



# **Sustainability Report 2013**

*Year ended 30 June 2013*



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# Australian Ethical Charter

The Company will order its affairs so as to provide for and to support:

- a. the development of workers' participation in the ownership and control of their work organisations and places
- b. the production of high quality and properly presented products and services
- c. the development of locally based ventures
- d. the development of appropriate technological systems
- e. the amelioration of wasteful or polluting practices
- f. the development of sustainable land use and food production
- g. the preservation of endangered eco-systems h) activities which contribute to human happiness, dignity and education
- h. the dignity and well-being of non-human animals
- i. the efficient use of human waste
- j. the alleviation of poverty in all its forms
- k. the development and preservation of appropriate human buildings and landscapes.

The Company will also order its affairs so as to avoid activity which is considered to unnecessarily:

- xii. pollute land, air or waters
- xiii. destroy or waste non-recurring resources
- xiv. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
- xv. market, promote or advertise, products or services in a misleading or deceitful manner
- xvi. create markets by the promotion or advertising of unwanted products or services
- xvii. acquire land or commodities primarily for the purpose of speculative gain
- xviii. create, encourage or perpetuate militarism or engage in the manufacture of armaments
- xix. entice people into financial over-commitment
- xx. exploit people through the payment of low wages or the provision of poor working conditions
- xxi. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- xxii. contribute to the inhibition of human rights generally.

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# Managing Director's Statement

## G4-1

The past 12 months has been one of the busiest but most satisfying for Australian Ethical from many perspectives. The external environment has been characterised by numerous themes that have highlighted the strong ethical leadership of our investments, financial markets that are stronger but still volatile and the continuation of one of the most significant periods of regulatory change affecting the financial services industry for many years.

We have remained true to the Australian Ethical Charter (see inside front cover) and have begun to see the fruit of many of the improvements we have made to the business over the past few years. The key highlights for the year include:

### *Our ethical leadership*

A number of themes have attracted headlines throughout the year which have highlighted the leadership position of our products when it comes to our strong conviction to ethics. These have included tobacco (a number of major funds took the step of selling out), climate risk (reports throughout the year have highlighted that the risk may be greater than previously thought) and human rights (supply chain issues following the factory collapse in Bangladesh).

The climate risk of superannuation funds and their exposure to fossil fuels has been a particular area of interest and an issue that was given oxygen by the visit to Australia by Bill McKibben plus other local group's campaigning efforts. It has highlighted the strong conviction that we have in our investment decisions with no exposure to coal, oil or gas extraction. This unique position in the market, especially in superannuation, has led to increased interest in our fund for those wishing to avoid investing in those areas. A survey by Market Forces suggested that one in four super members would switch funds to avoid coal and coal seam gas and we are busy trying to convert each and every one of them!

During the year we took a public stand with regard to the new tobacco exposure of Tomra, a Norwegian company in which we have successfully invested over a number of years. Amongst other efficient and sustainable products, Tomra make reverse vending machines—you put the bottles in and receive money back. Unfortunately Tomra bought a company last year which made tobacco sorting machines. After the company refused our request to exit what is a small part of their business, we engaged other international institutional shareholders and put forward a resolution to their annual general meeting requiring them to stop selling these machines. In the course of the engagement with other investors we learned just how deep our analysis is as most of those investors were not even aware of the tobacco exposure. Our resolution was not successful and we divested our holdings in Tomra, other than a nominal holding in our Advocacy Fund to enable us to continue to engage on this issue.

Finally, the incidents of this year in Bangladesh highlighted the need for companies and investors to take more care with their supply chains, something we have been incorporating into our investment process for many years.

There is an ever-increasing trend of wider consumer consciousness and advocacy towards brands and businesses that care for the planet and we are asking people to make the same connection with their long term investments. Our wealth is a large part of who we are and to invest other than in accordance with our values is simply inconsistent. Collectively our combined wealth has a significant influence on helping to shape a better world.

## *Significant improvement in profits*

Our profits for the financial year to 30 June 2013 have shown a significant improvement over the previous year due to a number of factors including improved market conditions, a continued focus on cost management and steadily improving new business and flows. Moreover, the strong result was achieved despite a number of fee reductions in order to make our funds more competitive and better value for our clients, a significant investment in the business to improve our systems and strengthen compliance, a further impairment on our building in Canberra and the impairment to listed securities held in respect of our Advocacy fund.

The changes to the business over the past few years have set us up for a healthy and sustainable future. More detail on the financial results is in our 2012-13 Annual Report.

## *Competitive returns from ethical investment*

It has been five years since the commencement of the global financial crisis and financial markets in Australia and overseas continue to be volatile and unpredictable. However, over the past year we have seen an overall increase in global markets with the Australian market up some 16% (as measured by the All Ordinaries Index). This has had a positive impact on our funds under management and hence our revenues.

The investment performance of our funds continues to be strong over the long term with most of them having performed in line with or above the median fund in their relevant Mercer surveys. Our Larger Companies Trust was ranked in the top 4 retail and wholesale All Growth Funds returning 28% for the year whilst our International Trusts return of 32% was above the median.

The long term performance of our flagship Smaller Companies Trust remains well above benchmark returning 9.4% per annum (net of fees) for the last 10 years versus the Small Industrial Index of 6.3%, ranking it 7th in the Australian Equity (All Caps) Mercer Survey.

## *Refreshed brand, website and communications*

During the year we introduced our refreshed brand identity, our new website and significantly improved new client engagement processes using more upbeat and interactive communications with a focus on sharable content. The aim has been to make clients' involvement with Australian Ethical a positive and engaging experience and to emphasise the positive impact their investments are having on society and the planet, whilst giving them the means and desire to share their experience with others.

Our new business flows, increased conversion of prospects and strong growth of our online (especially social media) community has shown this effort to be a great success.

## *New business and flows*

As a result of improved awareness and focus on more strategic sales and marketing activities, our monthly new clients are at record levels. New clients for the month of June were 269 compared to 146 last year, an increase of 84%. Equally, new default or registered employers, a key focus of our sales and product improvement efforts, increased significantly over the past year.

Whilst new business across superannuation takes longer to impact revenues as members build up their balances over time, our superannuation inflows remain strong and our managed funds flows are improving as confidence in financial markets, especially shares, returns.

## *Regulatory changes and other business improvements*

The past few years has seen the most intensive regulatory change in financial services in decades. It has been estimated that some \$1.5 billion has been spent by the industry in preparation for these changes. A lot of our focus over the past 12 months has been on preparing for the new superannuation regime which commenced on 1 July 2013. We have been preparing for MySuper and adjusting our managed fund products to be compliant with FoFA (Future of Financial Advice).

Over the course of the financial year we have also further invested in other business improvements, including:

- changing the administrator of our superannuation fund in order to provide our members with an improved service at a lower cost;
- introducing new and improved insurance for our superannuation members which is now some of the most competitive in the superannuation industry.

The changes were made to ensure that we remain an ethical fund and that we continuously improve the financial and client service aspects of our products.

### *Business Changes*

In September we implemented a business restructure involving the substantial reduction of our Canberra operations, the outsourcing of parts of the business and a restructuring of certain functions. This was done because the industry has changed considerably over the past few years and we have to continue to provide our clients with competitively priced ethical investment products and a high quality client experience. It is critical that we operate as effectively and efficiently as possible.

The people affected by these restructure were of course paid their entitlements in full and provided with outplacement services to help them transition from employment with Australian Ethical to the new stage of their lives.



A handwritten signature in black ink, appearing to be 'P. Vernon', written in a cursive style.

**Phillip Vernon**  
Managing Director

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# About this report

## **G4-3, G4-7, G4-28, G4-30**

Our twelfth annual Sustainability Report relates to the activities of Australian Ethical Investment Limited, including its wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, the Trustee of the Australian Ethical Retail Superannuation Fund, for the year ending 30th June 2013.

## *Applying the Global Reporting Initiative (GRI) Guidance*

### **G4-18, G4-25, G4-32**

This Sustainability Report has been prepared in accordance with the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative – Comprehensive option, applying the GRI principles for defining report content and quality. This includes application of G4 Sector Disclosures Financial Services sector supplement.

Australian Ethical uses the GRI Guidance because it supports GRI's vision – which is for 'a sustainable global economy where organisations manage their economic, environmental, social and governance performance and impacts responsibly and report transparently'. We value the GRI Guidance as a comprehensive sustainability framework which enables us to report in line with best practice, and consistently with other companies and organisations around the world.

### **Focus on material topics**

This year we have sought to focus our Sustainability Report on the environmental, social and economic topics which are material to our organisation with the aim of making this important piece of communication more meaningful, insightful and relevant for our stakeholders. In doing so, we have sought to apply the GRI principles of 'materiality' and 'completeness' for defining report content.

We have undertaken a detailed materiality assessment, identifying all topics relevant to our organisation, determining the boundaries for these topics (i.e. considering where impacts occur or could occur inside or outside of the organisation), and prioritising these topics based on:

- Significance of impact – their potential influence on our ability to delivery on our vision and strategy
- Influence on our stakeholder's assessments and decisions

Based on this assessment we consider our material topics to be:

- Our approach to ethical investing
- The environmental and social impact of our investment portfolios
- Meeting the needs of our clients
- Meeting the needs of our people
- How we govern our business
- Responding to regulatory change
- Addressing climate change

This has guided the content of our report in terms of the focus and level of detail provided in each section. For example, for the first time this year, we have provided a more in depth insight into our ethical investment activities and position in relation key ethical issues. By contrast we have included a more high level overview of our direct environmental impacts (which are driven primarily by activities in our two small Australian offices) than in previous years.



## Engagement with our stakeholders

We conduct a program of engagement throughout the year in order to ensure that we understand the expectations and concerns of our stakeholders.

This year, applying the GRI principle of 'stakeholder inclusiveness' for defining report content, we reviewed our stakeholder engagement program and undertook specific additional engagement where we required further information to ensure that we fully understood the priorities of our most important stakeholders based on their interest in, and influence over our activities. This included an online survey which was sent to a sample of our superannuation members, investors and employers.

A description of the methods used for engaging with our key stakeholders and our understanding of their key interests is provided in Appendix A of this report. In addition, Appendix B contains a description of the material aspects and boundaries we have applied.

Next year we plan to undertake further engagement with financial advisors, and intend to build upon our employer survey with one on one meetings, in order to gain a more in depth understanding of their interests and to inform our future strategy and communications.

## Considering the sustainability context

Inherent in our core business is the aim to contribute to the improvement of economic, environmental and social conditions. As such we have sought to present our performance in the broader context of these conditions, applying the GRI report content principle of 'Sustainability Context'.

For this reporting year, we have reported the sustainability context for data related to our management of direct environmental impacts and our people. Next year, we will aim to also report the sustainability context of our ethical investment activities.

## External Assurance

Selected information in this Sustainability Report has been assured by Net Balance. An assurance statement is provided to the Directors of Australian Ethical.

## Contact for further information

### G4-31

For further information regarding this Sustainability Report or its contents, please contact:

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# About Australian Ethical

## Introduction

### G4-4, G4-5, G4-6, G4-9

Australian Ethical is an independent ethical wealth manager based in Australia. Australian Ethical was established in 1986 and became a publicly listed company on the Australian Securities Exchange in December 2002. We aim to provide superannuation, investment, insurance and advice to clients wishing to save and invest for their retirement, to do so in an ethical way and to participate in having a positive impact to create a better world. We believe that aligning ethics and financial decisions provides competitive long-term returns and improves quality of life for all.

As at 30th June 2013 Australian Ethical managed \$708m on behalf of approximately 20,392 ethical investors (table 1).

**Table 1 Snapshot of our operations as at 30th June 2013**

Country of operation	Australia
Location of headquarters	Sydney
Number of employees	32
Funds under management (FUM)	\$708m
Number of ethical investors <small>(The number quoted as the Total 'double counts' people who are in the super fund and also invest via a managed fund.)</small>	Superannuation – 14,868 Managed funds – 5,524 Total – 20,392
Increase of FUM during the reporting year	Funds under management increased by \$81.0m comprising \$79.7m due to market movements and net inflows of \$1.3m.
Market capitalisation	\$19,794,177

\* Our measure of 'net sales' as required by the GRI.

## Our products and services

### G4-4

#### An overview

Australian Ethical Limited manages six retail unit trusts (and two wholesale investment trusts). Australian Ethical's wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, is the Trustee of the Australian Ethical Retail Superannuation Fund, which offers seven accumulation and six pension superannuation options.

**Table 2 Our Managed Funds**

Trust	Funds under management (\$m)
Balanced Trust	75.9
Smaller Companies Trust - Retail	80.8
Smaller Companies Trust - Wholesale	29.1
Larger Companies Trust - Retail	27.1
Larger Companies Trust - Wholesale	22.6
Fixed Interest Trust	0
Cash Trust	7.7
International Equities Trust	2.2
Property Fund	0.6
Advocacy Fund - Retail	0.3
Advocacy Fund - Wholesale	1.2

**Table 3 Our Superannuation Fund**

Investment option	Funds under management (\$m)
Accumulation	
Defensive	36.6
Conservative	6.5
Balanced	172.7
Growth	67.5
Advocacy	12.3
Smaller companies	120.7
International	3.8
Pension	
Defensive	4.8
Conservative	1.8
Balanced	15.7
Growth	2.2
Smaller companies	5.6
International	0.1

## Key changes

### MySuper

One of the key projects we worked on during the reporting period was a MySuper authorisation from the Australian Prudential Regulation Authority (APRA). This required an extensive review of our operations and the preparation of documentation to enable APRA to form a view on whether or not we should be authorised to offer a MySuper product.

APRA authorised us to offer a MySuper product on 16 September 2013.

### Advocacy Fund

This year we made some significant changes to what was formerly known as the Climate Advocacy Fund, now the 'Advocacy Fund'.

- **Change of name and scope of the fund** – reflecting our intention to build upon our engagement with climate change issues, broadening the scope of engagement activities undertaken through the Fund to include other ethical issues.
- **Change in advocacy structure** – with a greater focus on constructive and collaborative engagement prior to putting a resolution, garnering the support of institutional shareholders, retail shareholders and advocacy groups where appropriate. This included ending the process of putting resolutions via a complex nominee structure which was cumbersome and costly to administer.

- **Change in investment structure** – from 1st July 2013, exiting our investments in an index fund which included companies not in compliance with our Ethical Charter, to invest in (i) units of our Larger Companies Trust (which invests in an ethically screened portfolio of Australian and International shares) and (ii) shares of companies which fall outside the Australian Ethical Charter but with whom we would like to engage. This ensure that we are only invested in companies that are not screened during an engagement.

### Changes in our super fund

In March 2013 we transferred administration of our super fund to Russell Investments. In addition, we changed the terms of the insurance cover provided to members of the super fund. Both changes led to significant improvements for members. We communicated these changes to our affected members and also issued a new Insurance Guide, which is available on our website.

### Fixed income product

We have also been working to develop a new screened managed investment scheme focusing on fixed income instruments. The intention is to launch the new trust in 2013-14.

## Markets served

### G4-8

Our ethical products are used by clients from across all Australian States and Territories, with over 60% living New South Wales or Victoria. The majority of clients for both our superannuation fund (46%) and managed funds (55%) are individuals that have come to us directly, although a significant number also come to us through a financial advisor (15% superannuation; 33% managed funds).

### Location of clients

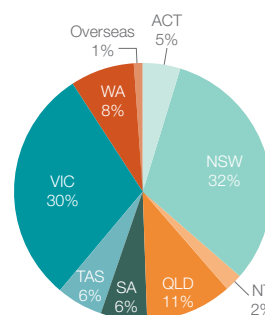


Figure 1 Clients by geographical location

### How super fund members joined

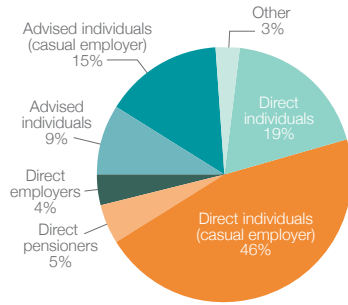


Figure 2 Superannuation fund members by channel

### How managed fund investors joined

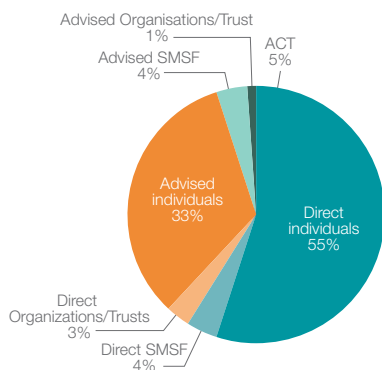


Figure 3 Managed fund clients by channel

## Our supply chain

### G4-12, G4-13

We work extensively with various outsourced providers who supply expertise in servicing our clients and meeting our obligations. As at 30th June 2013, our key suppliers were as follows:

- Administration of our super fund is contracted to Russell Investments who, with our consent, have appointed LinkSuper as an agent; LinkSuper has contracted certain tasks to Mahindra Satyam
- NAB – custodial services, banking facilities and lending facilities to the Australian Ethical Property Fund
- Boardroom Ltd – unit fund and share registry
- KPMG – external audit
- CAER – ethical reviews and reports
- PFS – compliance and risk services

During the year there was a significant change in our supply chain with transition of our superfund administration arrangements from Pillar to Russell Investments (and its outsourced providers). This is discussed in the section ‘Meeting our Clients Expectations’ within this Report.

Our Outsourcing Policy includes a requirement that when selecting providers we evaluate them against our Ethical Charter. This year, for example, we commissioned CAER to undertake an ethical assessment of outsourced providers as part of the superfund administration transition. We also conducted on-site visits of selected providers (including a visit to Mahindra Satyam in India) in order to confirm aspects of this assessment.

The visit to Mahindra Satyam demonstrated to us that their staff were competent to provide the services they were contracted to do, that appropriate security measures are in place to protect our data and that Mahindra Satyam staff’s working conditions are decent.

Full details of our key suppliers, together with an estimate of the annual value of payments and contract renewal date are provided in Appendix C.

## Impacts, Risks and Opportunities

### G4-2

Our primary impact on sustainability and effect on stakeholders is through our investment activities and advocacy work. These include:

- Influencing the ethical performance of investee and non-investee companies
- Raising awareness of ethical investing and providing access to ethical investing opportunities for the Australian public
- Raising awareness of ethical issues more broadly
- Improving financial literacy, particularly in relation to superannuation
- Managing the wealth of our clients in a prudent and ethical way, respecting our fiduciary duty and acting in compliance with relevant regulations
- Providing our people with a positive and satisfying working environment where they feel that they are contributing to a better world and are fairly remunerated. This includes compliance with Australian labour laws.

Our most significant, overarching challenge and opportunity is to grow our business and our market share, enabling more people to access ethical investing opportunities and allowing us to have a greater impact on the ethical performance of companies. Underlying this are a number of other challenges and opportunities including:

- Raising awareness of our brand and products, which includes appealing to a younger demographic



- Educating the general market on both the investment and social benefits of investing ethically
- Continuing to enhance the ease with which our clients can interact with us
- Improving our reputation for client service
- Making our fee structure more competitive
- Ensuring that our members continue to contribute to our superannuation fund over the long term
- Reducing complexity in our business

These challenges and opportunities are prioritised in full on a three yearly basis in developing our 3 Year Strategy, and are tracked and reassessed on an annual basis as part of our business planning process.

We have made good progress this year in relation to these challenges and opportunities, which is reflected in the significant increase in new clients, and our increased profitability as compared to the prior year. Key areas of progress include:

- Refreshing our brand and our website with a more positive tone and providing, better information
- Better monitoring of new client applications
- Acceleration of our social media strategy leading to more referrals and word of mouth recommendations, especially from the environmentally conscious community
- Actively engaging with clients at specific 'life stages', including older clients transitioning into retirement
- Transitioning our superannuation fund to a new provider in order to improve service quality and value for our members
- A number of changes to make our fee structure more competitive
- Increased ethical investment education provided to our members, employers, prospects and the wider adviser community

We recognise that we have more to do – particularly in terms of raising awareness, enhancing client service, and making our fees more competitive. In order to drive further progress next year we will implement a number of initiatives including:

- Appointing a Head of Ethics to provide additional focus on our positioning on ethical issues and further codify our ethical processes
- Continuing to increase our brand presence through traditional and new media

- Progressing our three year plan to make our fee structure more competitive
- Improving the information which we make available to clients about superannuation
- Continuing to play an active role in the investment and ethical industries and to engage in public policy debate, fostering a positive operating environment in which we can grow our business

These are discussed in further detail within the 'Ethical Investing' and 'Meeting our Client Expectations' sections.

A small number of sustainability trends, risks and opportunities have direct relevance on our long-term performance and are therefore most relevant to our stakeholders. In particular:

- The increase in environmental and social consciousness within the Australian public
- Improvements in disclosure by Australian and international companies on environmental, social and governance performance, enabling us to better assess companies against our Ethical Charter and expand our investible universe
- An increase in the number and maturity of companies with an explicit environmental or social purpose (e.g. clean technology businesses) offering greater opportunity for us to expand our 'investible universe'
- The rise of social media and therefore our ability to reach a large audience to discuss ethical issues

These sustainability risks and opportunities are prioritised, alongside other business risks and opportunities, as part of the annual business planning process. During this reporting year we did not have performance targets in relation to sustainability risks and opportunities. However, we have developed a series of commitments and 3 year targets in our latest 3 Year Strategy (2014-2016) which at the time of writing this report, is still in the process of review and approval.

Our sustainability risks and opportunities are monitored, along with other business risk and opportunities, as part of our business risk management process, as described in 'Governing our business'.

## Our investment performance

### From an investment perspective

All of our funds with equity exposure performed strongly over the year. Of particular note, was our flagship Smaller Companies Trust which returned 22.4% for the year, outperforming its benchmark Small Industrials index by a significant margin (of 5.8%) over the 12 months. We benefited from avoiding companies servicing the resources industry and by holding IT stocks that performed very strongly.

The International Equities Trust and the International Shares super investment option were our strongest performers returning 32.3% for managed fund investors and 25.1% for super members (the difference is mainly because super returns are post-tax). This performance was boosted by the fall in the value of the Australian dollar against global currencies, which has continued to benefit Australian investors given it has fallen to below US\$0.90 for the first time in almost 3 years. The strong performance of the Trust has continued since the end of the financial year. It returned +9.1% during the month of July alone and has generated a return in excess of 50% for the 12 months to 31 July 2013.

**Table 4 Super (accumulation) returns to 30th June 2013**

	1 year	3 years (pa)	5 years (pa)	10 years (pa)
Defensive	2.3%	3.5%	3.6%	4.0%
Conservative	5.8%	4.4%		
Balanced (accumulation)	11.5%	4.7%	2.5%	4.6%
Growth	16.9%	4.3%	1.4%	5.5%
Advocacy	20.0%	6.5%		
Smaller Companies	21.1%	8.0%	5.1%	8.6%
International Shares	25.1%	0.4%	-3.2%	

Total returns are calculated:

- using the sell (exit) price
- net of indirect administration and investment management fees
- net of tax.

See our website for pension returns, benchmarks and additional information about returns

**Table 5 Managed funds returns to 30th June 2013**

	1 year	3 years (pa)	5 years (pa)	10 years (pa)
Balanced Trust	14.3%	6.0%	3.2%	5.2%
Larger Companies Trust	28.2%	6.4%	2.6%	6.3%
Smaller Companies Trust	22.4%	9.1%	5.9%	9.4%
International Equities Trust	32.3%	0.9%	-3.0%	
Advocacy Fund	23.6%	7.9%		
Cash Trust	4.5%	4.7%	4.5%	4.8%
Property Trust (closed)	-7.9%	0.1%		

Total returns are calculated:

- using the sell (exit) price
- net of administration and investment management fees
- gross of tax (this does not include the impact of imputation credits received by the funds)
- as if distributions of income have been reinvested at the actual distribution reinvestment price.

See our website for wholesale returns, benchmarks and additional information about returns

## *From an ethical perspective*

All investments are managed to assist in:

- achieving a just and sustainable society
- protecting the natural environment
- providing a competitive financial return to investors

To do this, all investments are managed using the Australian Ethical Charter, which aims to provide investment support to environmental and socially positive activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare, workplace relations and a range of related issues.

Our ethical investment approach and an overview of the impact and influence of our activities is included in the section 'Ethical Investing'.

## *Our financial performance*

Australian Ethical recorded a consolidated net profit after income tax expense for the year ending 30 June 2013 of \$1.063m, a 164% increase on the result of the previous financial year. The significant improvement in profit for the financial year to 30 June 2013 over the previous year is due to a number of factors including improved market conditions, a continued focus on cost management and steadily improving new business and flows. Moreover, the strong result was achieved despite a number of fee reductions in order to make our funds more competitive and better value for our clients, a significant investment in the business to improve our systems and strengthen compliance, a further impairment on our building in Canberra and the impairment to listed securities held in respect of our Advocacy fund.

Return on equity for the year was 18.6%, up from 5.9% in 2011-12, and earnings per share increase by 0.96 to 1.36 cents per share. Funds under management (FUM) also increased by 12.9% from \$627 million to \$708 million over the period.

There were no significant changes to the size, structure or ownership of Australian Ethical during the reporting period. The company's capital structure and policies remain relatively simple.

## *Our grants to the community*

Under our constitution, before a dividend can be declared, 10% of annual profits must be donated to non-profit, charitable, benevolent and conservation organisations. This is part of our contribution to a positive and sustainable society and is one of the highest levels of corporate giving in Australia based on percentage of profits.

This year, Australian Ethical will be donating \$117,300 to a total of 11 organisations, bringing the total amount donated over the past 13 years to almost \$1.5 million. Further details on our community grants can be found in the section 'Our Grants to the Community'.

# Managing our ethical investments

## Introduction

Based on the stakeholder engagement that we conducted during the year, in particular our surveys of our clients and our investor briefings, we formed the view that stakeholders place great importance on the following issues:

- The alignment of their investments with their ethical values
- The environmental and social impacts of the investments portfolios
- Our activities to influence the ethical performance of investee companies
- Our approach to ethical investment

We have therefore sought to expand this section of the report as compared to our prior year Sustainability Report, disclosing more detail about our ethical investment approach and about the way we maximise our ethical impact and influence.

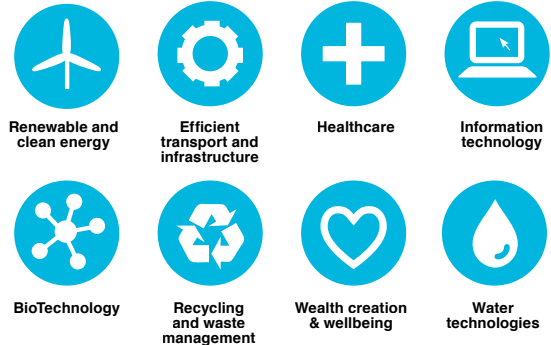
## Why ethical investing

### Supporting positive change

Australian Ethical provides a means by which our clients can save and invest in a positive and ethical way and have a positive impact to create a better world.

Many sustainable funds seek to avoid certain stocks which is known as applying a negative screen. Australian Ethical is unique in using both a negative and a positive screen, managing funds which actively seek investment in companies with superior environmental and social credentials. This enables our investors to avoid investing in sectors such as tobacco and uranium mining, and to benefit from investment in companies whose activities make a positive difference on a range of ethical, social and environmental issues.

### WE INVEST IN COMPANIES INVOLVED IN:



### WE AVOID INVESTING IN COMPANIES INVOLVED IN:



Figure 4 Sectors we invest in; sectors we avoid

### Achieving competitive long-term financial returns

A recent report from the Responsible Investing Association Australasia (RIAA) suggests that ethical investments can perform better than mainstream funds. Analysis conducted for the RIAA report showed that core responsible investment funds are delivering better returns than the average of all mainstream funds in all but one of twelve comparisons, across short and long time periods (1, 3, 5 & 10 years) in three major investment categories – Australian shares, international shares and multi-sector growth funds.



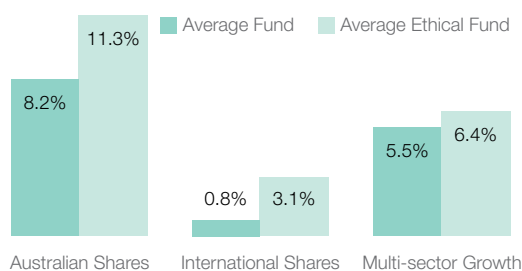


Figure 5 10 year per annum returns of ethical versus mainstream funds to 31st December 2012

Past performance is not necessarily an indicator of future performance.

Source: Responsible Investing Association Australasia, 2013 Responsible Investment Benchmark Report

## Our Ethical Investment Approach

### FS1, FS2, FS11

Our ethical investment approach is guided by our Ethical Governance Framework which sets out key policies, process, and responsibilities for ethical investment decisions.

All investments (aside from a very small number of stocks (~0.01% FUM) held within our Advocacy Fund whilst we are actively engaging with them) are made using our Ethical Framework. This Framework has four components:

- Our Ethical Charter - included in Australian Ethical's constitution at clause 2.1, this Charter contains 23 principles setting out which corporate activities we will seek to avoid or support and providing guidance on key themes to take into consideration when making investment decisions.
- Charter Principles and Practices Policy - containing additional detail on how the Ethical Charter is applied at a practical level.
- Industry and Issue Ethical Frameworks - a series of frameworks which interpret the Charter and provide specific positions on certain sectors and certain themes.
- Case studies - analyses and investment decisions made on companies in the past which act as precedents that can be used as a guide for future situations.

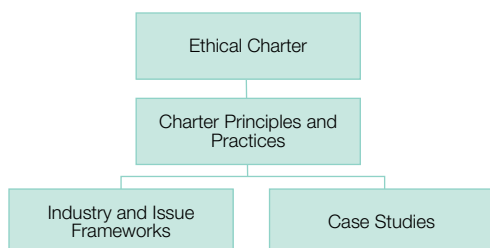


Figure 6 Our Ethical Framework

Australian Ethical engages CAER (Centre for Australian Ethical Research Pty Limited) as an advisor on the ethical performance of companies. CAER's responsibilities include:

- Performing detailed analysis and providing a full report on any potential investee company
- Providing detailed biennial reviews for every company in the Australian Ethical investible universe (or more frequently for certain stocks if considered necessary by our Chief Investment Officer)
- Providing ad hoc analysis or investigation on specific ethical issues or aspects of a company's ethical performance
- Assisting with engagement and advocacy as required

Australian Ethical has a team of internal professionals whose responsibility it is to monitor the performance of stocks and manage our investment portfolios on a day to day basis. This team draws on the support of CAER where they determine that in depth assessment or specialist ethical advice is required. This team also identifies potential companies to be added to the investible universe, for assessment by CAER.

The internal investment team is managed by our Chief Investment Officer (CIO). The CIO is responsible for reviewing all ethical reports and making the final decision as to whether or not the company should be added to the investible universe, in consultation with the CEO where necessary.

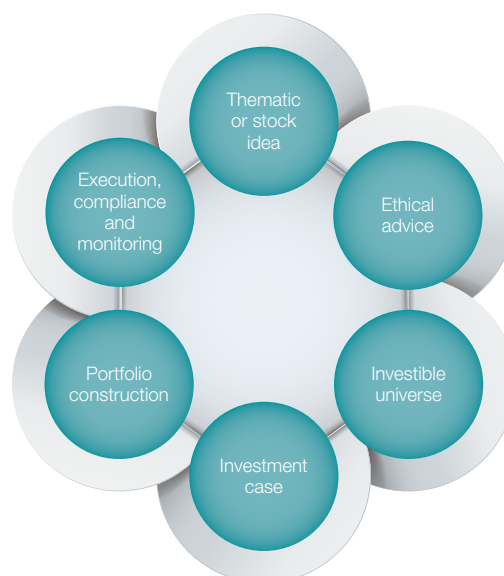


Figure 8 Overview of the Australian Ethical Investment Process

Ethical aspects of the investment process are overseen by our Ethical Advisory Group (EAG). This group develops the Ethical Frameworks and determines an appropriate position for Australian Ethical on contentious ethical issues as they arise during the course of the year. The EAG is comprised of:

- CEO (Chairman of the EAG)
- CIO
- General Counsel
- GM Marketing
- External Ethical Adviser

The Board also has an important role in approving the Ethical Framework used by the CIO and the EAG in its decision-making and adjudicating on points of contention where they are unresolved by the Ethical Advisory Group.

In the forthcoming year, we will appoint a new Head of Ethics, reflecting our commitment to ongoing consistency and transparency in our ethical investment approach. This role will oversee further work to codify our Ethical Framework and position statements on important ethical issues.

## *Our Ethical Impact and Influence*

### **FS5, FS6, FS10, FS12**

We are driven by positive social and environmental purpose and will be a strong advocate for corporate and industry behaviour change. We believe that our actions will empower others to behave in a way that enhances the wellbeing of everyone on the planet. We also recognise that through growth we will further our purpose, reaching more clients, having a greater voice and having larger funds under management, with a greater ability to bring about change. We seek to have a positive impact and influence through our:

- investments in companies that contribute to positive social or environmental change
- engagements and advocacy
- proxy voting activity
- participation in external initiatives and public policy debate

## **Our investments**

### **FS6**

Based on our engagement with stakeholders this year, we understand that members and investors in particular, place a high importance on information about the environmental and social impact of our investments.

We have outlined our funds under management as at 30th June 2013, by geography and by sector (tables 6 and 7). We have also outlined our position on the ethical issues which have emerged as of greatest concern, based on the surveys of members and investors which we conducted during the year.

As at 30th June 2013, over 75% of our domestic equity funds under management were in financials, healthcare, industrials sectors and information technology sectors (Table 6). Of these sectors, compared with the composition of the All Ordinaries Index we are: relatively 'overweight' in healthcare (reflecting the inherent 'social purpose' of this sector); 'overweight' in information technology' and industrials; and underweight in financials.

Table 6 Percentage of domestic equities funds under management by sector as at 30th June 2013

Sector	Percentage of domestic equity funds under management as at 30 June 2013 (%)	All Ordinaries Index composition (%)	Difference between AEI and All Ordinaries Index
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<b>Sector</b>	<b>Percentage of domestic equity funds under management as at 30 June 2013 (%)</b>	<b>All Ordinaries Index composition (%)</b>	<b>Difference between AEI and All Ordinaries Index</b>
Consumer Discretionary	3.5%	5.7%	-2.2%
Consumer Staples	0.0%	8.4%	-8.4%
Energy	0.0%	7.3%	-7.3%
Financials	27.4%	42.3%	-14.9%
Health Care	24.2%	4.7%	19.5%
Industrials	13.8%	7.3%	6.5%
Information Technology	12.3%	1.0%	11.3%
Materials	2.5%	16.3%	-13.8%
Telecommunication Services	8.7%	5.1%	3.6%
Utilities	7.6%	2.0%	5.6%
Unlisted Equities	0.1%	0.0%	0.1%
<b>Total</b>	<b>100.0</b>	<b>100%</b>	<b>0%</b>

Figure 9 Percentage of funds under management by sector as at 30th June 2013

<b>Region</b>	<b>Percentage of funds under management as at 30 June 2013 (%)</b>
North America	6.0%
Pacific Rim	89.3%
Western Europe	4.6%
<b>Total</b>	<b>100.0</b>

Figure 10 Percentage of funds under management by region as at 30th June 2013

As part of the survey of our superannuation members and managed fund investors conducted this year, we included a question which assessed level of concern in relation to a wide range of ethical issues. We have outlined below our position in relation to the top 5 ethical issues which emerged.

# Our position in relation to key ethical issues for our stakeholders

## *Climate change and pollution*

It is acknowledged by most Governments and major corporations that human induced climate change poses a profound risk to the Earth and a fundamental economic challenge. As such our investment and corporate behaviour reflects the need to combat climate change. We invest heavily in renewable energy, supply side clean technology as well as demand side energy efficiency. At the corporate level, we continue to be 100% carbon neutral.

## *Unconventional gas*

We avoid investment in companies in the business of extracting unconventional gas such as CSG. We do however invest in gas distribution and infrastructure companies (mainly pipelines) which gives us a small exposure to unconventional gas, especially in the US. We believe that the global economy needs to move away from coal as soon as possible. While replacing coal with a more greenhouse-friendly energy source such as natural gas is a pragmatic response in the short term, we also invest for the longer term by supporting renewables such as wind and solar.

## *Human rights and trade with repressive regimes*

When it comes to human rights and trade with repressive regimes we take a zero tolerance approach. We do not invest in any company that uses slavery, child labour or works to the detriment of human rights in any country.

## *Biodiversity*

We do not invest in mining companies or the native forestry sector. We are also mindful of the role of certain biofuels such as palm oil in terms of global deforestation and impacts on vulnerable species such as orang-utans. When investing in biofuels companies, we prioritise genuinely renewable sources that are not competing with food production.

### **Engagement and advocacy**

We undertake three forms of engagement with companies on their ethical behaviours:

1. Checking whether or not a company complies with our Ethical Charter

We constantly search for companies that meet the requirements of the Australian Ethical Charter to add to our 'screened universe' of potential investee companies.

We monitor our investee companies on an ongoing basis to ensure that they continue to meet the requirements of our Ethical Charter.

In order to inform this process, we often contact both investee and non-investee companies with requests for information.

2. Influencing the behaviour of actual or potential investee companies

We aim to contribute to positive economic, social and environmental outcomes through our investment activities, and frequently identify opportunities for improvement in the ethical performance of actual or potential investee companies. In such cases, we engage with those companies directly, typically through correspondence and one-on-one meetings, in order to encourage a change in approach.



### 3. Influencing the behaviour of non-investee companies

There are many sectors which do not, and will not, form part of our investment portfolio. However, as advocates of ethical behaviour, we recognise the important role that we have to play in influencing their policies and practices. We therefore engage in a program of engagement based on sectors or themes which we consider to be important, typically through correspondence, followed by meetings where appropriate.

This year we undertook a total of 48 engagements with companies, 50% of which resulted in a satisfactory outcome (Table 7). We consider an outcome to be satisfactory if we change a company's behavior to conform with the norms that we think should apply or if we receive information that is sufficient for us to review our concerns and come to the view that they were unwarranted.

**Table 7 Number of engagements and satisfactory outcomes**

	FY11	FY12	FY13
Total no. of engagements	48	42	48
Number of engagements with investee companies	35	28	29
Number engagements with non-investee companies	13	14	19
Satisfactory outcomes (no.)	-	-	24
Satisfactory outcomes (%)	-	-	50%

Over half (56%) of engagements were targeted towards avoiding investments which extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment. Of these, 14 related to animal harm (primarily animal testing), 7 related to human harm (tobacco, pornography, gambling and alcohol), and 6 related to environmental harm (logging, pollution, carbon price lobbying and ship-breaking) (Table 8).

**Table 8 Number of engagements by Ethical Charter issue**

Ethical Charter Issue	Number of engagements
Australian Ethical shall seek out investments which provide for and support:	
The development of workers' participation in the ownership and control of their work organisations and places	0
The production of high quality and properly presented products and services	0
The development of locally based ventures	0
The development of appropriate technological systems	1
The amelioration of wasteful or polluting practices	4
The development of sustainable land use and food production	2
The preservation of endangered eco-systems	0
Activities which contribute to human happiness, dignity and education	0
The dignity and well-being of non-human animals	0
The efficient use of human waste	0
The alleviation of poverty in all its forms	0
The development and preservation of appropriate human buildings and landscape	0
Australian Ethical shall avoid any investment which is considered to unnecessarily:	
Pollute land, air or water	0
Destroy or waste non-recurring resources	0
Extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment	27
Market, promote or advertise, products or services in a misleading or deceitful manner	0
Create markets by the promotion or advertising of unwanted products or services	0
Acquire land or commodities primarily for the purpose of speculative gain	0
Create, encourage or perpetuate militarism or engage in the manufacture of armaments	9
Entice people into financial over-commitment	0

<b>Ethical Charter Issue</b>	<b>Number of engagements</b>
Exploit people through the payment of low wages or the provision of poor working conditions	4
Discriminate by way of race, religion or sex in employment, marketing, or advertising practices	0
Contribute to the inhibition of human rights generally	1

One of our major engagement activities during the year, included in the data above, was with Tomra – a Norwegian company in which we have successfully invested over a number of years. Amongst other efficient and sustainable products, Tomra make reverse vending machines - you put the bottles in and receive money back.

Unfortunately, Tomra bought a company which made tobacco sorting machines. We initially engaged with Tomra, requesting that they stop selling these machines. Following their refusal, we engaged other international institutional shareholders and put forward a resolution to their annual general meeting requiring them to stop selling these machines. When the resolution failed, we were forced to divest our stock in Tomra. (Clearly we do not class this as a satisfactory engagement.)

In addition to our direct engagement with investee companies, we also participate in external initiatives which allow us to advocate on particular issues as part of a large stakeholder group. For example, we are a signatory to the Carbon Disclosure Project, which requests information on greenhouse gas emissions, energy use and the risks and opportunities from climate change from thousands of the world's largest companies, on behalf of 722 institutional investors with \$ 87 trillion in assets.

In May 2013, the EAG determined that our key engagement themes for the forthcoming year will be:

- Bank disclosure – on exposure to emissions-intensive investments
- Climate change disclosure
- Tobacco – with a focus on indirect exposure, for example through producing technologies which are used within the value chain for tobacco manufacture, distribution, supply or disposal
- Animal rights particularly in relation to testing medical products

## Proxy Voting

Australian Ethical's policy is to vote (or make a considered decision to abstain) on investee company resolutions where it has voting authority and responsibility to do so. Our aim is to vote all proxies for Australian and international investee companies. Decisions on how to vote proxies will be made on a company by company and resolution by resolution basis with regard to the following factors:

- the preservation and increase of the value of the investment in the best interests of members in the managed investment schemes
- improving and upholding the governance of investee companies
- the performance of the investee company
- the application of the Australian Ethical Charter to the resolution under consideration.

For the period 1 July 2012 to 30 June 2013 a total of 1,045 resolutions were voted on across the Smaller Companies Trust, Larger Companies Share Trust, International Equities Trust and the Advocacy Fund. No shares are held by the Cash Trust or the Property Trust.

Of the 1,045 resolutions voted on 38, were voted 'against' and we 'abstained' from voting on 1.

The negative votes related to appointment or re-election of directors and remuneration issues. The resolution we abstained from voting on related to the election of a new director where we felt that the current director was doing an appropriate job.

## Participation in external initiatives and public policy debate

### G4-16

#### Influencing the responsible investment sector

Australian Ethical plays an active role in a range of industry bodies, acting as an ethical voice, and influencing the development and growth of the responsible investment sector.

Our key activities during the year have been:

- Responsible Investment Association Australia (RIAA) – we are on the working groups for Impact Investment and Corporate Engagement
- Financial Services Council (FSC) – we participate in a number of technical working groups that develop a considered response to regulatory issues in the financial services industry
- Financial Ombudsman Service (FOS) – the Financial Ombudsman Service provides an informal mechanism for clients to complain about us if they are not able to resolve an issue by dealing with us directly

- Association of Superannuation Funds of Australia (ASFA) – we participate in a number of technical working groups that develop a considered response to regulatory issues in the superannuation industry
- Global Reporting Index (GRI) – this report is prepared under the GRI paradigm and we are keen to be more involved
- Principles for Responsible Investment (PRI) Association – we are a member of the UNPRI and apply the principles through our business activities
- Association for Sustainable and Responsible Investment in Asia (ASRIA) – we are foundation members and work through this group to spread responsible investment principles in our region

#### Raising awareness of ethical issues through social media

We recognise the power of social media to engage people and raise awareness of ethical issues and this year have shared 274 posts via Facebook and 413 posts via Twitter, on a broad range of social and environmental topics. Our most popular posts, based on number of people that 'liked' commented on or shared the post, were related to palm oil, unburnable carbon and waste (table 9).

**Table 9 Reach and response to our social media posts on ethical issues**

Topic of our post	Total reach	People talking about this
Woolworths inclusion of palm oil in their hot cross buns	63,808	994
Unburnable carbon	54,336	333
Coca Cola 'cash for containers' legal battle with the Northern Territory Government relating to recycling - and the subsequent public reaction	67,744	1,275
Superfund investments in coal and coal seam gas	27,088	248
Origin Energy's approval to put toxic chemicals into the Condamine River	36,852	246

'Total reach' is the number of people for which this post appeared on their News Feed.

'People talking about this' is the total number of people that liked, commented or shared the post.

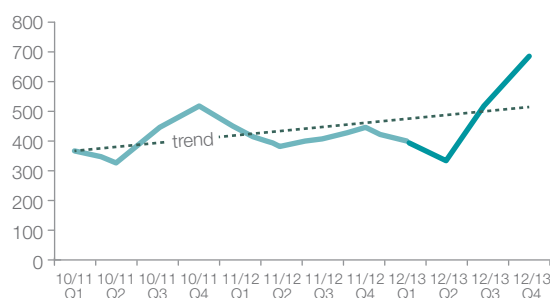
# Meeting the expectations of our clients

## Introduction

This section of the Sustainability Report is newly added this year, reflecting our greater focus on reporting about the issues which are most material to our business. We have sought to outline the feedback that we have received from our clients this year, how we are responding to this feedback, and our performance in a number of key aspects of client service.

## Client growth

As a result of improved awareness and focus on more strategic client development and marketing activities, our new clients at the end of the financial year reached record levels, with 660 members joining, and a net membership increase of 420 members. New clients for the month of June 2013 were 269 compared to 146 last year, an increase of 84%. Equally, new default or registered employers, a key focus on our sales and product improvement efforts, increased significantly over the past year.



**Figure 10 New joins**

Of the new joiners to our superannuation fund, 44% said that they heard about us via a referral. This includes word of mouth referrals from friends, family and colleagues and referrals from employers that are not registered clients of Australian Ethical.

The record joins were matched by record exits from the fund of 240 members. Contributory factors include:

- An increase in members transitioning to retirement products
- Legislative requirements to transfer low balance members to the Australian Tax Office
- An increase in financial hardship cases

We believe that our performance on client growth and referrals can be used as a proxy for how effectively we are meeting the needs of prospective and existing clients.

## Our understanding of our client expectations

We have an ongoing program of engagement and communication with our clients which enables us to continuously improve our client service. This includes through:

- Tracking the enquiries and complaints that we receive through our customer service telephone line
- Reviewing the feedback and comments that we receive through our website and Facebook page
- Holding regular meetings with our employers, which typically include a presentation to employees to explain more about our approach to managing their superannuation funds
- Proactive telephone calls to zero and high balance members to understand how we can better support them

This year (after the end of the year to which this report relates) we also conducted a survey of our superannuation members, the employers of those members, and our managed fund investors in order to understand their priorities and information needs in more detail. In this survey we asked our clients to identify the issues which were most important in their decision to invest (or in the case of employers, to offer to the option to invest) with Australian Ethical. The top responses to this question, informing our approach to client service, are shown in table 10.

**Table 10 Issues of importance to our clients as suggested by our recent Client Survey**

Superannuation fund members and managed fund investors	Employers
<ul style="list-style-type: none"> <li>• Alignment of the super fund with ethical values*</li> <li>• Our responsiveness to enquiries</li> <li>• Ease of making changes to investment choices</li> <li>• Ability to access accurate and up-to-date information on the investment portfolio</li> <li>• Choice of investment products available</li> <li>• Fee structure</li> </ul>	<ul style="list-style-type: none"> <li>• Alignment of the super fund with ethical values of employer organisation and its employees*</li> <li>• Administrative ease of making and reporting on employee contributions</li> <li>• Our responsiveness to enquiries</li> <li>• Ability to interact with Australian Ethical online</li> </ul>

\* Addressed in the section on 'Ethical Investing' within this Sustainability Report.

## *Meeting our clients' expectations*

### G4-13

In this section, we have reported on a number of activities during the year which we believe have been significant in terms of meeting our clients' expectations.

#### Change in Superfund administrator

During March and April 2013, we transitioned to a new Superannuation administrator in order to deliver better quality and lower cost service to members. In particular we aimed to provide members with best practice innovative services with improved accessibility, functionality and greater control over their retirement savings, with a more competitive cost structure.

Strong project planning was implemented to ensure minimal impact on our members and their advisers during the transition. Several back-ups were performed and stored in separate locations to ensure a continuity of information.

#### Responding to enquiries and complaints

##### Response times

Since the commencement of our new superannuation fund administration arrangements on 1 April 2013 we have monitored our responsiveness to client enquiries received by our Contact Centre. We intend to continue to monitor this next year and to track our performance for responding to enquiries over time.

**Table 11 Number of calls and average call waiting time at our Contact Centre**

Data between 1 April 2013 and 30 June 2013	
Number of calls received at Contact Centre	5,744
Number of calls answered by Contact Centre	5,456
Average call waiting time	1 minute and 29 seconds

We have made a number of procedural changes at our Contact Centre in response to client feedback. In particular, we have reduced the maximum call wait time from 6 minutes to 2 minutes, bringing forward the opportunity at which the caller can leave a voicemail message, which we commit to return as soon as practicable.

#### Complaints

During the course of the full reporting year, we received 27 complaints, of which upon investigation only 6 were determined to be

'founded', that is, there was a genuine mistake or oversight. This was down from 15 'founded' complaints during the previous reporting year (table 12).

All complaints are dealt with in accordance with our Complaints and Resolution Policy. During the reporting year, one complaint went to the Superannuation Complaints Tribunal. (The Superannuation Complaints Tribunal dismissed the complaint after the end of the reporting period.)



**Table 12 Number of complaints**

	2011-12	2012-13
Total number of complaints received	25	27
Number deemed to be 'founded'	15	6

During June 2013 we received numerous calls and emails about insurance offered by the super fund. This was primarily driven by the introduction of new insurance arrangements on the 9th March 2013 which saw death and total and permanent disability cover provided to all members of the fund on an 'opt out' basis. This was done because of a change in legislation. Members were concerned about the ethics of enforced 'opt out' insurance as opposed to 'opt in' and felt that they had been given inadequate notice to opt out of these arrangements.

The introduction of opt out insurance arrangements had been communicated a number of times by email before the change was made, with final correspondence by hard copy letter. We learnt valuable lessons about communicating significant change to our clients.

## Enhancing our communications

### Engaging on ethical issues

During the year we introduced our refreshed brand identity, our new website and significantly improved new client engagement processes using more upbeat and interactive communications with a focus on sharable content. The aim has been to make clients' involvement with Australian Ethical a positive and engaging experience and to emphasise the positive impact their investments are having on society and the planet, whilst giving them the means and desire to share their experience with others.

We believe we have significantly increased the information we share via newsletters, emails and social media about the social and environmental impact of investing ethical and the difference it can make. We have also dedicated more resources to make sure we answer client enquiries that come to us via platforms such as Facebook and Twitter. Whilst the volume is not yet the same as enquiries via traditional email or phone calls, we expect to see an ongoing increase in the number of clients and prospective clients using social media to engage with us.

More information on our social media activity is included in the section on 'Ethical Impact and Influence' within this Sustainability Report.

## Enhancing financial literacy

Australian Ethical views financial literacy as a priority. During the past year, we have developed our client communications to include 'how to' information, covering subjects such as rollovers, transition to retirement and co-contributions amongst others, in order to help our clients get the most from their investments. We have received feedback from a number of our clients asking for more information about superannuation online which they can read at home, avoiding the need to telephone our Contact Centre. In response, we are developing a series of superannuation fact sheets which will be available on our website by the end of this calendar year.

## Changes to our fee structure

Australian Ethical is conscious of trying to make ethical investing more accessible to the wider market. We also recognise that, as we develop a more competitive fee structure, this may enable us to increase our rate of growth, allowing us in turn to have a greater impact with respect to ethical performance of companies.

During the past two years we have made a number of changes to our fee structure to make our products more competitive and to bring them in line with market best practice:

- We have reduced the management fee on the Wholesale Smaller Companies Trust and Larger Companies Trust from 1.35% down to 0.95% as at May 2012;
- We have removed all upfront fees from direct investments from 1 July 2012 onwards;
- We have increased the member account fee. We were under-market in respect to this fee;
- We have commenced reimbursement from the superfund for costs in relation to our external administrator, consistent with market practice.

In addition we have developed a program to reduce fees for our members and future investors over the next three years. We will continue to track progress on this in our annual Sustainability Report in future years.

# Supporting and developing our people

## Our workforce

### G4-10, G4-LA1

Australian Ethical employed 32 staff and one contractor as at 30 June 2012, with 8 new hires and 13 leavers during the year. This represents a rate of new employee hire of 24.2% and turnover of 39.4% (all voluntary), as compared to 26.3% voluntary turnover in 2011-12 (number and rate of new employee hire were not reported in prior years). In relation to turnover we note that, as a small organisation in an industry experiencing significant change it only takes a small number of people to decide to leave for our statistics to be affected.

Our new employee hires were all male, and our leavers were predominantly male, with new hires and leavers spanning a diverse age range (table 14).

During the year there was a gradual transition of operations to our Sydney office, with 55% of staff in Sydney and 45% in Canberra as compared to 34% in Sydney or Brisbane and 66% in Canberra at 30th June 2011. Since the end of the reporting year we have announced the scaling back of our Canberra office and the consolidation of our operations in Sydney. The staff affected by these changes were paid their entitlements and access to outplacement services was provided. Where possible we discussed the option of people moving to a different role; however this was difficult due to the jobs being restructured and requiring additional qualifications and would have required a geographic move.

	2010-11	2011-12	2012-13
<b>Total staff</b>			
Total staff as at end June	50	38	33
Total FTE as at end June	46.64	35.03	30
<b>Employee hires</b>			
Employee hires (number of staff)	Not reported	Not reported	8
Rate of employee hires (% of total staff)	Not reported	Not reported	24.2%
<b>Employee hires by gender</b>			
Employee hires – male (number of staff)	Not reported	Not reported	8
Rate of employee hires – male (% of total staff)	Not reported	Not reported	24.2%
Employee hires – female (number of staff)	Not reported	Not reported	0
Rate of employee hires – female (% of total staff)	Not reported	Not reported	0%
<b>Employee hires by age</b>			
Employee hires <30 (number of staff)	Not reported	Not reported	3
Rate of employee hires <30 (% of total staff)	Not reported	Not reported	9.1%
Employee hires age 30-50 (number of staff)	Not reported	Not reported	3
Rate of employee hires age 30-50 (% of total staff)	Not reported	Not reported	9.1%
Employee hires >50 (number of staff)	Not reported	Not reported	2
Rate of employee hires >50 (% of total staff)	Not reported	Not reported	6.1%
<b>Employee turnover</b>			
Employee turnover (number of staff)	6	10	13
Rate of employee hires (% of total staff)	12%	26.3	39.4%

	2010-11	2011-12	2012-13
<b>Employee turnover by gender</b>			
Employee turnover – male (number of staff)	3	7	10
Rate of employee turnover – male (% of total staff)	6%	18.4%	30.3%
Employee turnover – female (number of staff)	5	3	3
Rate of employee turnover – female (% of total staff)	10.4%	6%	9.1%
<b>Employee turnover by age</b>			
Employee turnover <30 (number of staff)	3	1	1
Rate of employee turnover <30 (% of total staff)	6%	2.6%	3.0%
Employee turnover age 30-50 (number of staff)	2	7	10
Rate of employee turnover age 30-50 (% of total staff)	4%	18.4%	30.3%
Employee turnover >50 (number of staff)	1	2	2
Rate of employee turnover >50 (% of total staff)	2%	5.2%	6.1%

All turnover data for 2010-11 and 2011-12 is voluntary turnover only (i.e. excludes redundancies). For the 2012-13 year there were no redundancies.

**Table 13 Employees by employment contract, employment type and gender**

	2010-11			2011-12			2012-13		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
<b>Employment contract</b>									
Permanent	50	32	18	38	25	13	32	22	10
Fixed term	1	-	-	0	-	-	1	1	0
<b>Permanent employees by employment type</b>									
Full time	40	-	-	31	-	-	27	21	6
Part time	10	-	-	7	-	-	5	1	4

## Diversity and Equal Opportunity

### G4-LA12, G4-LA13

Australian Ethical strives to maintain a diverse workplace which offers equal opportunity for all staff to develop. We believe we:

- have an inclusive, integrated, collaborative and ethical approach to the development and delivery of services, programs and initiatives that engage, involve and represent a workforce from diverse cultural backgrounds
- treat all people with respect and dignity
- create and foster a supportive and understanding environment in which all individuals realise their maximum potential
- reward excellence and promote employees on the basis of their performance
- Manage diversity to ensure that employees are treated fairly and evaluated objectively

As at 30th June 2013, our workforce comprised 69.7% males and 30.3% females. We have adopted these Gender Diversity Targets:

Target Date	Target
30 June 2013	<ul style="list-style-type: none"> <li>• 25% of the AEI Board will be female</li> <li>• 25% of Management at AEI will be female</li> </ul>
31 December 2016	<ul style="list-style-type: none"> <li>• 40% of the AEI Board will be female</li> <li>• 40% of Management at AEI will be female</li> </ul>

While this policy is aimed at increasing female representation at no time will AEI have more than:

- 75% of either gender up to 31 December 2016; or
- 60% of either gender after 31 December 2016.

As at 30 June 2013, 33% of the Board and 22% of AEI's Management were female compared to 30 June 2012 when 40% of the Board and 11% of AEI's Management were female.

**Table 14 Board and employees by employment category and gender**

	30th June 2011			30th June 2012			30th June 2013		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
<b>Boards</b>									
Australian Ethical Board	6	83%	17%	5	80%	20%	6	67%	33%
Australian Ethical Superannuation Pty. Board	4	50%	50%	4	75%	25%	4	75%	25%
<b>Employees</b>									
Management	12	84%	16%	8	87%	13%	6	5	1
Professional	17	76%	24%	12	92%	8%	13	11	2
Support	21	43%	57%	18	39%	61%	14	7	7
<b>Total</b>	<b>50</b>	<b>64%</b>	<b>36%</b>	<b>38</b>	<b>66%</b>	<b>34%</b>	<b>33</b>	<b>69.7%</b>	<b>30.3%</b>

Pay equality is a meaningful indicator to assess not only gender equality in the workplace but Australian Ethical's commitment to equal pay for equal work. The ratio of female to male employee pay in 2012-13 varied between 76% and 89%. The largest pay gap is with support staff where females earned 76% of their male counterpart's

salary as at 30th June 2013 – significantly down from 2011-12 (when females had a slightly larger average pay than males). This is in contrast to management and professional categories in which the pay gap has reduced from 79% to 89%, and from 78% to 86% respectively.

**Table 15 Ratio of basic salary of women to men by employment category**

	2010-11	2011-12	2012-13
Management	65%	79%	89%
Professional	91%	78%	86%
Support	80%	102%	76%

## Employee Engagement

### Employee survey results for 2011, 2012 and 2013

The results are summarised below.

Measure		Employee Responses %					
		2009	2010	2011	2012	2013	Change on 2012
<b>Satisfaction with current role</b>	Agree or Strongly Agree	77	79	97	100	95	-5
	Unsure	16	8	0	0	5	+5
	Disagree or Strongly Disagree	7	13	3	0	0	0
<b>Internal Communication</b> I am well informed about what is happening in my division*	Agree or Strongly Agree	79	59	63	74	86	+12
	Unsure	11	21	23	4	9	+5
	Disagree or Strongly Disagree	10	20	14	22	5	-17
<b>Learning and Development</b> I feel my personal development has been supported and encouraged	Agree or Strongly Agree	59	43	54	78	90	+12
	Unsure	27	44	35	11	5	-6
	Disagree or Strongly Disagree	14	13	11	11	5	-6
<b>Performance Review Process</b> There are adequate mechanisms in place for an appraisal of my work	Agree or Strongly Agree	45	36	57	77	63	-14
	Unsure	35	41	29	12	23	+11
	Disagree or Strongly Disagree	20	23	14	11	14	+3
<b>Systems and Processes</b> Adequate systems are in place to allow me to do my job effectively*	Agree or Strongly Agree	-	-	54	82	81	-1
	Unsure	-	-	20	7	0	-7
	Disagree or Strongly Disagree	-	-	26	11	20	9
<b>I feel personally valued at work*</b>	Agree or Strongly Agree	-	-	79	77	82	+5
	Unsure	-	-	12	19	13	-6
	Disagree or Strongly Disagree	-	-	9	4	5	+1
<b>Board Confidence</b> I have confidence in the board to govern the company*	Agree or Strongly Agree	-	37	59	77	86	+9
	Unsure	-	31	38	15	14	-1
	Disagree or Strongly Disagree	-	32	3	8	0	-8
<b>Leadership</b> I have confidence in MD & management team to lead and manage the company*	Agree or Strongly Agree	-	-	66	81	95	+14
	Unsure	-	-	26	11	0	-11
	Disagree or Strongly Disagree	-	-	8	8	5	-3

\* data only available in years shown and not asked in previous years



Using the survey results we aim to continue to:

- Focus on communication involving consulting with employees on the 'how' and 'what'
- Grow leadership capability in developing and sustaining a values based culture
- Enable a learning and development environment aligned to employee strengths and sense of purpose
- cultivate a collaborative team environment as we integrate new hires
- Focus on creating a performance based culture supported by equal opportunity and diversity measures

## Learning and Development

The table shows the amount spent on training and development over the last three financial years on employees and officers.

	2010-11	2011-12	2012-13
Conferences	\$17,965.85	\$63,041.99	\$32,238.45
Employee Development	\$1,629.47	\$4,389.07	\$1,278.19
Memberships	\$6,914.55	\$23,322.83	\$7,118.18
Periodicals/Books	\$825.47	\$2,089.58	\$0
Learning & Development	\$68,245.89	\$39,250.27	\$41,384.31
<b>Total</b>	<b>\$95,581.23</b>	<b>\$132,093.74</b>	<b>\$82,019.13</b>
Employees at 30 June	50	38	33
Per employee spend	\$1,911.62	\$3,476.15	\$2,485.43

### Learning & Development spend per employee



We believe this demonstrates a commitment to ensuring that our people have the appropriate professional skills and accreditations.

## Employee Benefits

### G4-LA2

Australian Ethical is committed to providing an attractive range of benefits to staff. All benefits offered to permanent full time employees are also made available to permanent part-time employees on a pro-rata basis. Temporary employees have

access to all leave accrual entitlements and receive job related training. Casual employees receive long service leave accrual and any job related training they require.

To recognise family and personal responsibilities, Australian Ethical supports flexible working arrangements. These include flexible work hours, a high proportion of part-time employment, work from home arrangements where practicable, a subsidised personal development program and free access to a 24 hour counsellor through the employee assistance program. The company is also an accredited breastfeeding friendly workplace.

In addition, staff receive 3 days leave for the Christmas closedown period, eligible staff receiving six weeks paid maternity and adoption leave in addition to statutory entitlements; 25 days long service leave after 5 years service along with study and examination leave.

# Managing our direct environmental impacts

Consistent with our ethical investment approach, we aim to ameliorate wasteful or polluting practices in our own operations. As an office-based business, with sites in two Australian cities for the duration of the reporting year, the main environmental impacts of our operations related to:

- Energy use
- GHG emissions – caused by office-based energy use and travel
- Resource consumption – in particular the use of paper.
- Waste

## *Energy use, travel and GHG emissions*

The 2012-13 year was the sixth full financial year in the six green-star Trevor Pearcey House for our Canberra office. During the year, we moved our Sydney office to 130 Pitt Street, a four star rated building for NABERS energy.

Our total electricity consumption for the 2012-13 year was 88,949 KWh, a decrease from 96,031 KWh in 2011-12.

Gas consumption was 120,993MJ—slightly increased from 116,762MJ in the 2011-12 reporting year although significantly less than consumption in 2010-11. This reflects our transition of operations from Canberra to the Sydney office over the course of the last two years (we consume gas in the Canberra office only).

This resulted in GHG emissions of 22.7 tCO<sub>2</sub>-e in 2012-2013, representing 0.128 tCO<sub>2</sub>-e on a per square meter basis, which compares to an average of 0.163 tCO<sub>2</sub>-e for Australia's existing office building stock .

In the coming year, we intend to liaise with our building facilities manager in order to determine whether we can procure renewable energy for our Sydney office.

**Table 16 Energy use and associated GHG emissions**

	2010-11*	2011-12	2012-13
Electricity consumption (KWh)	80,666	96,031	88,949
Gas consumption (MJ)	196,493	116,762	120,993
Total energy use (MJ)	486,891	462,473	441,210
GHG emissions from energy use (tCO <sub>2</sub> -e)	7.65*	25.2**	22.7
GHG emissions from energy use per m <sup>2</sup> (tCO <sub>2</sub> -e)		Not available	0.128

\* Canberra only – Sydney did not commence measurement of electricity use until the 2011-12 reporting year and calculation of GHG emissions from energy use until the current reporting year.

\*\* and \*\*—restated from previous reports to exclude 'GHG emissions avoided' through purchase of renewable energy in our Canberra office.

In 2012-13, our staff took 422 flights and 733 taxi trips, slightly increased from 2011-12 (399 flights and 561 trips). GHG emissions from our travel overall were 80.65 tCO<sub>2</sub>-e, down from 90.19 tCO<sub>2</sub>-e in 2011-12. These differences may in part be caused by changes to emissions factors underlying the Climate Friendly GHG Emissions Calculator, as well as a greater proportion of international versus domestic flights taken.

**Table 17 GHG emissions from travel**

	2010-11	2011-12	2012-13
Number of flights	472	399	422
GHG emissions from flights (tCO <sub>2</sub> -e)	103.7	87.3	77.6
Number of taxi trips	655	561	733
*GHG emissions from taxi trips (tCO <sub>2</sub> -e)	3.00	2.89	3.05
GHG emissions from travel	106.7	90.19	80.65

\* 2010-2011 and 2011-12 data calculated based on 20L LPG fuel per 100km. 2012-13 data calculated based on 18L LPG fuel per 100km as per ATO (2009) Taxi Benchmarks and Examples.

## Paper consumption

We have changed the way in which we report our paper use this year, reporting on total paper use only and reduction strategies in place, rather than providing a full breakdown of individual sources of paper use. This reflects our effort this year to focus on reporting the issues that are most material to our business. Furthermore, during the reporting year, due to the gradual transition of our operations from Canberra to Sydney, we made no new purchases of paper in Canberra (using supplies purchased in 2011-12 only) and are therefore unable to report accurately on Canberra office A4 paper use.

In 2012-13 we consumed 3,500 sheets of A3 paper (Sydney and Canberra) and 32,500 sheets of A4 paper (Sydney only), saving 4.3 trees as compared to using non-recycled paper. For the Sydney office this represents 1,805 sheets of A4 paper per FTE (based on Sydney 18 staff members as at 30th June 2013).

We continue to employ best practice to minimise the impacts of our paper use, for example:

- Double-sided printing as default option on all computers
- Use of Evolve 100% post-consumer recycled printer and photocopy paper
- Paper reuse trays at desks; paper and cardboard recycling facilities
- Increasing our use of technology to interact with our clients including product disclosure statements available online, and an online application process for prospective superannuation members
- Where we do print newsletters, product disclosure statements and annual reports, use of 100% recycled, calcium carbonate coated chlorine-free paper using vegetable-based inks

During the reporting year, an unfortunate incident occurred whereby we purchased 25,000 envelopes printed with our return address, using Australian Forestry Standard (AFS) certified paper, rather than 100% post-consumer recycled paper. Understandably, this resulted in a number of complaints from our clients. Upon consideration, we decided that there would be less environmental impact from using these envelopes than from disposing of and replacing them. We therefore used the full batch before purchasing 100% post-consumer recycled envelopes as per our normal practice.

## Waste

We continue our standard practice, in both our Canberra and Sydney offices, of separating paper and cardboard, recyclable containers, organic waste, and general waste, with recycling of all streams other than general waste. We maintain good signage to encourage consistent use of these facilities by our staff.

In prior years we manually weighed our different waste streams in order to report on our waste disposal in detail. However, this year we have ceased to do this in an effort to focus our reporting on the issues which are most material to our business, and in the context of the small size (and waste impact) of our operations. Unfortunately, without this manual weighing process, we do not at present obtain information from our waste service providers in sufficient detail to facilitate waste reporting. In the Sydney office, this issue is further complicated by the fact that our waste is aggregated upon collection with other tenants in our building. During the course of the coming year, we will liaise with the facilities manager for our Sydney office premises, to investigate the possibility of obtaining more detailed information on our waste volumes.

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# Our Grants to the Community



Image from 2013 community grant recipient, Free to Shine

As prescribed in Australian Ethical's constitution, 10% of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. This is one of the highest levels of corporate giving in Australia based on percentage of profits. It is something that the shareholders, staff and directors should be very proud of.

This year, grant applications were received by an excess of 300 organisations across a range of humanitarian, environmental and animal welfare organisations. The majority of the applications were of high quality, suited our selection criteria, and adhered to our Australian Ethical Charter and therefore made the task of determining a short list, for voting by staff and shareholders, extremely hard.

Voting was again strong and this year leaned heavily towards humanitarian projects (in stark contrast to last year's skew to wildlife conservation). Australian Ethical will be donating \$117,300 to a total of 11 organisations, bringing the total amount donated over the past 13 years to almost \$1.5 million.

This year's grants range in size from \$4,000 to \$30,000 and over half of the projects will be fully funded by Australian Ethical. Recipient groups have a strong focus on efficiently delivering tangible outcomes.

In addition to their grant, all recipients will receive a free two-year subscription to the Centre for Sustainable Leadership's (CSL) Leadership Rewired online training package. In addition, we plan to work with our clients to help crowdsource the remaining funding for the grant recipients that we were unable to fully fund.



## 2013 Grant Allocation

Street Swags	80 street swags	\$4,800	Project fully funded
Free to shine	Scholarship for girls at risk	\$9,000	Project fully funded
Asylum Seeker Centre	Employment assistance program	\$30,000	Project fully funded
East Timor Women Australia	Fair futures for women & girls in Timor-Leste	\$30,000	Partially funded
Kokoda Track Foundation	Lighting Up Papua New Guinea	\$10,000	Project fully funded
Communities @ Work	The Yellow Van food rescue	\$4,000	Project fully funded
Inanna	Comforting kids	\$5,000	Project fully funded
40K Foundation Aust	40K PLUS	\$7,250	Partially funded
Australian Conservation Foundation	100% renewable ready - clearing the barriers to change	\$7,250	Partially funded
Primary Ethics	Delivery of ethics classes	\$5,000	Partially funded
The Orangutan Project	Wildlife Protection Units	\$5,000	Partially funded

### Street Swags – 80 Street Swags

Our grant will help fund the supply of waterproof sleeping swags to the homeless because shelters do not have enough beds, so better than turning away with no shelter at all. Swags are sewn by prisoners in Qld and WA gaols, for which they gain TAFE qualifications. School kids roll and pack the swags.



<http://www.streetswags.org>

### Free to Shine Ltd – Scholarship for girls at risk

Free to Shine works to empower Cambodian girls through education to end sex slavery by providing scholarships. Poverty stricken rural villages struggle to feed children; most don't go to secondary school and teenage girls with no education are high risk being targeted by traffickers.



<http://www.free-to-shine.org>

### Asylum Seeker Centre – Employment assistance scheme

This project will assist asylum seekers to find meaningful and fairly paid employment aligned with their skills and experience. A grant will be used to employ an officer to train and support a team of skilled volunteers coaching asylum seekers. Part of it will also be used for microfinance loans to members of the community.



[www.asylumseekerscentre.org.au](http://www.asylumseekerscentre.org.au)

### East Timor Women Australia (ETWA) – Fair futures for women & girls in Timor-Leste

ETWA aim to empower women involved in producing naturally dyed hand-woven textiles in Timor-Leste. This project will establish fair trade standards, sustainable cultivation of organic cotton and dye plants, supply-chain sustainability, weaving school and design collaboration.

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





### **Kokoda Track Foundation – Lighting Up Papua New Guinea**

Lighting Up PNG is a project to provide four micro-loans to women's groups to assist in the training and establishment of solar-shops which



The Kokoda Track Foundation will provide 800 solar LED lights for families in the Kokoda region. This will result in successful distribution, growth in solar shops, and improvement in living conditions.

<http://www.kokodatrackfoundation.org>

### **Communities @ Work – The Yellow Food Van**

Communities@Work continue to rescue and deliver over 20 tonnes of good food, from 160 local businesses, providing over 60,000 meals to disadvantaged people, reducing 16m litres of water used in food production, and saving good food from landfill. Our grant will help expand this program.



<https://commsatwork.org>

### **Inanna Inc – Comforting Kids**



When women and children escape domestic violence they often take few possessions. This project enables kids to personalise and decorate their room in the transition home to feel more comfortable (eg. linen, lamps, pictures). They then can take these items with them when they leave the home.

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

### **40K Foundation Australia – 40K PLUS**

A project to set up 34 centres (or pods) in pre-existing buildings in villages to provide up to 1000 children living in poverty in India with a dynamic learning space for two hours every weekday. The outcomes will be increased education level, high attendance, parental attendance, and upskilling women in villages.



<http://40k.com.au>

### **Australian Conservation Foundation–100% renewable ready–clearing the barriers to change**

ACF will undertake a comprehensive assessment highlighting the top five existing market, regular and financial barriers that are preventing a move to 100% renewable energy in Australia. They will use our grant to produce five videos to communicate these barriers, engage supporters and monitor their impact.



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

### **Primary Ethics Ltd – Ethics Classes**

Grant will assist with paying full time employee to drive recruitment of volunteers– broadening delivery of ethics classes into 110 new schools in lower socio-economic areas of NSW.



<http://www.primaryethics.com.au>

### **The Orangutan Project – Wildlife Protection Units**

Our grant will help establish, train and maintain WPU's to secure released Sumatran orangutan populations and habitat at Bukit Tigapuluh. The project also aims to prevent illegal logging, assist in reintroduction of orangutans and collect wildlife data.



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

# Governing our business

The governance of our organisation is detailed in the Corporate Governance Statement contained in our 2013 Annual Report at pages 28 to 33. In addition, there is some additional commentary in Appendix D Disclosures on Management Approach.

Over the course of the reporting periods ending 30 June 2011 and 30 June 2012, a small number of shareholders attempted to remove the Board and replace them with their own candidates; this included the calling of a general meeting and voting against the Remuneration Report resolution at the 2011 and 2012 AGMs.

The details of this campaign can be seen in various market releases (see 29 May 2012, 22 June 2012 and 29 October 2012, under the heading shareholder activity). The majority of shareholders chose to support the Board and reject the candidates proposed by the dissident shareholders.

## Remuneration

### G4-54, G4-55

The ratio of the annual total compensation for our highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) is 3.5:1.

The ratio of percentage change in annual total compensation of our highest-paid individual to the median percentage change in annual total compensation for all employees (excluding the highest-paid individual) was -1.2:1 (i.e. the total compensation of the highest paid individual decreased between 2011 and 2012, whereas the median of all other employees increased).

# Appendix A: Stakeholder engagement and interests

**Table 19 Engagement with, and interests of our key stakeholder groups**  
G4-24, G4-26, G4-27

Stakeholder group	Methods and frequency of engagement	Interests	How we have responded to this in our reporting
Superannuation members and other investors	<ul style="list-style-type: none"> <li>• 2013 Member and Investor Surveys*</li> <li>• 2010 Triennial Survey</li> <li>• Annual member and investor roadshows</li> <li>• Telephone calls—ongoing (proactive support and reactive enquiries)</li> <li>• Website and Facebook—ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental and social impact of investment portfolios</li> <li>• Influencing the ethical performance of investee companies</li> <li>• Our approach to investment from an ethical perspective</li> <li>• Alignment of superfund with ethical values</li> <li>• Responsiveness to enquiries</li> <li>• Ease of making changes to investment choices</li> <li>• Access to information on investment portfolio</li> </ul>	<p>Expanded section on Ethical Investing from prior years, to include a detailed discussion of our investment approach and more information on our ethical impact and influence.</p> <p>New section on Meeting our Client Expectations which responds to these interests.</p>
Employers	<ul style="list-style-type: none"> <li>• 2013 Employer Survey*</li> <li>• Program of employer meetings and presentations - ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Alignment of superfund with organisational and employee values</li> <li>• Ease of making and reporting on employee contributions</li> <li>• Environmental and social impact of portfolios</li> <li>• Influencing the ethical performance of investee companies</li> <li>• Responsiveness to enquiries</li> </ul>	<p>Expanded section on Ethical Investing from prior years, to include a detailed discussion of our investment approach and more information on our ethical impact and influence.</p> <p>New section on Meeting our Client Expectations which responds to these interests.</p>
Employees	<ul style="list-style-type: none"> <li>• Annual employee engagement survey</li> <li>• Performance management process (mid-year and end of year reviews)</li> <li>• Exit interviews</li> <li>• Grievance mechanism (as required)</li> </ul>	<ul style="list-style-type: none"> <li>• Alignment of employee values with organisation and Charter</li> <li>• Identify and reward performance</li> <li>• Sustain key drivers of organisational success</li> </ul>	<p>New sub-section within the Our People section, examining the results of the Employee Satisfaction survey and some proposed responses</p>

Stakeholder group	Methods and frequency of engagement	Interests	How we have responded to this in our reporting
Shareholders	<ul style="list-style-type: none"> <li>• AGM</li> <li>• Annual Shareholder Roadshow</li> </ul>	<ul style="list-style-type: none"> <li>• Alignment of shareholder values with Charter</li> <li>• Identify material issues of interest</li> <li>• Sustain commitment to continued organisational success</li> </ul>	A greater focus on material issues within our Sustainability Report, which has considered materiality in a broad business sense (e.g. including client service), and a section explaining the work that we have done during the year in order to support shareholder confidence.

\* Engagement activity undertaken as part of the preparation process for the Sustainability Report.

# Appendix B: Material Aspects and Boundaries

G4-19, G4-20, G4-21

Material Aspect	Boundary inside Australian Ethical	Boundary outside Australian Ethical
Compliance (product responsibility)	<p>Any incident of non-compliance related to the Superfund would be relevant for Australian Ethical Superfund Pty, thereby impacting Australian Ethical Investment Ltd overall results (and possibly reputation).</p> <p>Any incident of non-compliance related to managed funds would be relevant for Australian Ethical Investment Ltd but would be unlikely to impact Australian Ethical Superfund Pty.</p>	<p>Clients could be impacted, for example where any non-compliance incident led to financial loss.</p> <p>Shareholders would be affected by any negative impact on share price.</p>
Product portfolio	<p>Relevant for Australian Ethical Investment Ltd as a whole.</p> <p>Any performance issues or incidents related to this aspect may impact upon certain fund(s) only, depending on where the issue or incident occurs.</p>	<p>Relevant for Australian Ethical Investment Ltd as a whole.</p> <p>Any performance issues or incidents related to this aspect may impact upon certain fund(s) only, depending on where the issue or incident occurs.</p>
Active ownership	<p>Relevant for Australian Ethical Investment Ltd as a whole.</p> <p>This aspect has particular importance for the Advocacy Fund although it is relevant for all funds.</p> <p>Any performance issues or incidents related to this aspect may impact upon certain fund(s) only, depending on where the issue or incident occurs.</p>	<p>Members and investors and shareholders could be impacted in terms of their desire to have an ethical impact through investments. Investment financial performance may also potentially be impacted.</p> <p>Shareholders could be impacted by share price movements resulting from any reputational issues.</p> <p>The environment and society (including future generations) can also be impacted by the environmental and social characteristics of our product portfolio.</p>
Governance	<p>Relevant for Australian Ethical Investment Ltd as a whole.</p> <p>Potential for employee impact where governance issues affect health and well-being.</p>	<p>Shareholders could be impacted where issues related to governance have an impact on share price.</p>
Ethics and integrity	<p>Relevant for Australian Ethical Investment Ltd as a whole.</p> <p>Potential for employee impact where ethics and integrity issues affect health and well-being.</p>	<p>Shareholders could be impacted where issues related to ethics and integrity have an impact on share price.</p>



<b>Material Aspect</b>	<b>Boundary inside Australian Ethical</b>	<b>Boundary outside Australian Ethical</b>
Client experience	Relevant for Australian Ethical Investment Ltd as a whole in terms of financial performance and reputation.	Superannuation fund members, their employers and managed fund investors could be impacted in terms of satisfaction.  Financial advisers could also be impacted where issues are relevant to funds recommended by an advisor.  Suppliers would be impacted where issues are caused by performance of a supplier. This could be particular relevant for 'client facing' service providers – in particular LinkSuper, Mahindra Satyam and Boardroom.
Shareholder confidence	Relevant for Australian Ethical Investment Ltd as a whole in terms of reputation and ability to attract and retain talent.  Employees could be directly impacted by significant issues in terms of health and well-being, and morale.	Shareholders could be impacted by any significant issues in terms of share price and level of satisfaction.
Responsible and ethical investment	Relevant for Australian Ethical Investment Ltd as a whole – fundamental to business model and ability to deliver on strategy.	Members of our superannuation fund, investors in our managed fund, and our shareholders could be most directly impacted by our performance in relation to responsible and ethical investment.  The environment and society (including future generations) could also be impacted.
Climate change	Relevant for Australian Ethical Investment Ltd as a whole.	Members of our superannuation fund and investors in our managed fund, could be most directly impacted by our performance in relation to climate change.  The environment and society (including future generations) could also be impacted.

# Appendix C: Our Key Suppliers

**Table 20 Our key suppliers**

Provider	Details of Provider	Function	Estimated annual value of payments	Contract Renewal Date
Russell Employee Benefits Pty Ltd	<p>Russell Investments (Russell) is a global asset manager and one of only a few firms that offers actively managed multi-asset portfolios and services that include advice, investments and implementation.</p> <p>In February 2013 Russell sold its Superannuation Administration business to LinkSuper. Australian Ethical's current contract remains with Russell, which outsources the services to LinkSuper.</p>	Superannuation administration	> \$1 million	30 June 2017
LinkSuper	<p>LinkSuper are part of the Link Group - active in Share Registry, Superannuation Administration and Shareholder and Member Analytics. In Superannuation Administration, Link Group looks after 4.5 million member accounts in Australia. Link Group has responsibility for the administration of our superannuation fund, under its contract with Russell Investments, outsourcing a portion of those services to Mahindra Sataym (MSat).</p>	Superannuation administration	N/A	N/A
Mahindra Sataym	<p>MSat is a global consulting and IT services provider - part of the Mahindra Group, a global industrial conglomerate. The company's global headquarters is located in Hyderabad, India. They have development and delivery centres serving numerous clients, including many Fortune 500 organisations. MSat perform a range of tasks for Australian Ethical under their outsourced agreement with LinkSuper, including risk and compliance, project management and IT.</p>	Business process outsourcing	N/A	N/A

Provider	Details of Provider	Function	Estimated annual value of payments	Contract Renewal Date
National Australia Bank	NAB provides a number of services for the Corporate group (banking) as well as acting as the custodian for all assets held by the Managed Funds and Superannuation Fund. National Australia Bank Limited (NAB) is a financial services group that provides a comprehensive and integrated range of banking and financial services including wealth management throughout Australia, New Zealand, Asia, United Kingdom and USA.	Investment administration for superannuation, custody for managed funds and administration, corporate banking facilities, lending facilities for the Property Fund	Under \$1 million	21 October 2014
Boardroom Limited	Boardroom Limited Australia is a wholly owned subsidiary of Boardroom Limited, an investment holding company, providing various professional business and corporate services in Singapore and the Asia Pacific region. Boardroom Limited was founded in 1968 and is headquartered in Singapore.	Managed fund registry and share registry	Under \$1 million	23 October 2015
KPMG	KPMG is one of the largest professional services companies in the world, with global headquarters in the Netherlands. As part of their engagement with Australian Ethical, KPMG has committed to donating 40 hours of staff time to develop an interest in supporting sustainable, social and environmental initiatives in our communities.	External audit	Under \$1 million	30 June 2014
CAER	CAER is an independent, staff and not-for-profit owned research organisation. They assist investors seeking to apply environmental, social and governance criteria to their Australian and international investments. CAER was established in 2000, and with their UK partner EIRIS are able to provide consistent sustainability data on almost 3,000 of the world's leading companies.	Consultancy services (capacity agreement for review of securities)	Under \$1 million	3 May 2017
Professional Financial Solutions (PFS)	Professional Financial Solutions (PFS) is an independent, employee-owned Australian consultancy, founded in 2001.	Risk and compliance services	Under \$1 million	30 June 2014

# Appendix D: Disclosures on Management Approach

<b>Compliance (product responsibility)</b>	
Why the Aspect is material	<p>This Aspect is material due to the extent of regulatory change which has occurred during the year.</p> <p>This Aspect has the potential to impact our financial results, share price, and our licence to operate.</p>
How we manage the Aspect or its impacts	<p>Our Compliance Officer is responsible for managing compliance aspects of our business, with the support of the Senior Management Team and external service providers, PFS. The Compliance Officer develops, implements and monitors compliance processes. All compliance arrangements are approved by the General Counsel and monitored by the Audit and Compliance Committee.</p> <p>The Board approves all new products, including product disclosure statements. Communications are reviewed from a compliance perspective by the Compliance Officer.</p>
The evaluation of the management approach	<p>Various aspects of the compliance system are externally audited and reports are provided to ASIC and APRA.</p> <p>The external auditor has direct access to the Audit, Compliance and Risk Committee and meets with them independently of management as often as is thought necessary.</p> <p>In addition, a key element of the process leading to the preparation of the annual financial statements is certification from the CFO and CEO about the adequacy of the risk management system.</p>
<b>Product Portfolio, Active Ownership, Responsible and Ethical Investment, Climate Change</b>	
Why these Aspects are material	<p>These Aspects are material as they are fundamental to our purpose and business model. They were also identified as being of particular importance through the clients surveys which we undertook this year.</p> <p>Failure to perform in relation to these Aspects would equate to a failure to deliver against our strategy. This could impact:</p> <ul style="list-style-type: none"> <li>• The environmental and social benefit created through our activities</li> <li>• Our ability to support the goals of our clients in terms of investing their money in support of positive environmental outcomes.</li> <li>• Investment performance and financial results.</li> <li>• Reputation.</li> <li>• Our ability to reinvest and grow market share.</li> </ul>
How we manage the Aspect or its impacts	Discussed in detail in the 'Ethical Investing' section of this report.
The evaluation of the management approach	The Board directly monitors this aspect and the Investment Committee is involved. In addition, we receive continuous feedback from stakeholders (investors, employees and shareholders) and various interest groups.

<b>Governance and shareholder confidence</b>	
Why this Aspect is material	<p>We participate in an industry that sees us entrusted with the life savings of our shareholders, the people who invest in our managed funds and the people who choose to join our super fund. Our industry is heavily regulated and requires that various employees and officers meet what are essentially good character requirements contained in various statutes.</p> <p>This Aspect has the potential to impact on:</p> <ul style="list-style-type: none"> <li>• Our reputation</li> <li>• Our licence to operate</li> <li>• Our financial performance</li> <li>• The health and well-being of our staff</li> </ul>
How we manage the Aspect or its impacts	Our approach to governance is detailed in the Corporate Governance Statement 2013 at pages 28 to 33 of the 2012-13 Annual Report to Shareholders.
The evaluation of the management approach	The principle mechanism for the evaluation of this approach is the opportunity that shareholders have to scrutinise the performance of the Board and management at general meetings of the company.
<b>Ethics and integrity</b>	
Why this Aspect is material	<p>Our own performance in relation to ethics and integrity is crucial to our credibility and ability to influence the environmental and social performance of other companies.</p> <p>This Aspect has the potential to impact:</p> <ul style="list-style-type: none"> <li>• Our reputation</li> <li>• Our ability to attract and retain clients</li> <li>• Our ability to attract and retain talent</li> <li>• The health and well-being of employees</li> <li>• Our ability to influence the environmental and social performance of investee companies.</li> </ul>

How we manage the Aspect or its impacts	<p><b>Australian Ethical Charter</b></p> <p>Australian Ethical was established to further the Australian Ethical Charter which is incorporated into the Company’s constitution and the constitution of Australian Ethical Superannuation Pty limited, the Australian Ethical Retail Superannuation Fund and each of the managed investment schemes that the Company operates. The Australian Ethical Charter contains 23 principles that are applied across the operations and activities of the Company.</p> <p><b>Values</b></p> <p>Australian Ethical is, at its core, a values driven company and our values are shaped by the Ethical Charter. The Charter however does not necessarily translate into easily digestible guides for day-to-day behaviour. Staff participated in the determination of the company’s values which are:</p> <ul style="list-style-type: none"> <li>• Integrity;</li> <li>• Respect;</li> <li>• Ethics;</li> <li>• Professionalism; and</li> <li>• Teamwork.</li> </ul> <p>The above statements, policies and values are consistently applied across the company and infuse the way we work and interact with each other and our stakeholders.</p> <p><b>Code of conduct</b></p> <p>Australian Ethical’s code of conduct has been endorsed by the board and applies to all employees and directors. The code of conduct and the share trading policy can be found on our website.</p> <p>Australian Ethical also has a whistle blowing support policy and provides access to an external counselling service and an external ethical counselling service either of which may be used by employees to discuss and consider their personal position if unsure about procedures relating to the code of conduct or any other company policy.</p>
The evaluation of the management approach	The principle evaluation mechanisms for our management of ethics and integrity is the annual staff survey and the rate of reported incidents and breaches including breaches reported to regulators.
<b>Client experience</b>	
Why this Aspect is material	<p>The client experience and our ability to deliver on the expectations of our clients is critical to our financial success, our ability to grow and ultimately our ability to influence the environmental and social performance of investee companies.</p> <p>Various aspects of the client experience were identified by our clients as being important within the surveys which we conducted this year (see appendix A for details). Our Sustainability Report focuses on these aspects.</p>
How we manage the Aspect or its impacts	<p>We address client (and other stakeholder) needs by:</p> <ul style="list-style-type: none"> <li>• having an active social media presence and a website which provide current information about investment returns, our corporate activities, advocacy campaigns of interest and changes that are being planned and being implemented;</li> <li>• we have a regular sequence of communication points with investors and members including a newsletter, Good Money, for trust and superannuation investors;</li> <li>• since listing we have produced a shareholder newsletter;</li> <li>• we also produce this sustainability report using Global Reporting Initiative guidelines. The sustainability report is available on the Company’s website; and</li> </ul>
The evaluation of the management approach	We have implemented a regular cycle of customer surveys conducted by external experts to help us understand what is important to our investors and clients and what we can do to improve both what we do and how we communicate what we are doing.



# GRI Content Index and PRI table

General Standard Disclosures	Description	Page	Omissions	Assurance
<b>General Standard Disclosures</b>				
<b>Strategy and Analysis</b>				
G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and the organisation's statement for addressing sustainability	Sustainability Report pgs. 5-7		This data has not been assured
G4-2	Description of key impacts, risks and opportunities	Sustainability Report pgs. 12-13		This data has not been assured
<b>Organisational Profile</b>				
G4-3	Name of the organisation	Sustainability Report pg. 8		This data has not been assured
G4-4	Primary brands, products and services	Sustainability Report pg. 10-11		This data has not been assured
G4-5	Location of organisation's headquarters	Sustainability Report pg. 10		This data has not been assured
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Index only Australian Ethical does not operate in any countries other than Australia.		This data has not been assured
G4-7	Nature of ownership and legal form	Sustainability Report pg. 8		This data has not been assured
G4-8	Markets served (geographic breakdown, sectors, types of customers and beneficiaries)	Sustainability Report pgs. 11-12		This data has not been assured
G4-9	Scale of the organisation	Sustainability Report pg. 10		This data has not been assured
G4-10	Total number of employees by contract and gender.	Sustainability Report pg. 28		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Total number of permanent employees by employment type and gender.	Sustainability Report pg. 28		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Total workforce by employees and supervised workers and by gender.	Not reported	Not applicable. Australian Ethical does not have any supervised workers.	The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59

General Standard Disclosures	Description	Page	Omissions	Assurance
	Total workforce by region and gender.	Not reported	Not applicable. Australian Ethical does not operate in multiple regions.	The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Whether a substantial portion of the organisation's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised worker.	Index only. Australian Ethical does not have a substantial portion of work performed by people other than employees or supervised workers.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Any significant variations in employment numbers.	Index only. Australian Ethical does not experience significant variations in employment numbers.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-11	Percentage of employees covered by collective bargaining agreements	Index only. Australian Ethical does not have any employees covered by collective bargaining agreements.		This data has not been assured
G4-12	Describe the organisation's supply chain.	Sustainability Report pg. 12		This data has not been assured
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership or its supply chain.	Sustainability Report pg. 12 and pgs. 27-28		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	Index only. Australian Ethical applies the precautionary principle through the assessment of companies in accordance with the Ethical Charter, and through engagement and advocacy activities, both of which are fundamental to our business model.		This data has not been assured

General Standard Disclosures	Description	Page	Omissions	Assurance
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Index only. Australian Ethical is a signatory to the United Nations Principles of Responsible Investment.		This data has not been assured
G4-16	Membership of associations and advocacy organisations in which the organisation holds a position on the governance body, participates in projects or committees, provides substantial funding beyond membership dues, or views membership as strategic.	Sustainability Report pg. 23		This data has not been assured
<b>Identified Material Aspects and Boundaries</b>				
G4-17	List all entities included in the organisation's consolidated financial statements or equivalent documents.	Annual Report pg. 35.		This data has not been assured
	Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report.	Index only. There are no entities included within Australian Ethical's consolidated financial statements that are not covered by this Sustainability Report.		This data has not been assured
G4-18	Explain the process for defining the report content and the Aspect Boundaries.	Sustainability Report pg. 8		This data has not been assured
	Explain how the organization has implemented the Reporting Principles for Defining Report Content.	Sustainability Report pgs. 8-9		This data has not been assured
G4-19	List all the material Aspects identified in the process for defining report content	Sustainability Report pgs. 40-41		This data has not been assured
G4-20	For each material Aspect, report the Aspect Boundary within the organisation.	Sustainability Report pgs. 40-41		This data has not been assured
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation.	Sustainability Report pgs. 40-41		This data has not been assured
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Index only. Australian Ethical has not made any restatements of information provided in previous reports.		This data has not been assured

<b>General Standard Disclosures</b>	<b>Description</b>	<b>Page</b>	<b>Omissions</b>	<b>Assurance</b>
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Index only. There have been no significant changes in Scope or Aspect Boundary from previous reporting periods.		This data has not been assured
<b>Stakeholder Engagement</b>				
G4-24	List stakeholder groups engaged by the organisation	Sustainability Report pg. 38-39		This data has not been assured
G4-25	Basis for identification and selection of stakeholders with whom to engage	Sustainability Report pg. 8-9		This data has not been assured
G4-26	Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Sustainability Report pgs. 9 and pg. 38-39		This data has not been assured
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns through its reporting.	Sustainability Report pgs. 38-39		This data has not been assured
<b>Report Profile</b>				
G4-28	Reporting period	Sustainability Report pg. 8		This data has not been assured
G4-29	Date of most recent previous report.	Index only. Australian Ethical's previous Sustainability Report related to the year ended 30th June 2012.		This data has not been assured
G4-30	Reporting cycle	Index only. Australian Ethical follows an annual reporting cycle.		This data has not been assured
G4-31	Contact point for questions regarding the report	Sustainability Report pg. 9		This data has not been assured
G4-32	The 'in accordance' option the organization has chosen.	Sustainability Report pg. 8		This data has not been assured
G4-33	The organisation's policy and current practice with regard to seeking external assurance for the report.	Sustainability Report pg. 9		This data has not been assured
	Scope and basis of any external assurance provided	Sustainability Report pg. 59		This data has not been assured
	Relationship between the organisation and the assurance providers.	Sustainability Report pg. 59		This data has not been assured

General Standard Disclosures	Description	Page	Omissions	Assurance
	Whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.	Index only. The senior management team is interviewed in the assurance process and provides follow up information as required.		This data has not been assured
<b>Governance</b>				
G4-34	Governance structure of the organization including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	Annual Report pgs. 28 and 29		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	Annual Report pg. 29		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-36	Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	Index only. Australian Ethical does not currently hold an executive-level position with responsibility for economic, environmental and social topics. However, it is in the process of recruiting for a Head of Ethics which will report directly to the Chief Executive Officer.		This data has not been assured
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	Index only. Consultation is delegated to the Chief Executive Officer who oversees the conduct of stakeholder engagement as per Australian Ethical's stakeholder engagement plan and provides feedback to the Board as appropriate.		This data has not been assured

<b>General Standard Disclosures</b>	<b>Description</b>	<b>Page</b>	<b>Omissions</b>	<b>Assurance</b>
G4-38	Composition of the highest governance body and its committees.	Annual Report pg. 11-13		This data has not been assured
G4-39	Whether the Chair of the highest governance body is also an executive officer.	Annual Report pg. 11		This data has not been assured
G4-40	Nomination and selection processes for the highest governance body and its committees, and the criteria used in this process.	Annual Report pg. 31		This data has not been assured
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed and whether conflicts of interest are disclosed to stakeholders.	Annual Report pg. 46		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-42	The role of the highest governance body's or senior executive's role in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to economic, environmental and social impacts.	Annual Report pgs. 28-29		This data has not been assured
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	Index only. The Board oversees the work of the Ethical Advisory Group and discusses economic, environmental and social topics as required.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment.	Annual Report pg. 29		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organizational practice.	The Board will consider this at its next evaluation.		This data has not been assured
G4-45	The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.	Sustainability Report pg. 19 and Annual Report pgs. 28-33		This data has not been assured



General Standard Disclosures	Description	Page	Omissions	Assurance
	Whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities	Stakeholder consultation informs management's decisions about economic, environmental and social impacts, risks, and opportunities		This data has not been assured
G4-46	The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	Annual Report pgs. 28-33		This data has not been assured
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	The activities of the EAG are reported to every board meeting.		This data has not been assured
G4-48	The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.	Index only. This report is reviewed by the Managing Director and the Company Secretary.		This data has not been assured
G4-49	The process for communicating critical concerns to the highest governance body.	Concerns are fed through reporting lines. We also have an Employee Representative who meets with the Board independently of management.		This data has not been assured
G4-50	The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	None.		This data has not been assured
G4-51	Remuneration policies for the highest governance body and senior executives	Annual Report pgs. 20-23		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-52	Process for determining remuneration including whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organization.	Annual Report pgs. 20-22		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59

<b>General Standard Disclosures</b>	<b>Description</b>	<b>Page</b>	<b>Omissions</b>	<b>Assurance</b>
G4-53	How stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.	Shareholder's vote on the remuneration report every year.		This data has not been assured
G4-54	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.	Index only. The ratio of the annual total compensation for our highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) is 3.5:1.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
G4-55	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.	Index only. The ratio of percentage change in annual total compensation of our highest-paid individual to the median percentage change in annual total compensation for all employees (excluding the highest-paid individual) was -1.2:1 (i.e. the total compensation of the highest paid individual decreased between 2011 and 2012, whereas the median of all other employees increased).		This data has not been assured
<b>Ethics and Integrity</b>				
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Code of Conduct		This data has not been assured
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.	Australian Ethical also advertises internally the Ethical helpline run by the St James Ethics Centre for use by employees.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59

General Standard Disclosures	Description	Page	Omissions	Assurance
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity, such as escalation through line management, whistle blowing mechanisms or hotlines.	Index only. There is a code of conduct and whistleblower procedures. In addition the Compliance Officer has a direct reporting line to the Audit, Compliance and Risk committee.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59

<b>Material Aspects</b>	<b>DMA / Indicators</b>	<b>Omissions</b>	<b>External Assurance</b>
<b>Employment</b>	Generic DMA: why the Aspect is material and the impacts that make this Aspect material.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic and Aspect-specific DMA: How the organization manages the material Aspect or its impacts. Sustainability Report pg. 28-32		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic DMA: The evaluation of the management approach.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	G4-LA1: Total number and rates of new employee hires and employee turnover by age group, gender and region. Sustainability Report pg. 27-28		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	G4-LA2: Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation. Sustainability Report pg. 31		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	G4-LA3: Return to work and retention rates after parental leave, by gender.	Not applicable. None of our employees have taken parental leave in the reporting period.	The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
<b>Compliance</b>	Generic DMA: Why the Aspect is material and the impacts that make this Aspect material. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic DMA: How the organization manages the material Aspect or its impacts. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic DMA: The evaluation of the management approach. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	G4-SO8: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. Index only: Australian Ethical had no significant fines or non-monetary sanctions during the financial year.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
<b>Product portfolio</b>	Generic DMA: Why the Aspect is material and the impacts that make this Aspect material. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic DMA: How the organization manages the material Aspect or its impacts. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59

Material Aspects	DMA / Indicators	Omissions	External Assurance
	Generic DMA: The evaluation of the management approach. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	DMA - FS1: Policies with specific environmental and social components applied to business lines. Sustainability Report pg. 17-18		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	DMA - FS2: Procedures for assessing and screening environmental and social risks in business lines. Sustainability Report pg. 17-18		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	DMA - FS3: Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements and transactions.	Not applicable. Australian Ethical does not impose conditions or requirements on its investee companies.	The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	DMA - FS4: Processes for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	The Sustainability Committee and engagement around the Australian Ethical Charter are our key processes.		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	DMA - FS5: Interactions with clients / investees / business partners regarding environmental and social risks and opportunities. Sustainability Report pg. 18		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	FS6: Percentage of portfolio for business lines by specific region, size and by sector. Sustainability Report pg. 18	Partially reported. Australian Ethical does not invest in companies with high social and environmental impact. We have reported investments by sector and region only. Further breakdown according to size of investee company was not considered to be meaningful for our portfolio.	The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	FS7: Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.		This data has not been assured
	All of our investments meet our Ethical Charter.		This data has not been assured

<b>Material Aspects</b>	<b>DMA / Indicators</b>	<b>Omissions</b>	<b>External Assurance</b>
	Only one fund is targeted towards a specific environmental benefit – our International Equities fund which focuses on smart energy technologies. The value of this fund is reported in 'About Australian Ethical' (pg. 10). We have also included an indication of the sectors which we invest in, and those which we avoid (in the section 'Managing our Ethical Investments', pg. 16)).		This data has not been assured
	FS8: Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.		This data has not been assured
	All of our investments meet our Ethical Charter.		This data has not been assured
	We have included an indication of the sectors which we invest in, and those which we avoid (in the section on 'Managing our Ethical Investments' pg. 16).		This data has not been assured
<b>Active ownership</b>	Generic DMA: Why the Aspect is material and the impacts that make this Aspect material. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic DMA: How the organization manages the material Aspect or its impacts. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	Generic DMA: The evaluation of the management approach. Sustainability Report pg. 40-41		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	FS10: Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental and social issues. Sustainability Report pg. 18		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	FS11: Percentage of assets subject to positive and negative environmental or social screening. Sustainability Report pg. 17		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59
	FS12: Voting policies applied to environmental and social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting. Sustainability Report pg. 18		The data for this indicator has been assured by Net Balance, Sustainability Report pg. 59



# Assurance Statement



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## INDEPENDENT ASSURANCE STATEMENT

To the Board and Management of Australian Ethical:

Australian Ethical Investment Limited (Australian Ethical) commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance over the content of the 2013 Sustainability Report (the 'Report'). The Report presents Australian Ethical's sustainability performance over the period 1 July 2012 to 30 June 2013. Australian Ethical was responsible for the preparation of the Report and this statement presents our opinion as independent assurance providers. Net Balance's responsibility in performing its assurance activities is to the Board and Management of Australian Ethical in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

### Assurance Standard and Objectives

The assurance engagement was undertaken in accordance with AccountAbility's AA1000 (2008) Assurance Standard (AA1000AS). This standard allows for the evaluation of an organisation's management, performance and reporting on sustainability issues.

This was undertaken by evaluating the organisation's adherence to the AA1000 AccountAbility Principles (2008) of:

**Inclusivity:** How does the organisation include stakeholders in developing and achieving an accountable and strategic response to corporate responsibility and sustainability?

**Materiality:** How does the organisation include in its reporting the material (most important) information required by its stakeholders to make informed judgements, decisions and actions?

**Responsiveness:** How does the organisation respond to stakeholder concerns, policies and relevant standards and adequately communicate these in its reporting?

### Assurance Type, Level, Scope and Limitations

Net Balance provided Type 2 moderate level of assurance in accordance with the AA1000AS. The review of adherence to the Principles was undertaken using the criteria outlined in the AA1000 Assurance Principles Standard (2008). The topics covered by this assurance engagement and the criteria used during the process included the following:

Material Issue	G4 Indicator
Human capital management	G4-10, G4-51, G4-52, G4-54, DMA – Employment including (LA1, LA2, LA3)
The product portfolio mix and compliance related disclosures	G4-57, G4-58, DMA – Compliance (including SO8)
Active ownership	DMA – Active ownership (including FS10, FS11, FS12)
Client experience	FS6, G4-13
Shareholder confidence	G4-34, G4-35, G4-41, G4-43, G4-44
Climate change investing	DMA – Product portfolio (including FS1, FS2, FS4, FS5)
Employee Engagement Results Summary (2013 data)	N/A

The scope of the assurance excluded or was limited by the following:

- The scope of work did not involve assurance of financial data, other than that relating to environmental, social or broader economic performance where applicable.
- The head office was visited as part of this assurance engagement. All non-head office data was reviewed remotely.

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## Assurance Methodology

The assurance engagement was undertaken in October and November 2013, and involved:

- Interviews with Australian Ethical managers responsible for oversight of the sustainability strategy, environmental performance, human capital management, internal audit and compliance. Interviews were also held with Australian Ethical managers responsible for active ownership, product portfolio, clients, shareholders and climate change investing.
- A review of the Australian Ethical's Materiality determination process.
- Interviews with key personnel responsible for collating and writing various parts of the Report to substantiate the reliability of selected claims.
- A review of Report content for any significant omissions and anomalies, particularly in relation to claims as well as trends in data.
- Testing of selected data points and statements relating to the subject matter outlined in Table 1.

## Our Independence

Net Balance was not responsible for preparing any part of the Report. Net Balance confirms that we are not aware of any issues that could impair our objectivity in relation to this assurance engagement, in accordance with our Independence Policy, a copy of which is available at <http://www.netbalance.com/services/assurance>.

## Our Competency

The Australian Ethical assurance engagement was carried out by an experienced team of professionals led by a Lead Sustainability Assurance Practitioner (Lead CSAP), accredited by AccountAbility in the UK. The project included personnel with expertise in environmental, social and economic performance measurement across a range of industry sectors. Net Balance is a global leader in the use of AccountAbility's AA1000AS, having undertaken over 200 assurance engagements in Australia in the past six years.

## Findings and Conclusions

### Adherence to AA1000 Principles

#### **Inclusivity:**

Australian Ethical was found to have a wide variety of well-established mechanisms that assist the business to engage with its stakeholders. The business has an established approach in place to proactively engage with stakeholders in areas of active ownership, client experience, people management and product development. The materiality process, for the first time, took into account both internal and external stakeholder interest with relation to the ranking and prioritisation of material issues. The report itself was found to be inclusive of the organisation's most material sustainability issues.

#### **Materiality:**

Net Balance reviewed Australian Ethical's materiality assessment process as part of the assurance engagement. The business was found to have a comprehensive process in place to help identify its material sustainability issues for reporting. The process for defining report content was improved this year through the application of the Global Reporting Initiative's G4 new guidance on boundary setting and materiality. These improvements have led to a more comprehensive review of stakeholder based materiality both within and outside the organisation. The material issues prioritised through this process were found to be clearly linked to the business' core approach to doing business. The report was also found to fairly disclose performance information that was reflective of the outcomes of the materiality assessment.

#### **Responsiveness:**

Net Balance tested the responsiveness of Australian Ethical to the management of the selected material issues through a series of interviews with management, the review of performance management systems and supporting documentation. Australian Ethical had responded to recommendations from the previous assurance engagement. This included the using stakeholder feedback to inform the materiality process. It was found to be actively managing and responding to issues that included industry and regulatory reform, improving the client experience, engaging with employees through structural business changes and the development of new products. The assurance process identified that the business was engaged on both the challenges and opportunities associated with each of these issues. The business continued to apply their Ethical Charter to their investment decisions and active ownership activities. Further work had also been undertaken to further embed the principles of the Charter into everyday business operations.

**Reliability of Performance Information**

Based on the scope of the assurance process, the following was observed with regard to performance information:

- The findings of the assurance engagement provide confidence in the systems and processes used for managing and reporting sustainability performance information included in the scope of this assurance engagement.
- The level of accuracy of sustainability performance information was found to be acceptable.
- Data trails selected were identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin and interpretation of data.

Based on our assurance procedures, nothing has come to our attention that causes us to conclude that the selected sustainability performance information has not been prepared, in all material respects, in accordance with the criteria as presented in Table 1.

Overall, it is Net Balance's opinion that the information presented in the report is fair in all material respects, and the Report was found to present a reliable account of Australian Ethical's sustainability performance during the reporting period.

**The Way Forward**

To ensure Australian Ethical continues to improve Net Balance has provided a number of recommendations. These recommendations relate to; documenting the materiality process; integrating the materiality risks into the overall business processes; proactively engaging with stakeholders and considering setting goals and targets for performance improvements on material issues. Net Balance also commends Australian Ethical on publishing the results of its employee engagement survey. As the results published are a subset of a larger survey, it is recommended that in future reports the business provides more qualitative context for the survey results. Further detail on these recommendations has been provided in a report to Australian Ethical's Board and Management.

On behalf of the assurance team  
13 November 2013  
Melbourne, Australia



Terence Jeyaretnam  
Director, Net Balance  
Lead CSAP (AccountAbility UK)



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