super signed

17% increase in customers

46% growth in adviser flows

Fastest-growing super fund over 5 years²

#1 NPS for Super³

#1 customer advocacy for Super³

SuperRatings Infinity Award



Best sustainable super fund — awarded third time

2 new products launched, including first ETF

#1 NPS for HNW managed funds⁴

Money Magazine Best of the Best 2022

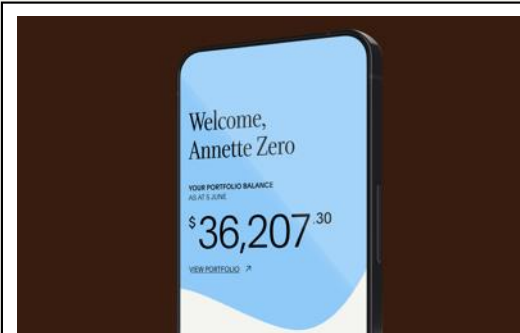


Best Australian Equities ESG Fund for Diversified Shares

Multiple strategic projects delivered

Improving customer experience, back-office infrastructure, product & channel diversification & service offering

Top quartile employee engagement of 79%⁵



MANAGED FUNDS

Launched our first mobile app

Making ethical investing easier

Note: All financial results and metrics in this pack relate to year ended 30 June 2022 with comparatives relating to year ended 30 June 2021. All footnotes appear on slide 13.

FY22 results

Growth in retail & wholesale net flows and revenue in challenging market conditions

Continued reinvestment for long term growth

\$0.94bn

total net flows in challenging market

20%

growth in retail and wholesale net flows to **\$1.14bn~**

22%

growth in super net flows of **\$0.75bn** – record super net flows

2%

growth in funds under management to **\$6.2bn**

21%

growth in operating revenue

Note: All financial results and metrics in this pack relate to year ended 30 June 2022 with comparatives relating to year ended 30 June 2021. All footnotes appear on slide 13

~ Excluding institutional

Award-winning business – authentic and ethical

Leadership



Responsible Investment Association Australasia
Responsible Investment Leader 2022




Top 5 for financial services
AFR Sustainability Leaders 2022



ESG Leader superfunds for 2022
Rainmaker Information


Managed funds

Best Australian Shares ESG Fund – Diversified Shares Fund
Money Magazine Best of the Best 2022




Super

Green Superannuation Fund of the Year 2020-2022
Finder Awards



Winner Infinity Award 2020-2022
SuperRatings



GOLD For MySuper, MyChoice & Pension
SuperRatings



Accolades

Best for the World: Customer Service
BCorp since 2014⁶

Best for the World: Governance
BCorp since 2014⁶

Most Recommended Super Fund
Investment Trends Super member Engagement Report 2022⁷

Best Social Media Campaign of the Year
MAX Awards

Distribution Executive of the Year
MAX Awards

Impact highlights – Investment portfolio



Listed companies in our portfolio have, compared to benchmark
77% lower CO₂ intensity⁸



Nil investment
in nuclear



Nil investment
in fossil fuel companies⁹



Nil investment
in tobacco¹⁰



1.8x more
revenue from sustainable
impact solutions¹¹



3.7x
for sustainable water &
agriculture and pollution
prevention¹¹



5.6x more
investment in renewables
and energy solutions¹²



**450+ engagements for
people, planet &
animals¹³**
78 proactive company
engagements, of these
~**25%** committed to or
made a positive change



4 divestments
on ethical grounds
(not including companies
excluded from initial
investment)



**In-depth multi-year
engagements**
with investee companies
on gender diversity, and
with Lendlease on its
Mt Gilead development



4 strategic areas of focus for ethical stewardship:

Turning off finance for expansion of fossil fuels

Livestock-driven deforestation in Australia

Alternatives to animal research

Building sector emissions



Impact highlights – Our Foundation

Our Foundation’s vision is to direct as much philanthropy as possible to effective solutions and charities addressing the climate emergency.

\$1.6m

allocated for impact initiatives in FY22

>\$8m

allocated to not-for-profits since inception

10% of AEI profits

allocated to not-for-profit organisations ¹⁴



Strategic grants

\$1M+ directed to effective, proven climate mitigation strategies which:

- Stop sources of carbon pollution
- Support carbon sinks
- Educate & empower women



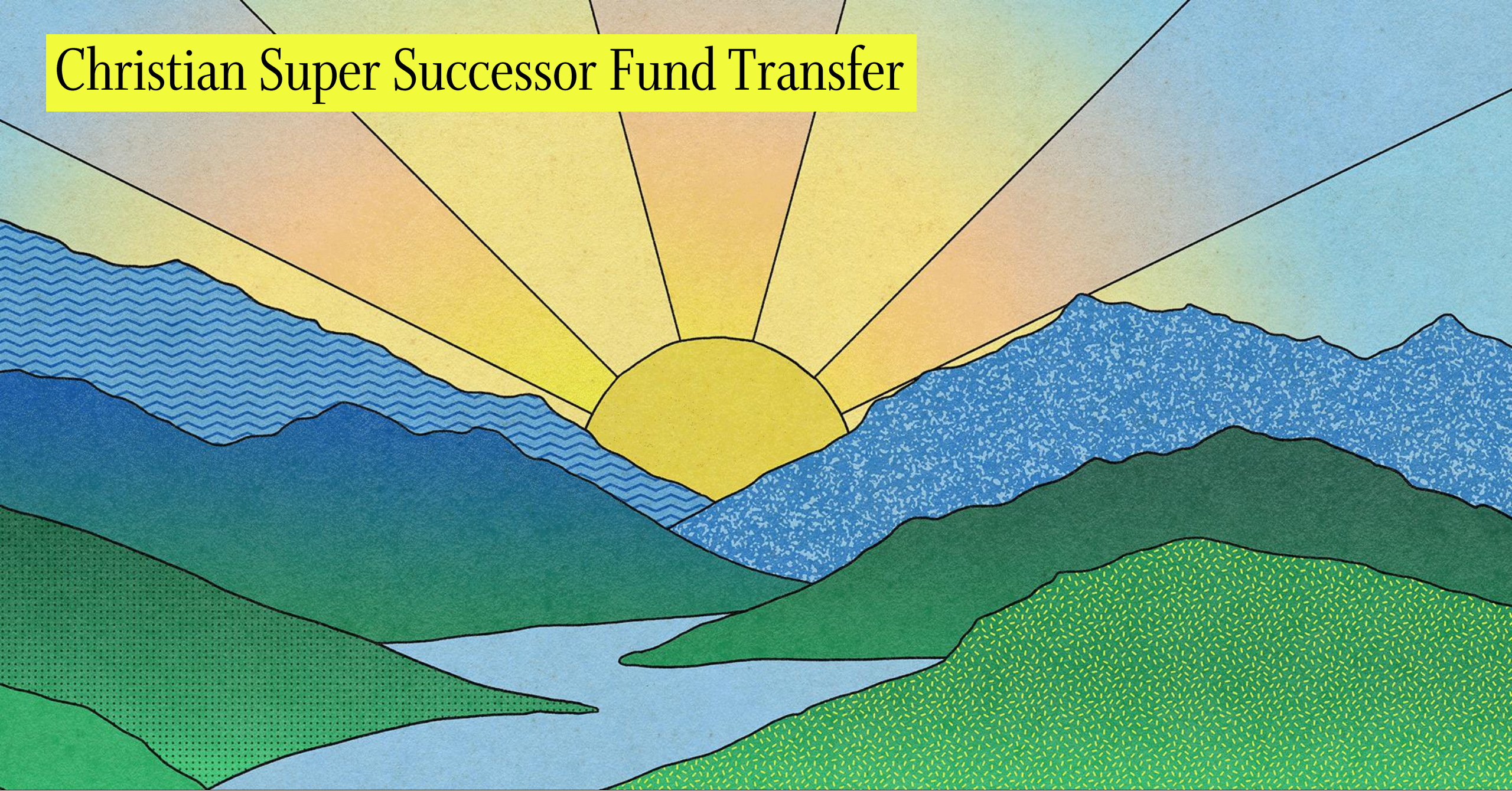
Visionary grants

- Unearthed 8 innovative projects fighting climate change
- \$500,000 provided in total grants

Some of the projects funded:

- Living Goods community health work in Uganda supporting 1,500+ people & generating a 30% reduction in child mortality ¹⁵
- Love Mercy Foundation - empowering smallholder women farmers - increasing access to water by 14% & community acceptance by 12% ¹⁶
- A solar community renewable energy project in Marlinja (NT) with Original Power ¹⁷
- Driving the transition to net-zero infrastructure with Climateworks ¹⁸

Christian Super Successor Fund Transfer



Thank you



Footnotes

1. Swayable brand tracker
2. KPMG 2022 Super Insights Report – published May 2022, using statistics published by APRA and ATO as at 30 June 2021. Fastest growing super fund over 5 years by members to June 2021.
3. Investment Trends Superfund Member Engagement Report, May 2022. Independent research covering 23 major super funds and surveying over 7,500 Australians exploring the attitudes, behaviours and preferences of super fund members, including satisfaction levels across multiple service elements.
4. Investment Trends High Net Worth Investor Report – November 2021.
5. Top quartile Australian Financial Services Benchmark (Culture Amp).
6. [B Corp 'Best for the World Honouree' Customer 2022 and B Corp 'Best for the World Honouree' Governance 2022. The Best for the World are BCorps whose score in the top 5% of all 3,500+ B Corps worldwide.](#) This relates to the Australian Ethical entity, not the investment portfolio.
7. Investment Trends Superfund Member Engagement Report, May 2022. Independent research covering 23 major super funds and surveying over 7,500 Australians exploring the attitudes, behaviours and preferences of super fund members, including satisfaction levels across multiple service elements.
8. Carbon intensity (measured as tonnes CO2e per \$ revenue) of Australia Ethical share investments compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.
9. We don't invest in companies whose main business is fossil fuels, or in diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).
10. We have never invested in tobacco and support Tobacco Free Portfolios. For more information on our Ethical Criteria, visit: australianethical.com.au/why-ae/ethics/ethical-criteria
11. Revenue from impact solutions compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.
12. Proportion of our share investments in renewables and energy solutions compared to the blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.
13. Total includes lending our voice to support others' initiatives, engaging with companies, the investment community or government directly (on our own or with others), and filing and voting on shareholder resolutions. Represents FY22 activity.
14. Before deducting bonus and grant expense.
15. Australian Ethical Foundation annual impact acquittal reporting.
16. [Love Mercy Foundation 2021 Annual Report](#)
17. [2021 Visionary Grants funded project](#)
18. 2021 Visionary Grants funded project.

Resolution 2

That the Remuneration Report as set out in the Annual Report for the financial year ended 30 June 2021 be adopted.



Resolution	For	Open	Against	Abstain
2	36,259,897	2,183,020	1,707,907	182,030

Resolution 3

That Kate Greenhill, Director, be re-appointed as a Non-executive Director of the Company.



Resolution	For	Open	Against	Abstain
3	37,321,184	2,195,650	818,434	16,421

Resolution 4

That Julie Orr, Director, be re-appointed as a Director of the Company.



Resolution	For	Open	Against	Abstain
4	30,380,044	2,195,650	7,759,574	16,421