Australian Ethical

Sustainability Report 2023

Investing with heart

Welcome

Our purpose is investing for a better world. This means that as well as striving to deliver great investment outcomes for our customers, we must also understand, measure and mitigate our impacts on people, on animals and on the world around us.

In this report we seek to show how our investments, stewardship, climate action, community support and people and culture initiatives are all governed by the principles of the Australian Ethical Charter created by our founders in 1986.

We continue to evolve our sustainability reporting to reflect developing global standards and the concerns of our stakeholders. Since 2002 we have used the Global Reporting Initiative (GRI) reporting framework to help us track and report our impacts.

In 2017 we mapped the alignment of our share investments to the UN's Sustainability Goals. In 2018 we released our first annual TCFD Report and in 2020 we added a statement to address our approach to Modern Slavery concerns. In 2023 we report to the 2021 GRI Standards for the first time and report on our new impact investing capability.

As in previous years, we have asked KPMG to provide limited assurance over a range of key sustainability disclosures in our reporting. Data points that are covered by the limited assurance are identified in the document. KPMG's assurance opinion is available on page 49.

Acknowledgement of Country

Australian Ethical acknowledges the Traditional Owners of the country on which we work, the Gadigal people of the Eora Nation, and recognise and celebrate their continuing connection to land, waters and culture. We pay our respects to Elders past and present and thank them for protecting Country since time immemorial.

The heart of investing

Since 1986, we've been focusing on a brighter future for people, planet and animals by investing ethically with both the head and the heart.

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The Australian Ethical Charter© — our north star since 1986

Our purpose

Investing for a better world

Our vision

A world where money is a force for good

We value

Wisdom, authenticity, action & empathy

Our theory of change

A better world

We believe ethical investing can influence progress towards a better future for people, animals and the environment in several ways:

Engagement

We engage with select companies to improve key business practices.

Ethical investment decisions

Our ethical investment decisions can help our influence by providing positive consequences for successful engagement (inclusion in ethical and sustainable portfolios) and negative consequences for unproductive engagement (exclusion or divestment).

Exclusion and divestment

Our public ethical divestment and exclusion can signal ethical concerns about unsustainable products and practices to companies, other investors, governments, consumers and citizens. This public signal, combined with our ethical engagement and advocacy, can help influence positive changes in behaviour, government policy and investment and consumption choices. We report on engagement priorities, activity and progress on pages 39 to 41 of this report and in our Stewardship Report.

Cost of capital

Increased investor demand for ethical rather than unethical companies can increase access to lower cost funding for ethical companies. At the same time it can restrict funding and increase funding costs for unethical companies. This effect can scale with growth in demand for genuine ethical and sustainable investment options.

Our authenticity

We are an authentic purpose-driven investment manager, focused on investor returns and a better future.

Same principles

Despite challenging market conditions, we remain firmly focused on our key principles, as we have done since 1986.

Low carbon future

The structural drivers for a more sustainable, low carbon future are compelling. Our potential addressable market was $1.3 trillion at the end of 2022.[1]

Scaling business

We have been scaling our business to capture this growth opportunity and be recognised as a global role model for responsible investing.

1 "Australia's responsible investment market is valued at $1.3 trillion in 2022". Banhalmi-Zakar, Z., Herd, E., Goodwin, M., Pilawskas, P., Srivastava, P., Maniktala, M., Ghainder, S., Khoo, N., Polidori, M. 2023. Responsible Investment Benchmark Report 2023 Australia, RIAA

Investing with both head & heart

We believe that by investing in assets that have a positive impact on the world around us, and restricting+ investments with negative impacts, we can contribute to a positive future for the planet and all its inhabitants.

In FY23, soaring global interest rates created difficult economic conditions for citizens and investors alike. Russia's illegal invasion of Ukraine and China's stalled recovery from Covid-Zero contributed to global headwinds for investment markets. In this volatile year we remained true to our ethical philosophy, focusing on the delivery of our strategic initiatives, enhancing our capability and adding to the diversity of our ethically-assessed portfolio.

Our leading approach to responsible investing was endorsed by Morningstar when they released their latest 'ESG Commitment Level' assessment of 108 global asset managers.[2] Australian Ethical was named as one of only 8 global 'Leaders' for ESG Commitment. Though some others named operate in Australia, we were the only Australian company to make this elite list.

Our investments help redirect capital away from harmful sectors towards future-building industries positioned to thrive in a decarbonised world. Some of our key achievements are set out below:

Key achievements in FY23

- We completed the Successor Fund Transfer (SFT) of Christian Super into Australian Ethical Super. A significant project, the SFT added around 28,000 new customers, $1.93 billion in funds under management and enhanced our asset allocation with a broader range of alternative assets.
- We undertook a significant project to in-house and uplift our asset allocation methodology and capability.
- We developed our new Moderate Fund to offer customers a diversified portfolio comprising a balance of growth and defensive assets. This new fund to be launched in FY24 will introduce a compelling, lower-growth asset allocation with a medium risk profile to our investment menu.
- We created a new team to serve values-aligned organisations such as not-for-profits, charities, foundations and businesses who wish to invest ethically.

Enhancing our capability

The capability of our business was significantly enhanced by a number of new appointments during the year:

- **Ludovic Theau, Chief Investment Officer:** Ludovic brings more than 30 years' experience in ESG investing, including private markets, funds management, commercial and investment banking and financial advisory. Prior to joining, Ludovic was the Chief Investment Officer for the Clean Energy Finance Corporation, Australia's Green Bank.
- **Alison George, Head of Impact and Ethics:** Alison has more than 20 years' experience in responsible investment and stewardship, working with numerous industry leaders in her prior roles with Pendal and Regnan.
- **Dr Stuart Palmer:** continues to be a strong voice for more sustainable business and investment models and practices in his new role as our Ethical Futures Lead.
- **Ross Piper, Chief Executive, Superannuation:** Ross brings more than 25 years of executive leadership experience to the role, having previously held senior roles within Macquarie Bank, World Vision, and Christian Super. Ross has end-to-end responsibility for our super business, along with oversight of the ongoing transformation of the operational backbone of the broader business. Ross was appointed Chair of the Responsible Investment Association of Australasia ('RIAA') in November 2022.
- **Conrad Tsang** joined us in the new role of Chief Technology Officer in October 2022 and is responsible for developing and overseeing a sustainable technology strategy across the business
- **Sandra McCullagh**, previously an independent member of our Investment Committee, was appointed to the AEI Board and appointed Chair of the Investment Committee. Michael Anderson also joined the Investment Committee in FY23. Both appointments adding further to the Committee's extensive responsible investment expertise.

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

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

Sustainability highlights FY23

Growth in capital for good

+48% growth in funds under management

Record **$9.2 billion** in funds under management

+54% growth in customers to >**127,000**[3]

In pursuit of positive change for planet, people & animals

250+

companies engaged for change[8]

4 engagements resulted in divestment[9]

Values-aligned portfolio

1 of only 8 asset managers globally to achieve 'ESG Commitment Level: Leader'[4]

-77%

77% lower CO_2 intensity compared to Benchmark[5,6]

2.3x

2.3x revenue from sustainable impact solutions than Benchmark[5,7]

4.2x

4.2x revenue from sustainable water & agriculture and pollution prevention than Benchmark[5,7]

4.6x

4.6x investment in renewables and energy solutions than Benchmark[5,7]

An ethical business

$9m+

allocated to not-for-profits in total[10]

$1.1m

provisioned to the Australian Ethical Foundation in FY23

B Corp

highest scoring Certified B Corporation in A&NZ as at 13 July 2023[11]

70%

Employee Engagement[12]

67%

female: Board diversity

50%

female: Leadership team diversity

3 Includes funded super members and managed fund customers
4 The Morningstar ESG Commitment Level: Our assessment of 108 asset managers' white paper.
5 Compared to a blended sharemarket Benchmark of S&P ASX200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Based on shareholdings at 30 June 2023 and analysis tools provided by external sources which cover 92% of the listed companies we hold shares in by value. See page 48 for more information about this comparison.
6 Carbon/CO_2e intensity of listed companies whose shares we invest in across our funds and options, measured as tonnes CO_2e per $ revenue. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. See page 48 for more information about this comparison.
7 Based on the revenue from sustainable impact solutions earned by listed companies whose shares we invest in across our funds and options, and the proportion of those listed share investments in renewables and energy solutions. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. For our analysis we use sustainable impact criteria and revenue data from external sources which aim to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the U.N. Sustainable Development Goals (SDGs), EU Taxonomy of Sustainable Activities, and other sustainability related frameworks. More information available here. See page 48 for more.
8 We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with Westpac is counted as one engagement which included meetings, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with CBA in relation to its fossil fuel exposure and a separate meeting with CBA to discuss its exposure to deforestation in Australia.
9 Not including companies excluded from initial investment
10 Includes grants to not-for-profits made by AEI prior to the Foundation's inception.
11 We achieved a record score of 168.5 in our reassessment making us the highest scoring of the 560+ Certified B Corps in Australia and Aotearoa New Zealand as at 13 July 2023.
12 Employee Engagement Survey June 2023

Ethical credentials 2023

Australian Ethical was named 1 of only 8 global 'Leaders' for ESG Commitment by Morningstar[13]

Leadership

RIAA Responsible Investment Leader 2023

Financial Review Sustainability Leaders 2022

Rainmaker ESG Leader Rating 2022-2023

SuperRatings Infinity 2022

Responsible investment leaders++

Managed funds

Financial Newswire Fund Manager of the Year 2022

Australian Ethical International Shares Fund - Winner Responsible Investments (ESG)

Money Magazine Best of the Best 2022

Australian Ethical Diversified Shares Fund - Best Australian Equities ESG Fund

Product ratings

SuperRatings GOLD 2023

For MySuper, MyChoice and Pension++

++ SuperRatings does not issue, sell, guarantee or underwrite this product.

See the website for details of its ratings criteria. SuperRatings performance figure is net of percentage based administration and investment fees.

Finder Green Superannuation Fund of the Year 2020-2023

B Corp

B Corp certification was created by B Lab, a global non-profit that aims to make it easier for mission-driven companies to have a more positive impact on the planet and its people.

Since its launch in 2006, more than 100,000 businesses have signed up for the B Corp Impact Assessment, yet only 3,500 have been certified: a testament to its extremely high standards. Certified B Corps are held legally accountable to consider the impact their decisions have on their workers, customers, suppliers, community, and the environment.

In 2014, we were the first publicly listed Australian company to become certified as a B Corp and we have maintained this certification ever since.

This year we achieved another milestone with a record score of 168.5 in our reassessment, making us the highest scoring of the 560+ Certified B Corps in Australia and Aotearoa New Zealand as at 13 July 2023.

Super

ProductReview.com.au Best Retail Super Fund 2023

DBM – Australian Financial Awards 2023

Finalist – Most Recommended Superannuation Fund

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services licence.

Memberships and certifications

Our wide-ranging memberships and certifications are testament to our leading approach to ethical investing and an important part of our authenticity.

Certifications

CERTIFIED BY RIAA

Certified Responsible Investment by Responsible Investment Association Australasia (RIAA)

Certified B Corp since 2014. The first company on the ASX to achieve this.

United Nations Principles of Responsible Investment (PRI)

- Investment & Stewardship Policy: ★★★★☆
- Direct – Listed equity – Active fundamental – incorporation: ★★★★☆
- Direct – Listed equity – Active fundamental – voting: ★★★★☆
- Direct – Fixed income – SSA: ★★★☆☆
- Direct – Fixed income – Corporate: ★★★★☆

Signatory to:

- Principles for Responsible Investment
- CFA Institute Asset Manager Code
- FSC Women in Investment Management Charter
- Investor 30% Club Statement of Intent (for 30% women directors of ASX300).
- Business Ambition for 1.5°C Pledge
- Global Investor Statement to Governments on Climate Change
- Business Benchmark on Farm Animal Welfare's (BBFAW)
- RIAA Investor Statement on Human Rights
- Finance for Biodiversity Pledge
- Race to Zero's Financial sector commitment letter on eliminating commodity-driven deforestation
- Investors Against Slavery and Trafficking APAC

Memberships, engagement and organisations we support

Founding member of the Responsible Investment Association Australasia (RIAA)

On the Nature Working Group, Human Rights Working Group and First Nation's Peoples sub-working group

Climate Action 100+

- Support and co-lead investor

Member of the Investor Group on Climate Change

- IGCC Transparency & Thought Leadership Working Group
- IGCC Policy & Advocacy Working Group

GIIN - The Global Impact Investing Network

- Investor Council

Tobacco free

We have excluded investment in tobacco production since we were established in 1986 and have been a Supporter of Tobacco Free Portfolios since they started in 2018

Principles for Responsible Investment

- Member Sustainable Commodities Practitioners' Group

Association of Superannuation Funds of Australia Limited (ASFA)

The Financial Services Council, Fund Management Board and Superannuation Board Committee

Global Reporting Initiative (GRI)

Australian Chapter of the 30% Club

Farm Animal Investment Risk and Return (FAIRR): Investor network

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Reporting approach

Three-year scorecard

We continue to report in our three-year scorecard to provide comparability with previous years. In FY23 we have aligned our metrics with our updated materiality outcomes. We have added additional detail to some of our metric definitions and added investment performance and diversity metrics. A subset of these metrics have been subject to limited assurance. The assurance report is included on page 49 of this report.

While our three-year progress is summarised in this scorecard, the detail is set out in the body of this report.

Metric	FY21	FY22	FY23
How we invest			
Proportion of investments ethically evaluated (Subject to Ethical Assessment as described on pages 13 & 14)	100%	100%	100%*
Proportion of revenue from sustainable impact solutions[14]	2.5x Benchmark	1.8x Benchmark	2.3x Benchmark*
MySuper (Balanced accumulation) delivers its objective (returns of 3.5% p.a. above CPI over 10 years). Objective as at 30 June 2023.	2.9% (p.a. above objective)	1.7% (p.a. above objective)	1.0% (p.a. above objective)
Australian Shares Fund (wholesale) objective (to significantly exceeds the return of its benchmark after management costs over a 7-year period)	5.5% (p.a. above benchmark)	1.8% (p.a. above benchmark)	1.4% (p.a. above benchmark)
Pursuing net zero emissions			
Carbon intensity (scope 1 & 2) of listed share investments compared to Benchmark[13]	77% less	77% less	77% less*
Proportion of our listed share investments in renewables and energy solutions[14]	13x Benchmark	5.6x Benchmark	4.6x Benchmark*
Scope 1, 2 and 3 operational emissions per full time equivalent employee	4.4	5.5	6.1*[,15]
Offsetting of reported operational Scope 1, 2 & 3 emissions	100%	100%	100%*[,15]
Influencing for change			
Companies (or other entities) engaged with on ethical issues[16]	500+	450+	250+*
Number of proactive engagements and % followed by commitments to change[17]	45+/approx. 30%	80+/approx. 25%	65+/approx. 25%*
Divestments on ethical grounds[18]	3	4	5*
Proportion of votable meetings where proxy votes cast[19]	98%	99%	100%*
Votes cast against management recommendation - overall	10%	17%	17%*
Ethical outcomes			
B Corp Best for the World / certification[20]	Achieved	Achieved	Score: 168.5
Yearly profits donated through the Foundation (after tax and before bonuses)	10% ($1.6 million)	10% ($1.5 million)	10% ($1.1m)
$ allocated for impact through the Australian Ethical Foundation	$1.8 million	$1.6 million	$1.1 million
Stakeholder engagement			
Super NPS[21]	+49% (No.2)	+52% (No.1)	+16% (No.5)[22]
Super – customer advocacy[21]	No.1	No.1	No.4
Our people			
Employee Engagement	82%	79%	70%
Diversity of Board (target: 40% each gender)	50%	50%	67% female
Diversity of leadership team (target: 50%)[23]	44%	44%	50% female*
Diversity of investment team (target: female 30% by 2025) (See pages 19 & 22)	–	–	28% female*

* Indicates 2023 metric included in KPMG's Limited assurance scope.

13 Carbon intensity of listed companies whose shares we invest in across our funds and options, measured as tonnes CO_2e per $ revenue. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. See page 48 for more information about this comparison.

14 Based on the revenue from sustainable impact solutions as defined by MSCI criteria earned by listed companies whose shares we invest in across our funds and options, and the proportion of those listed share investments in renewables and energy solutions. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. Sustainable impact criteria and data provided by external sources and aim to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the U.N. Sustainable Development Goals (SDGs), EU Taxonomy of Sustainable Activities, and other sustainability related frameworks. More information here. See page 48 for more information about this comparison.

15 2023 operational emissions have been calculated based on FY23 activity data using FY22 conversion factors. See databook for more information about our operational footprint. The disruption caused by Covid highlighted opportunities to limit business travel emissions through increased use of online meeting technologies, although our flight emissions increased significantly this year with the lifting of restrictions.

16 We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with Westpac is counted as one engagement which included meetings, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with CBA in relation to its fossil fuel exposure and a separate meeting with CBA to discuss its exposure to deforestation in Australia.

17 Our 'proactive' engagement count includes where we engaged directly with a company, government or other entity; we actively contributed to collective engagements (as distinct from simply 'signing on'); we used a nominal advocacy holding to support shareholder resolutions; or we co-filed a resolution. Commitments to change are commitments made by the engaged entity after our engagement commenced, that reflect progress towards the ultimate objectives of the engagement beyond acknowledgment of an issue. They may be identified through e.g. direct company responses, company reporting or actions taken, changes to government policies or draft legislation, or actions taken by industry associations. For examples of commitments, see our Stewardship Report pages 6 to 8.

18 Investments exited during the year due to ethical re-assessment. Not including companies excluded from initial investment.

19 Our proxy voting record is published on our website annually. FY23 Proxy Voting Report

20 In May 2023 B Corp announced it had discontinued its 'Best for the World' assessments. Our latest score, 168.5, awarded at recertification on 13th July 2023, was the highest score for any B Corp in Australia and Aotearoa New Zealand and is more than double the score needed to gain B Corp accreditation.

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

22 This NPS survey was conducted just after the completion of the Successor Fund Transfer of Christian Super members into Australian Ethical Super and covers existing members of Australian Ethical only. The results for the ex-Christian Super members were lower at +6% NPS. More on the SFT experience for super members on page 43.

23 Comprising members of Australian Ethical Senior Leadership Team.

Reporting to the GRI since 2002

Materiality

We have used the Global Reporting Initiative (GRI) reporting framework to help us track and report our impacts since 2002. To ensure we cover our most important sustainability impacts in our report, the Global Reporting Initiative (GRI) requires us to conduct a 'materiality assessment' every few years.

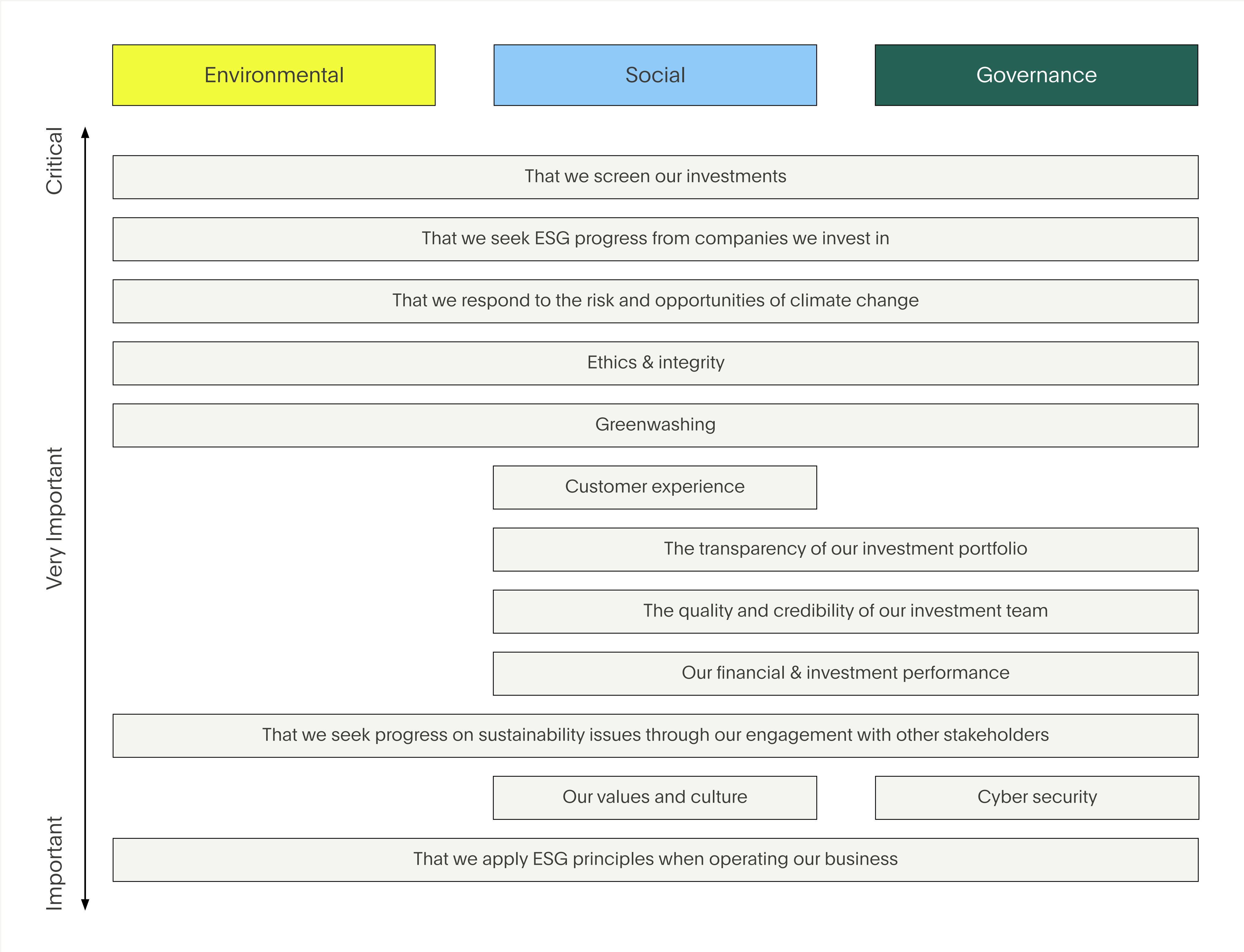
In the revised GRI Standards issued in 2021, 'material topics' are defined as topics that represent an organization's most significant impacts on the economy, environment, and people. Australian Ethical has a long history of striving to understand its positive and negative impacts on 'people, planet and animals', and therefore despite a refreshed process, many of the same material topics remain key.

This year we conducted a desktop review of past materiality assessments, gathered stakeholder feedback and insights through surveys, and then asked AE's employees to prioritise the materiality of our long list of topics. This weighted list was reviewed by the leadership and the Board.

The 13 materiality topics identified through this process are listed here in order of criticality. We cover these topics in our sustainability reporting, our databook and GRI Index.

Key materiality outcomes:

- The weighted results from our materiality survey determined that we should report on 13, rather than 12 material topics this year. Eight of the Top 12 topics from 2020 remain in the top 13 in 2023.
- New entrants were 'Customer experience' (+11), and 'That we seek progress on sustainability issues through our engagement with stakeholders'* (+8)
- In addition, two new material topics emerged through the process, 'Greenwashing' and 'Cyber Security".



Aligning to the Sustainable Development Goals

We support the Sustainable Development Goals (SDGs), a set of 17 interconnected global objectives established by the United Nations in 2015 to address a wide range of social, economic and environmental challenges facing the world, including climate change. The SDGs are designed as a blueprint to guide global efforts toward a more sustainable, equitable and prosperous future for all by 2030.

According to the latest report from the Sustainable Development Solutions Network, on average only around 18% of the SDG targets are on track to be achieved globally by the target date of 2030. The SDGs more likely to be achieved are those relating to basic health outcomes, such as neonatal and under 5-years mortality rates, as well as access to basic infrastructure and services – such as targets on mobile phone and internet use, and the share of adults with a bank account. By contrast, the SDG measures relating to hunger, health and wellbeing, sustainable cities and communities, life in water and on land, and peace, justice and strong institutions, are all in fact going backwards.

The status of the SDGs makes it even more important that we maintain our focus on how our investments, advocacy, impact and philanthropy, can be aligned with their delivery.

We use the SDGs as a framework to illustrate our endeavours to contribute to social, economic and environmental outcomes throughout this report. See pages 26 to 29 and 33 to 35.

The 17 Sustainable Development Goals (SDGs)

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnership for the goals

Ethical assessment

Capital for good

We are ethical investors. We believe that the power of money can be harnessed to deliver both competitive returns and positive change for people, planet and animals.

To create this capital for good we start by determining our investable universe. We do this by assessing 100% of the investments in our portfolio to ensure they align with the 23 principles of the Australian Ethical Charter. We interpret and apply the general principles of the Charter using our more detailed Ethical Criteria, which we outline in the next section.

These beliefs have been driving our investment philosophy and business practices since 1986. We pursue these ethical investing goals and develop and apply our Ethical Criteria in accordance with our duty to act in the best interests of investors – this includes acting in their best financial interests.

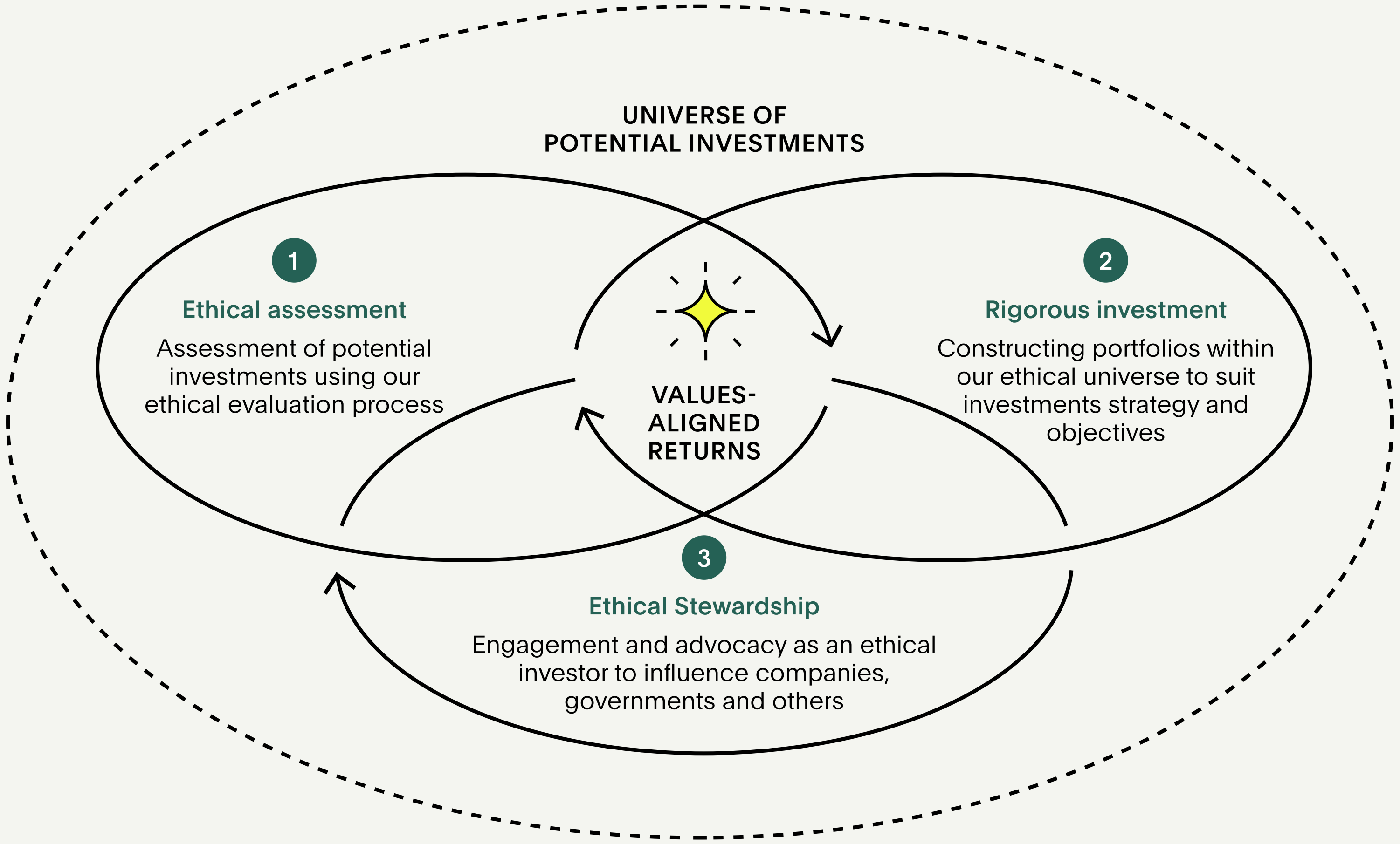
Our ethical investing approach aims to:

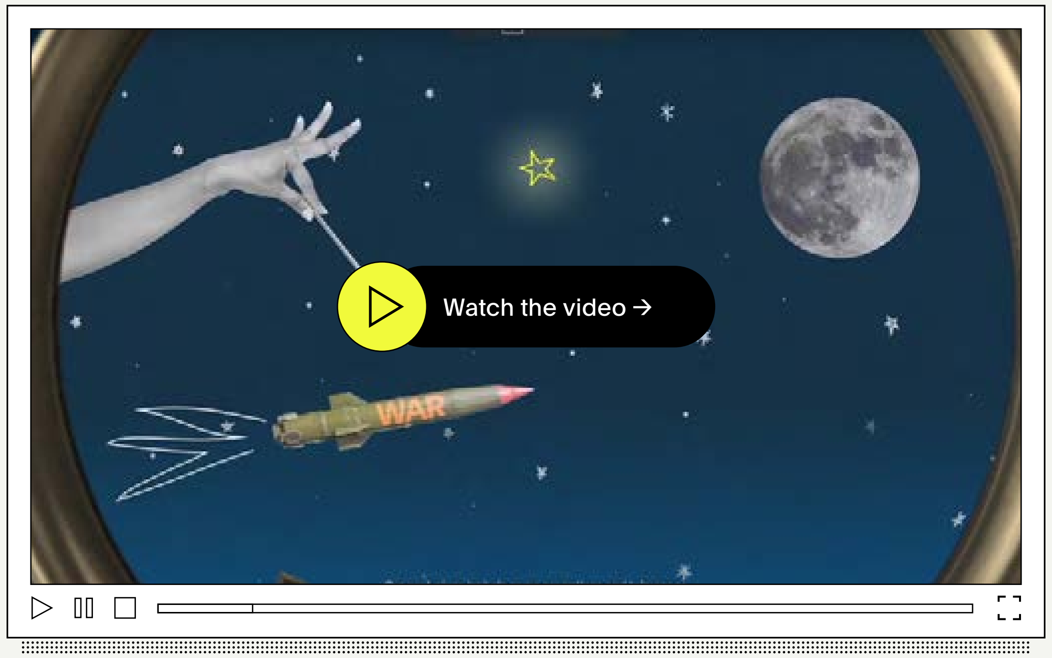
- Give investors access to ethically screened portfolios of companies and other investments which are more aligned with their values than market portfolios;
- Influence progress towards a better future for people, animals and the environment by engaging with select companies to improve key business practices;
- Help us identify, understand and manage investment risk and opportunity, at a company, portfolio and systemic level which we believe can help construct better investment portfolios.

Our investment process has three key elements:

1. **Ethical assessment** – Our in-house Impact & Ethics team assess possible investments[24] according to the 23 principles of our Ethical Charter, using our ethical evaluation process and applying a mix of rules and judgement to bring these to life. This process identifies companies we believe can influence progress towards a better future for people, animals and the environment, and restricts[+] investment in those that we believe are a threat to that progress. This research defines our universe of potential ethical investments.
2. **Investment analysis and portfolio construction** – Our investment team then constructs portfolios suitable for the investment strategies and objectives of our Funds.
3. **Ethical stewardship** – We don't just set and forget. Monitoring our investee companies and engaging to influence companies, governments and others is an important part of our process.

See the Guide to Our Ethical Investment process (Ethical Guide) for more information or watch our video on ethical investing.





24 We assess investments across multiple asset classes including shares, property, alternatives, fixed interest and cash. Investments can be made through different legal forms such as a company or through a trust, partnership, loan or other instrument. Where we invest via an external investment manager, then our processes involve some important differences which you can read about in section 5.13 'Externally Managed Investments' of our Ethical Guide.

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

Ethical Assessment

The Ethical Charter sets out 23 high level principles. These 23 principles guide our examination of whether companies and other investments are part of a path to a better future for people, animals and the environment. We interpret and apply these general principles of the Charter using our more detailed Ethical Criteria.

Our Ethical Criteria govern our ethical evaluation of companies and other investments issued by financial institutions, responsible entities, trustees, governments or other issuers. They help us identify, measure and balance the most significant positive and negative impacts of companies, products, services and activities. This measurement and balancing of positive and negative impacts is an important part of our assessment whether to allow or exclude potential investments. We believe a company or an issuer with positive products and services can offer an ethical investment even though it earns some revenue from a negative product or activity, or if its products and services are used by some in a harmful way. Also, where a company or an issuer makes a mistake, we don't automatically exclude it, but we assess whether the mistake indicates a systemic problem, and what action has been taken to fix the mistake and stop it happening again.

In developing these bespoke frameworks and criteria, the team conducts deep research and analysis. They interrogate data from multiple providers: civil society, industry association reports, NGOs, CSIRO and science journals. They conduct consultations and look at international standards. The team considers issues from different angles and grapples with any contentious issues.

Indeed, ethical assessment isn't black and white, for example when we think about the listed companies we might invest in, some are complex and may have different business lines, some of which meet our Ethical Criteria and some of which don't.

Are they positive?

To pass our ethical screen an investment must first be assessed as having positive activities assessed against the principles of our Ethical Charter. If they meet our positive activity requirements, but have other negative impacts from their products or operations, we look at where their revenue comes from, and assess this against our revenue tolerance thresholds (see page 16 for an example of our revenue tolerance threshold for food) and other Ethical Criteria.

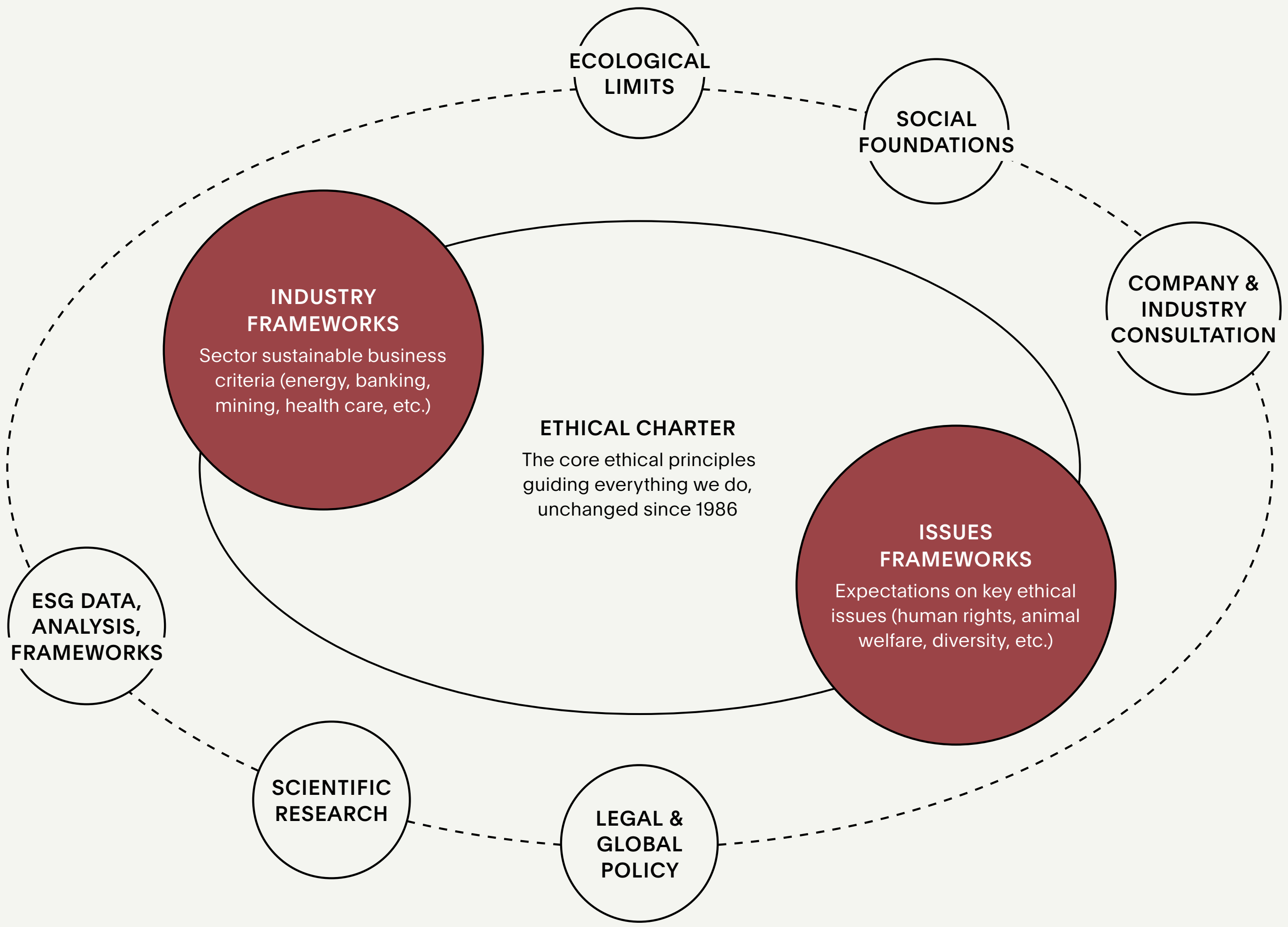
We won't invest in a company making weapons or tobacco products because we have a zero revenue threshold for these activities, but if a large, diverse company is positive in other parts of its business, our tolerance thresholds allow some limited revenue from some negative products such as alcohol or fossil fuels.

We may therefore invest in a company which generates over 70% of its electricity from renewables, but falls back on gas when low rainfall reduces its hydropower.

We also consider how closely a potential investment is involved in activities we consider harmful under our Ethical Criteria. For example, we treat a producer of harmful products differently to a company which sells or transports harmful products along with other products. This allows us to invest, for example, in the supermarket that on balance provides a positive social impact even though they derive a small amount of their revenue from retailing cigarettes and alcohol.

We also consider how an investment conducts its business, evaluating serious misconduct, as well as potential benefit and harm from its products and operations. For example, a company or investment which produces positive products may still be excluded if they are mistreating workers or causing unnecessary pollution. This is a complex area, but we provide more detail in this report and in our Ethical Guide about our thresholds, positive starting points, how we consider the appointment of external managers, how often we assess, and instances when investments may not meet our Ethical Charter.

"In developing these bespoke frameworks and criteria, the team conducts deep research and analysis. They interrogate data from multiple providers: civil society, industry association reports, NGOs, CSIRO and science journals. They conduct consultations and look at international standards. The team considers issues from different angles and grapples with any contentious issues."



Ins & Outs

Some companies we ruled ‘in’ or ‘out’ of our investable universe

In FY23 we looked at more than 300 companies and we present some of the outcomes of our ethical assessments here. Most of the ‘Outs’ are companies that we excluded from our investable universe and therefore never invested in them. Others such as Cardinal Health and MTR, were held by Australian Ethical, but we decided to divest from them after re-assessing them as negative. We describe Brookfield Renewables as ‘on its way out’ at the time of writing, as we will divest if they complete a nuclear power related acquisition.

Banks

In: Agence Francaise de Developpement – We assessed this French development bank as positive for its financing and facilitation of projects across Latin America, Africa and Asia, including projects targeting education, water, sanitation, health and clean energy. The company reports that about half of their finance commitments over the last three years supported climate action.

In: ABN AMRO Bank N.V. – Diversified bank ABN AMRO was assessed as positive for its financial services including lending to consumers and companies. While the bank has significant exposure to the fossil fuel sector, it has introduced lending restrictions and reduction targets towards aligning its institutional lending with the Paris Climate Agreement.

Out: TD (Toronto-Dominion) Bank – TD Bank is excluded for continuing lending to new fossil fuel projects without adequate evidence of alignment with the Paris Climate Agreement.

Out: Development Bank of Japan – While DBJ has a stated purpose of supporting progress on social and environmental issues in Japan and globally, we found insufficient evidence of integration of climate and ESG considerations in its lending to oil and gas and other sensitive sectors.

Energy

In: Vestas – We include Vestas for its production of wind turbines for renewable wind power projects.

On its way out: Brookfield Renewables – We have invested in Brookfield Renewables for its renewable energy investment, but the company announced an investment in nuclear energy during the year. We will divest our investment if this transaction is completed.

Governments

In: Democratic governments including Australia, Chile, Colombia, Germany, Malaysia, Namibia, Norway, Spain and USA.

Out: Authoritarian governments including China, Myanmar and Russia. We also excluded democracies India and the Philippines for concerns about the quality of their institutions and structures to support fair and peaceful societies, including institutions and rule of law protecting people from arbitrary detention and punishment.

Healthcare

In: Sonic Healthcare – We assessed Sonic as positive for its diagnostic services including pathology and radiology services.

Out: Cardinal Health Inc. – We divested from Cardinal because it failed to provide evidence of its implementation of the 3Rs (replace, reduce, refine the use animals) to limit animal suffering in medical testing and research. Cardinal was also involved as a US drug distributor in the mis-prescription and misuse of opioids.

Mining

In: Allkem Limited – The company is assessed as positive for its mining of lithium. In future reviews we will continue to monitor the company’s targets and action to reduce the significant emissions of its mining and processing operations.

Out: Fortescue Metals Group (FMG) – We saw significant positive potential in FMG initiatives to catalyse the growth of green hydrogen production and use. However we were not satisfied that the company is operating responsibly in its relations with traditional owners of the lands it mines, taking into account ongoing litigation and insufficient reporting of the implementation and effectiveness of the company’s approach to working with indigenous communities where it operates.

Retailing

In: JB Hi-Fi – Although JB Hi-Fi sells high-footprint electronic products, we decided the company demonstrates a genuine commitment to manage negative impacts of its retailing activities, taking into account its initiatives to support recycling and reduce product packaging. At future reviews we will continue to monitor the extent to which the company’s business model relies excessively on short term use of products, with customers encouraged to continuously upgrade to the latest model.

Out: Premier Investments – Premier owns brands and retail stores like Portmans, Dotti and Peter Alexander. We assessed Premier as a clothing producer rather than retailer as the company mostly sells private label products. Premier is excluded as a producer of fast fashion, meaning clothing driven by trend, with short time frame between runway and shop floor and often limited longevity. Fast fashion business models encourage over-consumption, and supply chain time and cost pressures can also encourage employment practices which infringe human rights.

Out: Walmart Inc – US retailer Walmart sells firearms, with associated revenue assessed to be above its direct competitors (most of which do not sell weapons at all).

Out: JC Decaux – We excluded advertising firm JC Decaux because we don’t assess mainstream marketing and advertising as positive under our Ethical Criteria. While advertising can be positive for facilitating access to products and services, too often it obstructs informed consumer choice.

Transport

In: Societe Nationale SNCF SA – We include SNCF for the positive benefits of its low emissions rail network transporting people and freight.

Out: MTR – We previously invested in MTR for its positive rail network, **but divested** over concerns that the company contributed to adverse human rights impacts by facilitating the suppression of protests in Hong Kong in its rail network operations.

Out: Mainstream airlines and car makers – We restrict+ investment in mainstream air and road transport companies where in general we see insufficient action to transition to net zero. While there is growing investment in biofuels and electric vehicles, this lags what is needed to align with the Paris Agreement. Indeed some trends are heading the wrong way, with higher footprint SUVs gaining increased market share. (We will invest in road and airport infrastructure which meets our Ethical Criteria, for the role this infrastructure plays in facilitating lower carbon air and road travel.)

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

Case study

How we assess food for investment[25]

Healthy food is essential to human flourishing. But food production must be considered sustainable for us to consider investment. We assess food as sustainable if it is:

1. part of a healthy diet; and
2. produced in a way which avoids unnecessary harm to people, animals and environment.

Not investable

Unsustainable food includes processed food with low nutrients and high salt, trans-fat or sugar content. We therefore exclude McDonald's Corp and Pepsico for their high level of revenue from fast food and other foods which do not meet our Ethical Criteria for sustainable nutrition.

We have also assessed and excluded Retail Food Group for its revenue from unhealthy food brands like Donut King and Darling Ingredients for its animal food business lines and misleading information about the emissions' footprint of animal protein consumption.

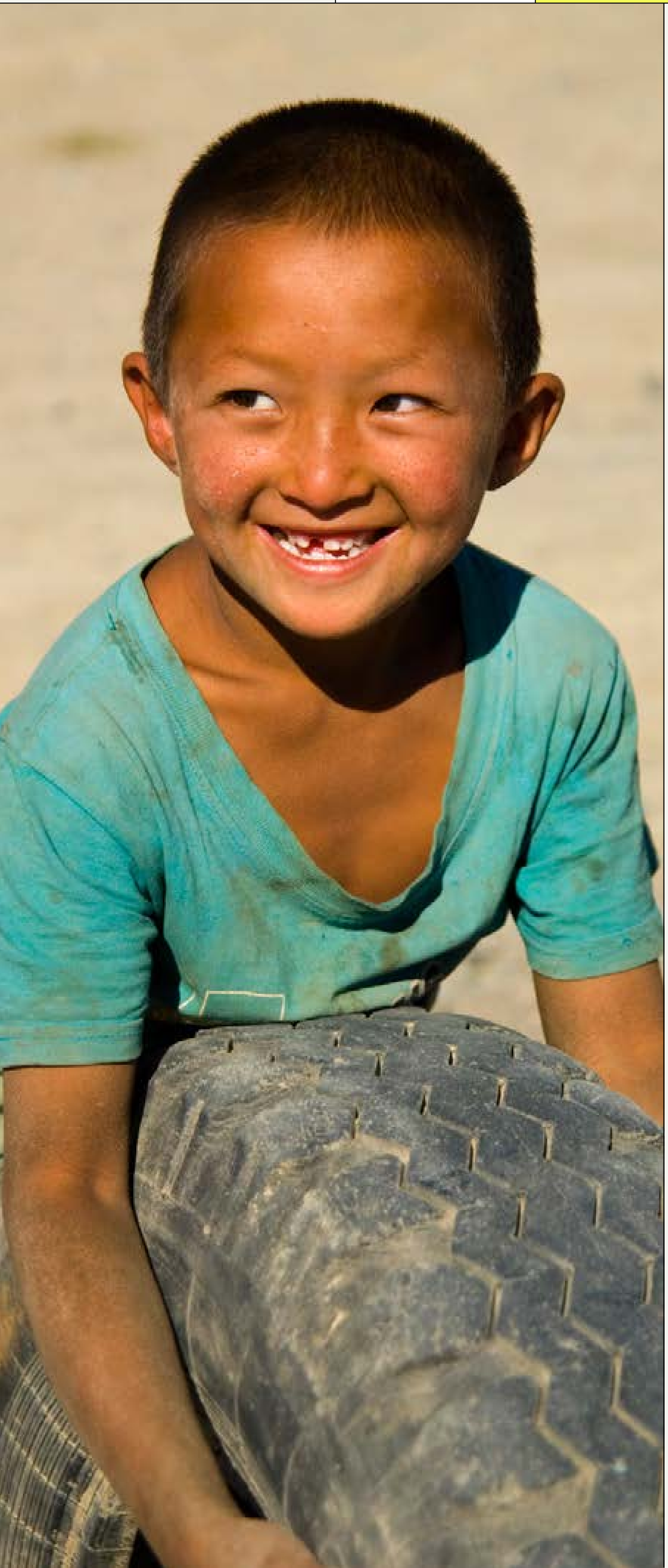
Where we may invest

First there must be a positive impact. As an example, Graincorp is a grain storage and transport network, handling commodities such as wheat, barley, canola and chickpeas. We assessed them as positive for these grain logistics services. Although Graincorp sells oil meal for use as feed in conventional animal agriculture, which is negative under the Ethical Charter, we assessed the revenue earned to be below our exclusion thresholds.

Examples of our food investment thresholds

Type of involvement or asset	⊕ If assessed as otherwise having a mild positive impact	⊕ If assessed as otherwise having a strong positive impact	Examples of excluded investments if threshold is exceeded
Food production from conventional animal agriculture	Exclude if > 10%	Exclude if > 10%	Owners and operators of cattle & sheep stations and feedlots Commercial fishing and fish farming companies
Food processing from conventional animal agriculture ingredients	Exclude if > 15%	Exclude if > 33%	Producers of sausages and pre-prepared beef & chicken meals. (% assessed considering proportion animal ingredients)
Production and processing of other types of non-sustainable food e.g. junk food	Exclude if > 50%	Exclude if > 50-90% (Depending on the counter-positive)	Potato chip and soft-drink producers (For example, applying these thresholds we would not exclude a company sustainably producing high sugar & fat foods if making a significant contribution to food security for vulnerable populations)

25 This example is based on our exclusion policies, assessments and investments as of 31 August 2023. The criteria and thresholds can change over time. We feature a broad range of our ethical criteria on our website.
26 These thresholds apply to food producers and processors, not to retailers like supermarkets. See our Ethical Guide for details on our tolerances and how we apply them.



How we approach human rights

We strive to avoid any investment which is considered to unnecessarily contribute to the inhibition of human rights, in line with our Ethical Charter element xi. Assessing human rights and modern slavery risks has growing importance in an environment where companies and supply chains can be increasingly global and decreasingly transparent.

Embedding our human rights framework

This year we bedded down our newly updated human rights framework in our ethical assessment process. This ensures every investment is assessed through a human rights lens, and guides us to focus on high-risk companies and sectors.

All businesses have a responsibility to respect human rights, in line with the UN Guiding Principles on Business and Human Rights.

This includes obligations to:

1. Avoid causing or contributing to adverse human rights impacts, and
2. Seek to prevent or mitigate adverse human rights impacts to which they are directly linked (via products and services, operations, value chain or business relationships).

To determine human rights risk and understand where we should focus for our assessment, we look at the size, sector, geographic region, and value chain of prospective investments. Depending on these factors, we have different expectations for when an investment's business responsibility for human rights is upheld. At a high level, we may choose to exclude companies where:

1. The company is considered high-risk and their risk management efforts do not meet our policy and due diligence expectations
2. The company's actions (or lack thereof) do not indicate genuine efforts to fulfil its human rights responsibility, or
3. The company fails to respond to an identified human rights breach

Developing our approach to authoritarian regimes

As recent events continue to shed light on how authoritarian regimes are causing new and long-running human rights violations, we have further developed how to best approach companies caught up in these issues.

We avoid investment in authoritarian regimes as outlined in our Governments Framework . This means we do not invest in government bonds issued by the Russian, Belarussian, Myanmar or Chinese governments.

An update to our Governments Framework

Through our Governments Framework we restrict+ investment in bonds issued by undemocratic states and democratic states with high militarism.

This year we worked on strengthening our Governments Framework through the use of additional data sources including:

- Positive Peace Indicators from the Institute for Economics and Peace
- Safety from the State Indicators from the Human Rights Measurement Initiative (HRMI)

We used relevant indicators from these data sources in line with our Ethical Charter to further refine our Governments Framework and which governments are included in our ethical universe.

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

Working through the complexity

Sometimes it's not clear what is the best thing to do to protect human rights. Sometimes human rights advocates actually don't want big companies to cut problematic suppliers off, rather they want them to maintain the relationship and influence improvement. There are complexities for companies operating in authoritarian regimes. Decisions to exit can benefit the authoritarian regime by allowing them to take control of the assets left behind. Also, companies who stay, may be better positioned to help protect their local employees from retaliatory action if they choose to join demonstrations or otherwise exercise their freedom of expression. The best course of action will be affected by a company's products, customers and employees. There's no one size fits all, and it may take time for a company to determine the best steps to take. Our ethical criteria and expectations recognise the complexity companies often face dealing with some social issues. For example, following the Russian invasion of Ukraine we saw some companies exiting, some suspending operations and some continuing to operate. These responses need to be judged in the context of the specific business activity and environment. Across these varied responses, it's important that companies build both their understanding of their human rights impacts, and their capacity to make expert judgements to best manage those impacts.

Some companies under the human rights lens in FY23

Nidec Corporation

The company has operations in China, and 70% of its workforce are in Asia, where human rights risks are high, however the company has demonstrated it has appropriate initiatives in place to ameliorate that risk. These include relevant due diligence and whistleblower measures, as well as collaborations with industry and Codes of Conduct such as the Responsible Business Alliance.

Cisco Systems, Inc.

The company provides communications infrastructure globally and has suppliers with alleged links to the use of forced labour in Xinjiang. Cisco appears to have appropriate policies and practices in place regarding human rights, and the alleged link appears to be sufficiently removed as to be outside of the company's own influence or control.

Smith & Nephew PLC

The company is focused on medical technology around the repair and replacement of soft and hard tissue. While there is an emerging understanding of human rights risks in the supply chain of healthcare sectors, industry response continues to evolve. Smith & Nephew currently has in place supplier self-assessments, a conflict minerals policy, and independent smelter desktop reviews. We have notified Smith & Nephew that going forward we expect to see further improvement in the company's response to human rights risks.

Acciona S.A.

The company received allegations of suppliers employing ethnic minorities in forced labour-transfer programs run by the Chinese Government. The company acknowledged the allegations and worked with their partners to investigate the issue and were able to obtain confirmation that the polysilicon supplied to the company was not connected to the Xinjiang province in China, and further confirmation that the polysilicon was not prepared with forced, child or illegal labour. The company also undertook further audits which did not find evidence of human rights abuses.

Eutelsat Communications S.A.

The company derives some revenue from Russian customers, and leases capacity on four satellites owned by the Russian operator RSCC. However, Eutelsat has implemented EU broadcasting bans on specific Russian public broadcasters. Given the nature of the company's service as foundational communication infrastructure and the steps it has taken to comply with EU sanctions, we do not consider Eutelsat's exposure to Russia as grounds for exclusion.

Modern Slavery Reporting Update

As well as fulfiling the requirements of our Ethical Charter, we acknowledge our responsibilities under the UN Guiding Principles on Business and Human Rights. In FY20 we voluntarily reported under the Australian Modern Slavery Act (2018). Our inaugural Modern Slavery Statement reports the work we undertook assessing and mitigating modern slavery and broader human rights impacts and risks across our value chain, including identifying areas of high risk, actions taken in our procurement, investments and The Foundation, and aspirations going forward. Below is our FY22 update of our ongoing action to fulfil our responsibility to respect human rights.

To learn more about our approach to managing modern slavery risk, read our 2020 Modern Slavery Statement.

AE's areas of influence, and actions taken in FY23 relating to human rights and modern slavery	Going forward	Indicators
Investments		
Embedded our updated human rights framework in our ethical review process to evolve our analysis of risks and impacts of modern slavery. Continued to develop our approach to authoritarian regimes. Moved to a new system to track engagements related to human rights.	Continue to screen all companies against our human rights criteria	FY23 company assessments and reviews were assessed under updated human rights screen. See Our Advocacy below for engagement statistics.
Procurement		
Continued to socialise our internal Ethical Procurement guidelines across the business. Developed automated processes to streamline monitoring and application of the guidelines.	Continue to socialise Ethical Procurement guidelines and assess opportunities to improve the process	59 suppliers were assessed against the guidelines in FY23, equating to about 98% of new suppliers.
Our Foundation		
Continued to focus on supporting women and girls (who account for 71% of modern slavery victims[1]) across healthcare, employment, education and access to services. Improvements in these areas can help at-risk women and girls avoid falling into modern slavery.[2] As part of this focus, continued funding for Human Rights Watch, supporting their efforts to defend and advance the rights of women and girls around the world to fulfil the lives they desire. For more on the Foundation's work, see our 2023 Foundation Impact Report.	Continue funding leading charities addressing human rights and advancing the rights of women and girls around the world.	100% of funded charities committed to ensuring no modern slavery occurs in their supply chains. $370,000 donated to initiatives supporting women and girls as an advancement of human rights relevant to modern slavery.[3]
Our Advocacy		
Supported shareholder resolutions for additional human rights reporting and independent director nominees with human or civil rights experience. Supported investor engagements on poor labour practices in global meat supply chains and in sectors exposed to modern slavery risks in the Asia Pacific region.	Continue to leverage our influence as investors to advocate for people, animals and the planet	100% of identified shareholder resolutions relating to human rights were supported (8 relevant proposals identified). Proactively engaged with 14 companies on human rights, including modern slavery and labour rights. In addition, we lent our voice to support others' initiatives.

1 Global Estimates of Modern Slavery, International Labour Office (ILO). https://www.ilo.org/global/topics/economic-and-social-development/rural-development/WCMS_437166/lang--en/index.htm (Accessed 8 Sep 2023)
2 See pages 50 and 51 of above ILO report
3 Breakdown: $180,000 to health (Living Goods, Fistula Foundation, Population Services International, Rahma Health), $120,000 to employment (Karrkad Kanjdji Trust, Love Mercy Foundation, YGAP (YHER)), $70,000 to education and access (Human Rights Watch, One Girl)

We believe you can't outsource integrity, that's why we have an in-house Impact & Ethics team whose bespoke, ongoing analysis underpins all our investments and drives change through active company engagement.

Our in-house Impact & Ethics team

Team member	Position	Tenure	Experience
Alison George	Head of Impact & Ethics^	Commenced May 2023	20+ experience in ethical investment Alison has more than 20 years' experience in responsible investment and stewardship, working with numerous industry leaders in her prior roles with Pendal and Regnan. A Chartered Accountant, Alison also completed a Master of Environment and was previously a corporate sustainability advisor with EY.
Dr Stuart Palmer	Ethical Futures Lead	9.5 years at AEI	30+ years' experience in the financial, investment and legal sectors Previously Head of Ethics Services at St James Ethics Centre, helping develop strong organisational leadership and culture to guide good decision making in the corporate, government and not for profit sectors Former law firm partner (practicing in finance and investment) and banker (Head of Asset Securitisation at ABN AMRO Australia). Stuart's doctorate is in philosophy of mind
Amanda Richman	Ethical Stewardship Lead^	5.5 years at AEI	Previously Senior Associate at law firm Allens, specialising in competition law Experienced animal law advocate, Director of Animal Law Institute, former Chair of NSW Young Lawyers Animal Law Committee First class honours in law; Dean's awards for outstanding contributions to Macquarie Law Community and for outstanding academic achievement in law
Persephone Fraser	Senior Impact & Ethics Analyst^	2.5 years at AEI	Previously research analyst for Common Capital and research assistant at UNSW's Climate Justice Initiative, developing reports on environmental and ethical impacts and policy. Worked in policy and research at Reconciliation Australia and in the office of Senator Mehreen Faruqi. MA in Political Economy, BA in Political Science & Philosophy. She received the Leon Fink Institute Grant for study in Jerusalem, the Dame Eadith Campbell Walker Bursary and the Harry Senior Bequest from The University of Sydney.
Shannon Akers	Impact & Ethics Analyst^	Commenced August 2023	Previously Research and Engagement Analyst at Regnan, contributing to the development of ESG insights connected to both impact and financial value. First class honours in finance for thesis examining the climate transition implications of infrastructure investment and its effect on sovereign bond yields. Received the Pendal Group Honours in Finance Scholarship.

^ Investment team – for the purposes of reporting Investment management gender representation, AE's definition of investment management* function aligns to the definition provided by FSC WIM Charter: "investment management function" the following is meant - staff which are actively involved in the investment function or have an investment execution role, such as Portfolio Managers, Investment/Research or Quantitative Analysts, traders and other relevant staff who are involved in the investment management function as defined by the member organisation.

Investment analysis

Ethical investing in volatile times

The financial landscape in FY23 saw extreme volatility, particularly in fixed income and equity markets. As energy market disruption sent shockwaves through markets in early 2022, inflation and interest rate expectations surged and small and micro-cap stock valuations came under pressure, while Resources and Energy stocks (underweight sectors for our ethically-screened Funds) performed strongly; causing headwinds for our funds' performance in the first half of the financial year.

But we held firm to our ethical investment beliefs and approach that has steered us through many cycles and market volatility since our inception 37 years ago. As market conditions settled, a more optimistic outlook for inflation and interest rates emerged, allowing fundamentals to drive performance once again. Earnings-focused companies experienced a well-deserved upswing, the impact on resource prices from the Ukraine war subsided, and our ethically-screened portfolios (and the stocks underpinning them) performed much better in the latter half of the financial year.

Building capability & resilience

During the past financial year, we have continued our work to enhance the capability of our investment team and to reinforce the diversification and resilience of our investment portfolios. With the appointment of Ludovic Theau our new Chief Investment Officer, the promotion of John Woods to Deputy Chief Investment Officer and Head of Multi-Assets and a number of other significant hires, our investment team has new and refreshed capability. There were also changes at the Board level, with Michael Anderson joining the Investment Committee as a director and Committee member Sandra McCullagh appointed as Chair.

Portfolio resilience

We are a multi-asset fund manager and as such we follow a systemised and evidence-led approach to understand the opportunities and risks across different asset classes. Ours is a complex offering which requires a tailored understanding of the distributions of returns relevant to achieving the goals of our ethical portfolios.

For a business like ours, portfolio resilience must be tailored to suit our specific requirements. It is not as simple as outsourcing our asset allocation framework to a peer-group benchmark or third-party provider. Instead, it's a layered, multi-pronged approach that will help us leverage our existing strengths as one of the recognised global leaders[27] of responsible investing.

Asset allocation

We believe truly resilient portfolios are those that can stand the test of time, managing short-term shocks while navigating long-term trends to maximise returns across market cycles.

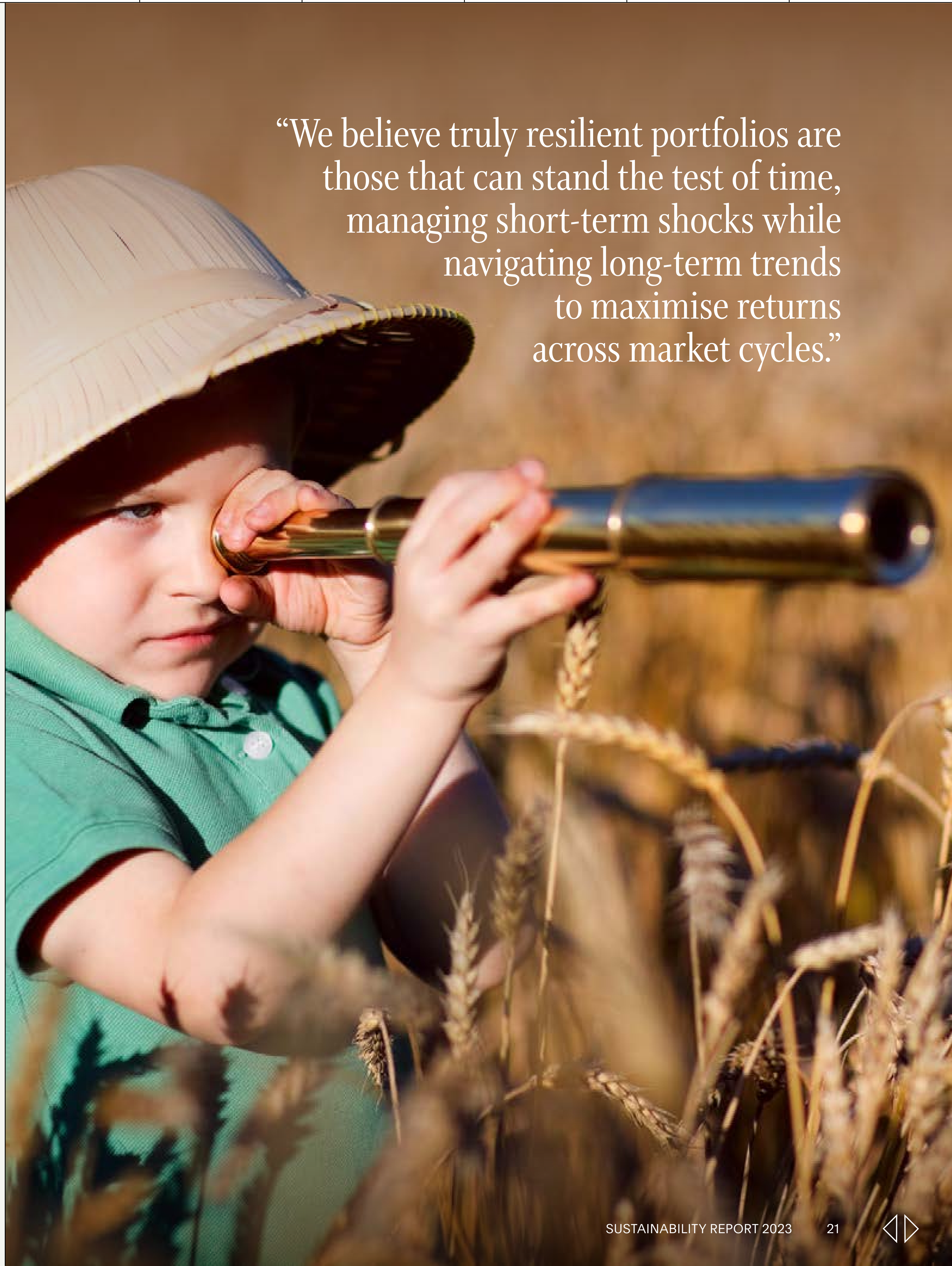
By identifying diversifying exposures and managing meaningful risks, we have already improved portfolio risk and our ability to take better advantage of our long-term investment horizon and liquidity. We have done this by introducing an international fixed income strategy, international credit exposure and a range of defensive alternatives exposures such as microfinance and catastrophe bonds. One of the many benefits of our recent SFT was increased access to diverse asset classes, including both growth and defensive alternatives.

Looking ahead

We're committed to balancing ethics and professional investment management to deliver long-term returns to investors. We continue to see promising opportunities in the Healthcare, Renewables, and Information Technology sectors. These sectors have proven to be valuable long-term investments, and with many small caps remaining undervalued, we believe our portfolios are well-positioned for the year ahead.

We continue to align ourselves with the global trend towards decarbonisation. We look to where our capital can be most relevant. We are very interested in enabling technologies that offer sustainability outcomes. One of the great opportunities ahead is the technology required to enable global decarbonisation. We are only early in the cycle of this transformational mega-trend and are ideally positioned to identify value.

27 The Morningstar ESG Commitment Level: Our assessment of 108 asset managers' white paper. © 2023 Morningstar, Inc. All rights reserved.



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Team member	Position	Tenure	Experience
Ludovic Theau	Chief Investment Officer^	Newly Appointed in April	Over 30 years of experience in ESG investing, funds management, commercial and investment banking and financial advisory. Previously Chief Investment Officer for the Clean Energy Finance Corporation, Australia's Green Bank. Previously also at Hastings Funds Management, Westpac, ABN AMRO, Macquarie Bank, UBS and BNP Paribas.
John Woods, CFA	Deputy Chief Investment Officer and Head of Multi Assets^	2.5 years at AEI	15+ years investment experience Previously at MLC, CLSA and Macquarie
Clinton Leong	Head of Investment Business Management	1 year at AEI	25+ years in Asset Management and Financial Services Previously at IAG, Manulife, Credit Suisse, and Westpac.
Andy Gracey	Portfolio Manager Emerging Companies and Australian Shares^	18.5 years at AEI	20+ years of Investment Experience Previously worked at ANZFM, Fidelity Australia and Friends Provident
Tim Kelly	Portfolio Manager Fixed interest and Income Fund^	21.5 years at AEI	15+ years of Investment experience
Mark Williams, MBA	Equities Analyst/ Portfolio Manager^	7.5 years at AEI	15+ years of Investment experience Previously at ABN AMRO and Morgans
Deana Mitchell, CFA	Equities Analyst/ Portfolio Manager International Shares Fund^	5.5 years at AEI	20+ years of investment experience Previously at Macquarie
Jason Korchinski	Equities Analyst^	1.5 years at AEI	8+ years of Investment experience Previously at KPMG, SuperChoice Services and Ord Minnett
Michelle Wigglesworth, CFA	Senior Equities Analyst^	Commenced February 2023	17+ years of Investment Experience Prior to AEI, she was at Washington H. Soul Pattinson and Milton Corporation
Julian Richman, CFA	Senior Investment Analyst^	7 years at AEI	5+ years of Investment experience
Daniel Koleth, CFA	Senior Investment Analyst^	Previously at Christian Super, commenced November 2022	6+ years of Investment experience
Yong Tan, CFA	Senior Investment Analyst^	Previously at Christian Super, commenced November 2022	8+ years of Investment experience
Angela Seidel	Investment Performance and Data Analyst	Previously at Christian Super, commenced November 2022	10+ years of Investment Experience
Jason Huang	Quantitative Analyst^	7.5 years at AEI	10+ years of Investment experience

Departed employees: Ray Gin (4 July), Angus Dennis (10 November) and Mike Murray (In memorium)

^ Investment team - for the purposes of reporting Investment management gender representation, AE's definition of investment management* function aligns to the definition provided by FSC WIM Charter: "investment management function" the following is meant - staff which are actively involved in the investment function or have an investment execution role, such as Portfolio Managers, Investment/Research or Quantitative Analysts, traders and other relevant staff who are involved in the investment management function as defined by the member organisation.

Values-aligned portfolio

Investing for a better world through impact

Under our ethical investment approach we seek both healthy returns for our customers and positive outcomes for the world. We are an acknowledged leader in our approach[28] and are very different to traditional investors whose sole focus is on financial returns. While our overarching investment portfolio is designed to deliver both financial returns and positive outcomes for people, planet and animals, when we invest for impact we go even further. We invest with the intention of making positive, measurable social and environmental impact, as well as a financial return. Impact investments enable us to reach directly into underserved communities and deliver positive, measurable change aligned to our environmental and social priorities.

What's the difference?

Our main portfolio holds investments we have assessed to be aligned with our Ethical Charter; in renewable energy companies that run wind farms, for example. This is one way we help direct our customers' capital to companies that will thrive in a decarbonised future.

It is possible that the windfarms run by these renewable energy companies may have already existed before we invested. The difference with investing for impact in this example is that we invest with the intention of building new windfarms. This is a change that we can measure, that is aligned to our environmental priorities, and will also generate investment returns.

While the discipline is now rapidly growing in Australia, according to RIAA impact investments in this country almost doubled during 2022 to $59 billion,[29] even so there are only a small number of investments that actually meet all the requirements to be considered impact investments.

We expanded our impact portfolio substantially in FY23. We engaged leading impact investment firm Brightlight, to act as a strategic partner, helping us to further enhance our social and environmental impact investments, measurement and reporting.

Our impact investments sit with the Alternatives in our portfolio. Alternatives include unlisted assets like real estate, infrastructure and private equity. Australian Ethical's multi-asset funds such as the Conservative, Balanced, Growth and High Growth Super options, and our Balanced and Moderate Managed Funds include some exposure to Alternatives as part of their investment mix. In the following pages we outline how our expanded impact portfolio is structured and how we measure outcomes.

Traditional investing	Ethical investing	Impact investing	Philanthropy
Financial outcomes with no regard to sustainability issues. **This is not what we do...**	**Our listed share portfolio comprises 100% ethically assessed companies** Through our portfolio we own shares in future-building companies. **5% of our portfolio are alternative investments** such as private equity, natural resources and infrastructure. This is where our **impact investment portfolio** sits.	**Through our impact Investment portfolio ($173 million) as at 30 March 2023** We invest specifically to create **a net positive change, better than** would have otherwise occurred. We target measurable environmental and/or social outcomes, especially for the underserved. We expect returns in line with investment objectives. See the following pages for more detail on the outcomes delivered by our impact investments.	**The Australian Ethical Foundation** Is funded by an annual donation from Australian Ethical Investment. The key focus of our Foundation is to support the most effective organisations fighting climate change through strategic and tactical grants. **10% of our annual profits donated to the Australian Ethical Foundation*** *After tax and before bonuses

28 The Morningstar ESG Commitment Level: Our assessment of 108 asset managers' white paper. © 2023 Morningstar, Inc. All rights reserved
29 Banhalmi-Zakar, Z., Herd, E., Goodwin, M., Pilawskas, P., Srivastava, P., Maniktala, M., Ghainder, S., Khoo, N., Polidori, M. 2023. Responsible Investment Benchmark Report 2023 Australia, RIAA

Impact investing

Impact: measurement of outcomes is key

Seeking to meaningfully measure the outcomes created is a key feature of impact investments. The aim is to demonstrate that the outcomes achieved are better than what would have occurred otherwise. It's also important that these outcomes address pressing unmet needs for communities and/or the environment.

We report on impact performance grouped into three thematic areas:

- People & Communities (57%)
- Climate transition (23%)
- Natural capital (5%), and

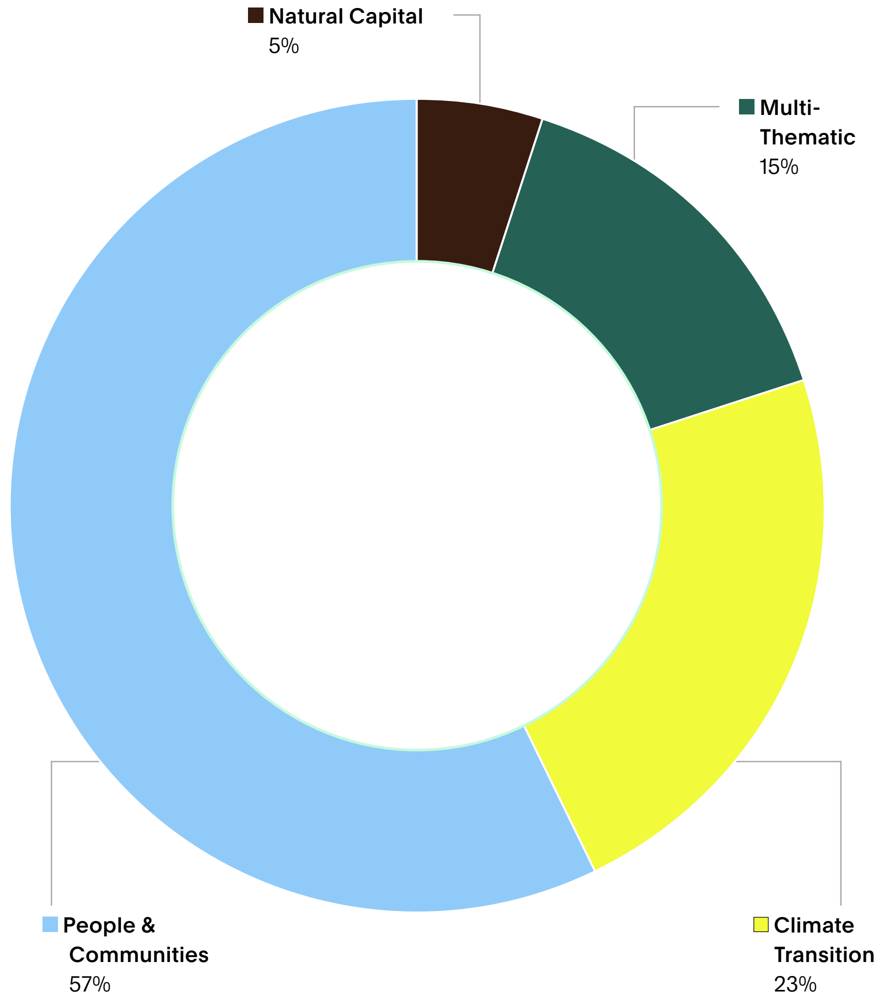
Multi-thematic (15%) represent investments with impact across more than one theme above.

The table on the following page sets out the focus areas that sit under our key themes, how we seek to measure the outcomes of these investments and what was achieved in FY23.[29]

While outcomes are the focus, we are dependent on the data available. Sometimes measures of activity or outputs are the best insight available.

We describe the impact performance of investments with reference to the United Nations Sustainable Development Goals (SDGs), the global blueprint for achieving a sustainable future for all.

Thematic areas



29 The metrics presented in pages 25 to 29 of this report are intended to provide an estimate of the impact these investments are contributing and will have limitations as outlined below:
- The metrics reported are based on the latest available data reported by each fund manager. The fund managers have a different reporting schedule and hence the data will not strictly reflect the period of this Sustainability Report.
- Metrics are rounded up to the closest round number where relevant.
- There are varying levels of metrics reported by each manager within the portfolio. Portfolio aggregation estimates are done based on available information reported by each fund manager and hence it will not fully reflect each fund's contribution to the metrics.
- We have attempted to prorate the impact metrics reported by each manager based on our investment value relative to the total fund value, so as to not overstate the proportion of the outcomes attributable to our investment. We recognise the limitations of this method and that the fund managers may not account for prorating impact at their investee level.
- Some investments have yet to report impact metrics. We aim to work closely with these managers to obtain the relevant impact metrics necessary for our monitoring and reporting. Multi-thematic refers to investments that address more than one of impact investment themes. Excludes investments in final wind down stage.

Impact investing

Impact themes

	Climate Transition	Natural Capital	People & Communities
Theme[30]	We invest in projects and investments that can catalyse and/or expedite the pace of climate transition and the shift towards renewable energy	We invest to further the protection of biodiversity, the development of sustainable land use, and reduction of pollution	We invest in areas of Housing, Social Infrastructure, Technology, Health and Employment that can improve economic and social wellbeing of people and communities, prioritizing inclusion of marginalized communities.
Focus Areas	• Renewable Energy • Transportation & Electrification • Climate Resilience • Energy Efficiency & Built Environment • Circular Economy	• Forestry • Carbon Markets • Biodiversity	• Financial Inclusion • Healthcare • Housing • Diversity, Equity and Inclusion
Key Outcomes	Catalyse and/or expedite the pace of climate transition	Further the protection of biodiversity, the development of sustainable land use, and reduction of pollution	Uplift economic and social wellbeing of people and communities, and address inequality
Geography	Global	Australia and New Zealand	Global, mainly Asia and Australia
Investment Exposure	23%	5%	57%
Key Metrics[31]	• # Renewable energy capacity • # Renewable energy produced • # CO_2e avoided/abated	• # Carbon offsets generated • # CO_2e removed	• # people reached / impacted (financial inclusion, healthcare, program support etc.) • # jobs supported • % rural / marginalized • % women • Wellbeing outcome data
FY23 Impact Portfolio metrics & main SDG alignment[31]	**145** MW renewable energy capacity installed[32] **220** GWh renewable energy generated[32] **300k** tonnes CO_2e abated, reduced, or avoided	**437k** tonnes of CO_2e sequestered **1,110** gross hectares of 100% FSC certified area[33]	**21 million** People reached/impacted[34] **1.9 million** Rural clients served[35] **12 million** women clients/beneficiaries[36] **10 million** Jobs supported **0.5 million** Unbanked borrowers served

31 Metrics are based on per annum figures from latest available period as reported by each fund manager. Excludes investments who do not report on impact metrics and funds winding down.
32 Renewable energy includes solar, wind, hydropower, biofuels and others. For more on renewables, refer to iea.org/energy-system/renewables.
33 The Forest Stewardship Council label is one of the world's most trusted mark for sustainable forestry
34 Total estimated number of people reached across portfolio inc. clients and beneficiaries per annum
35 Rural clients served as reported in three Financial inclusion investments
36 Women financial inclusion clients and beneficiaries as reported by five investees. Excludes women on staff in investee companies.

Impact investing

Case Study: Triodos Microfinance Fund

Fund Manager

Triodos[37]

About the fund

Invests in financial service providers in developing countries and emerging economies, and to a limited extent in developed countries. These values-based institutions vary from microfinance institutions working in underdeveloped markets to digital lending platforms and fully fledged banks that offer access to a range of fair and transparent financial services for people and small businesses

Committed capital

$10 million

Geography

Asia, Africa, Eastern Europe & Latin America

Financial Returns (3 Year average p.a.)

4.5%

What is the impact?

Key Impact Goals / Objectives

- to promote individual wellbeing through advancing financial inclusion
- to support the transition to equitable and sustainable local economies
- to transform the financial system for a sustainable future

Triodos Microfinance Fund Impact Highlights

- **1 million** borrowers reached
- **80,000** SME borrowers
- **750,000** female borrowers
- **550,000** rural borrowers

Portfolio example: Lendingkart

What is the challenge?

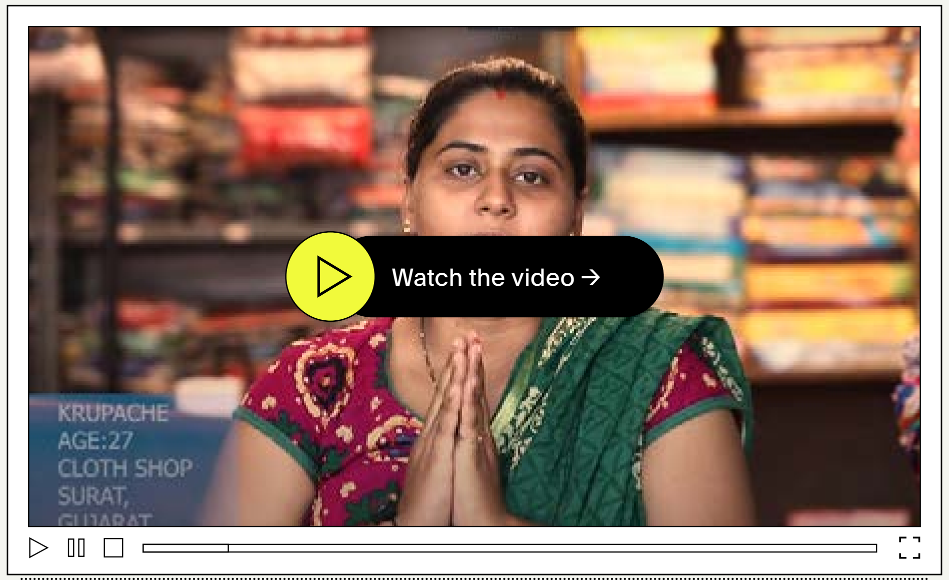
Lendingkart was founded in 2014 with a mission 'to make working capital finance available at the fingertips of entrepreneurs, so that they can focus on business instead of worrying about the gaps in their cash flows'.

How is Lendingkart addressing the challenge?

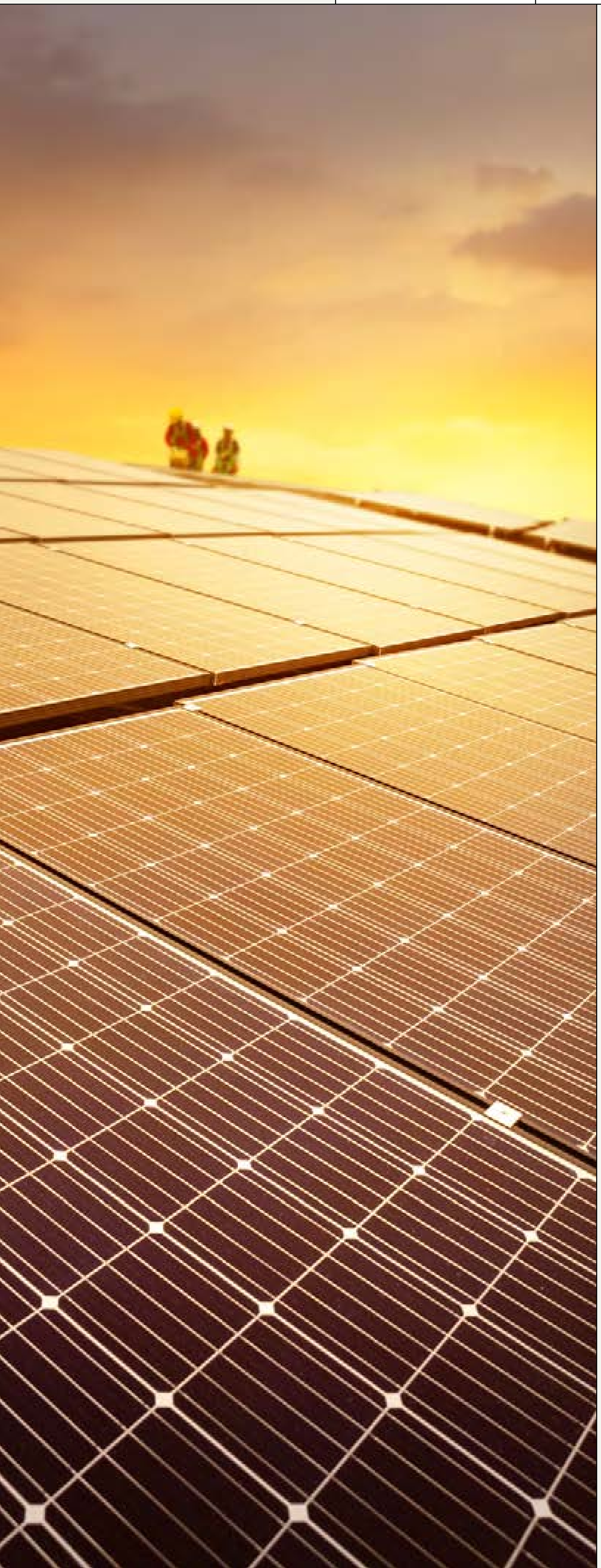
Through a digital lending platform, the company provides easy to access working capital loans to micro, small and medium-sized enterprises (MSMEs) across India. This sector represents nearly 58 million businesses and accounts for 45% of the country's industrial output but typically faces difficulties in accessing finance. Lendingkart aims to address this finance gap; many of its clients are first-time clients.

Since its inception, Lendingkart has evaluated nearly half a million applications, disbursing over 140,000 loans to more than 120,000 MSMEs in over 4,000 cities and towns across all states and union territories of India. To date, it has disbursed over a billion US dollars' worth of loans.

This borrower testimonial demonstrates the impact delivered through a Lendingkart loan.



37 Source: Triodos Microfinance Fund Impact Report 2022. To learn more about Triodos please refer to https://www.triodos-im.com/funds/triodos-microfinance-fund



Impact investing

Case Study: Artesian Clean Energy Seed Fund

Fund Manager

Artesian[38]

About the fund

Invests in renewable energy, energy efficiency and low emissions technologies at the early stage.

Accelerates Australia's transformation towards a more competitive economy in a carbon constrained world.

Committed capital

$10M

Geography

Australia

Financial Returns (3 Year average p.a.)

Net Internal Rate of Return 20%

What is the impact?

Key Impact Goals / Objectives

- Increasing the supply of clean energy startups in Australia
- Provide pull-model VC support to solve specific problems in the clean energy
- Attracting interested collaborators to work with clean energy startups and accelerators
- Catalyse additional source of capital for the clean energy startups that are accelerating Australia's transition to a low-carbon economy

Impact Highlights

- **832** Metric tonnes of carbon abated

Portfolio example: 5B

What is the challenge?

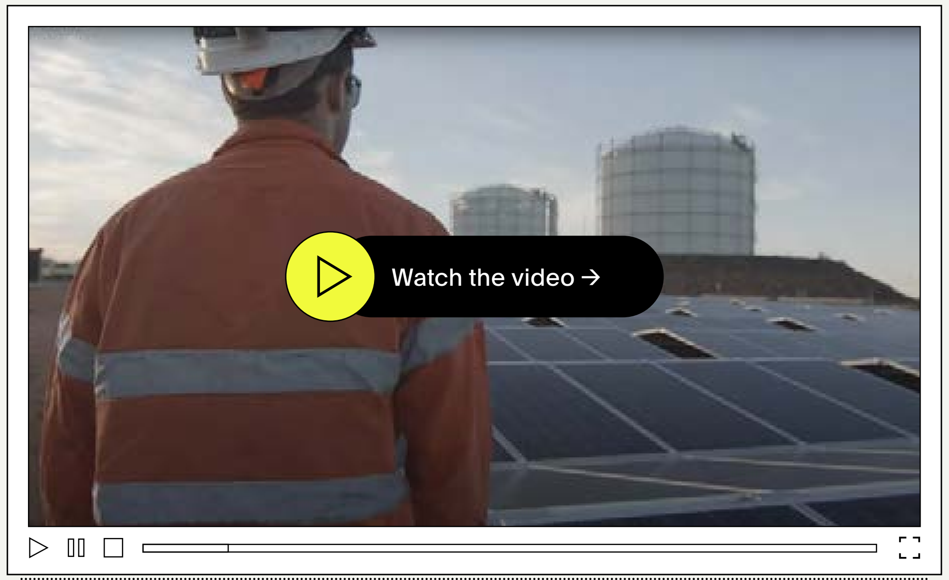
5B is helping the world build the 80 terawatts of solar required by 2050 to mitigate the impact of climate change and keep temperature rises within 1.5°C above preindustrial levels.

How is 5B addressing the challenge?

The solution offers by 5B is an ultra-low cost and rapidly deployed solar farm technology called the 'Maverick' portable solar farm. The modular solar farms are prefabricated in continuous, portable sections which can be rapidly deployed on site.

Impact created

5B has deployed 52 million megawatts of solar to date across 100 sites and has avoided 100 kilotons of CO_2 per annum compared to coal fired power generation. Over the next five years, the deployment of one gigawatt worth of Mavericks are projected to avoid at least two megatons of CO_2 equivalent.



38 Source: Artesian Annual Report 2021-2022, Info memo. To learn more about Artesian please refer to https://www.artesianinvest.com/post/artesian-s-2021-22-impact-report

Impact investing

Case Study: New Forests ANZ Forest Fund 3

Fund Manager

New Forests[39]

About the fund

New Forests is a global investment manager of nature-based real assets and natural capital strategies. They manage a diversified portfolio of sustainable timber plantations and conservation areas, carbon and conservation finance projects, agriculture, timber processing and infrastructure.

Committed capital

$10M

Geography

Australia & Aotearoa New Zealand

Financial Returns (3 Year average p.a.)

1.7%

What is the impact?

Summary

- Invests in forests, agriculture and land for a climate-positive and nature-positive future. Nature-based solutions (NBS) are actions to conserve, restore and sustainably manage natural and modified ecosystems to address environmental, social and economic challenges and to provide co-benefits

Key Impact Goals / Objectives

- Invests in forests and land for a climate-positive and nature-positive future
- Contributes to prosperous and sustainable communities where we operate
- Provides wood fibre for a low-carbon and sustainable bioeconomy

Impact Highlights

- **1,100** hectares (gross) of 100% FSC certified area
- **437,000** tonnes of CO_2e removed (total p.a.)

39. Source: New Forests ANZFF3 Annual Investor Meeting, 2022 New Forests Sustainability Report, ANZFF June 2023 update, New Forests website. To learn more about New Forests, refer to newforests.com/insight/new-forests-sustainability-report-2022

Portfolio example: Aratu Forests

Aratu Forests is held in New Forests' Australia New Zealand Forest Fund 3 (ANZFF3). They manage one of the largest forestry estates in the Gisborne District of New Zealand's North Island, managing around 27,000 hectares of Radiata pine plantation. Forestry in New Zealand typically uses contract labour for planting and harvesting, but Aratu is challenging this trend with an in-house silviculture team, focused on tree-thinning.

Key Initiative

Tree-thinning is the removal of low-quality trees or portions of trees to promote forest health. Thinning events can improve the quality and growth of the trees that remain and can salvage trees that may die before the final harvest.

The decision to establish the now five-person team was prompted by a shortage of silviculture contract workers and high contracting costs. After a successful six-month trial, during which workers were paid a salary and provided with necessary equipment, the team was made permanent in 2022.

Impact

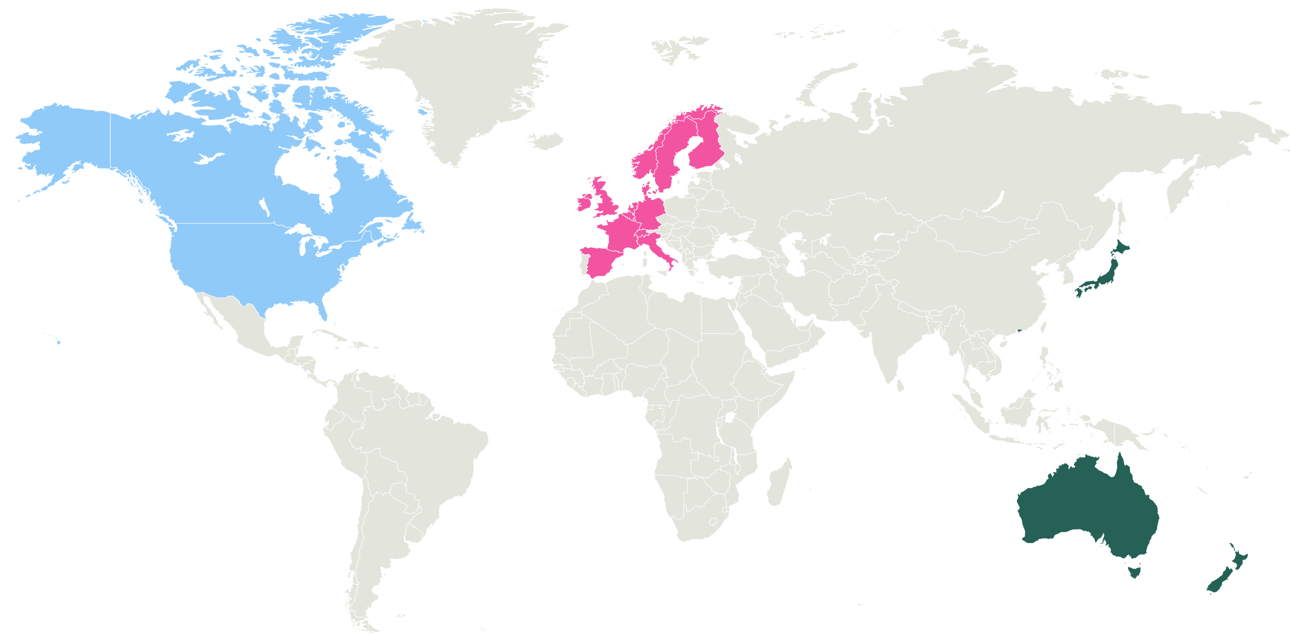
The benefits of bringing the thinning work in-house are many. As permanent staff, the silviculture workers now have greater job security and employment benefits, including a production-based incentive scheme. At the same time, Aratu Forests now has a reliable supply of labour, with a highly motivated team that is exceeding production and quality expectations. Overall, this approach reduces risks for the business, the silvicultural activity and, importantly, the thinning crew.

Our investment portfolio looks different

Equities – by country

Our equities portfolio is heavily weighted to companies in Australia, the United States and Canada. We restrict+ investments in companies operating in occupied or disputed territories where they are supporting illegitimate government control of those territories. Read more.

We also avoid investment in companies that have connections with authoritarian regimes that prevent them from fulfiling their human rights responsibilities. See more in our Modern Slavery update on page 17.



North America	25.8%
Canada	2.6%
United States	23.2%

Pacific Rim	67.7%
Australia	56.9%
Hong Kong	0.5%
Japan	2.8%
New Zealand	7.4%
Singapore	0.1%

Western Europe	6.5%
Belgium	0.1%
Denmark	0.4%
Finland	0.2%
France	1.2%
Germany	0.9%
Italy	0.4%
Netherlands	0.8%
Norway	0.1%
Spain	0.2%
Sweden	0.4%
Switzerland	0.9%
United Kingdom	1.1%

Indicative proportion of equities in our portfolio by country as at 30 June 2023.

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

Our investment portfolio looks different

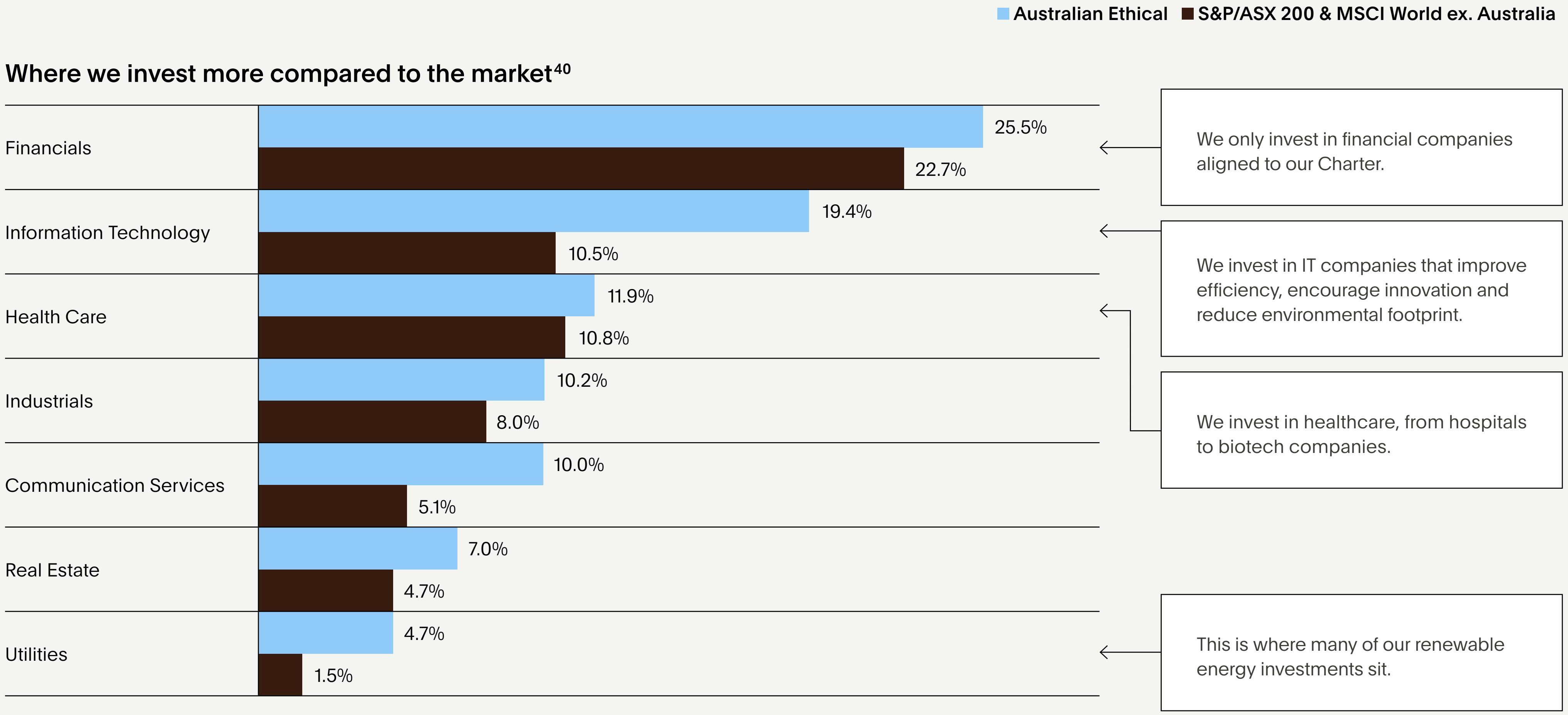
Equities – where we invest by sector

While we are more likely to invest in renewables and energy solutions generation than conventional funds (4.6 times more likely in fact), we find opportunities to invest in ethical companies across most sectors.

Even so, our portfolio is overweight in Charter-positive sectors such as education, health care and technology, and underweight in Materials, Energy and Consumer Staples making it look quite different to the mainstream.

Here's a snapshot of how we compare with some examples of stocks per sector.

Where we invest more compared to the market[40]



Examples

Financials

Teachers Mutual Bank (TMB) is a recognised financial institution dedicated to serving the educational community. It provides tailored financial services to educators, fostering financial well-being and community growth.

TMB has a stated commitment to ethical banking practices through its member-centric approach, prioritising financial well-being over profit maximisation. TMB reports strong customer satisfaction levels, and has deposit and loans certified by the Responsible Investment Association of Australasia.

TMB also contributes to members' well-being and development through scholarships, grants, charitable donations and development programs.

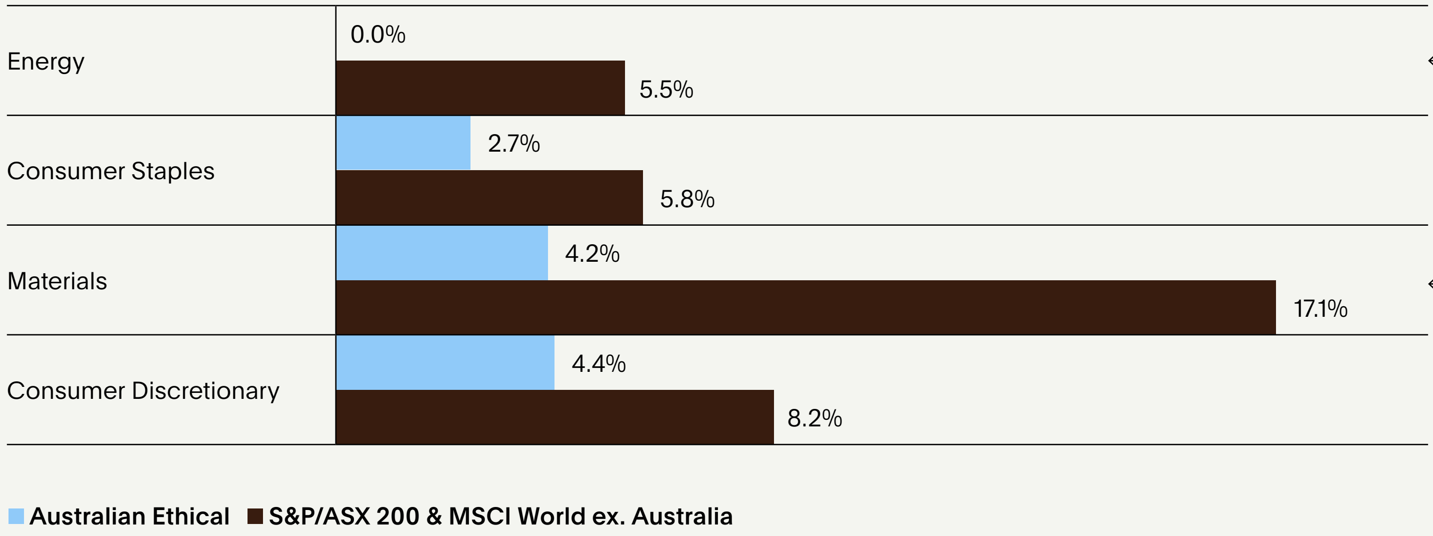
Information Technology

PEXA (Property Exchange Australia) is a world-first digital settlement platform that has revolutionised the way we exchange property in Australia by providing quicker access to the proceeds of a sale and near real-time tracking on property settlements. PEXA's mission is to reduce the time and paperwork traditionally associated with conveyancing. This streamlined efficiency not only expedites processes but also translates into substantial time and cost savings for clients.

Amidst the pressing challenge of homelessness and housing stress in Australia, PEXA collaborates with Homes for Homes, a social enterprise, to mobilise resources and allocate grant funds to community housing providers. This partnership is geared towards creating a sustainable impact by bolstering the supply of affordable and social housing.

40 Compared to a blended sharemarket benchmark of S&P ASX200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Based on shareholdings at 30 June 2023 and analysis tools provided by external sources which cover 92% of the listed companies we hold shares in by value. Based on the revenue from sustainable impact solutions earned by listed companies whose shares we invest in across our funds and options, and the proportion of those listed share investments in renewables and energy solutions. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. Sustainable impact data is provided by external sources and aims to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the U.N. Sustainable Development Goals (SDGs), EU Taxonomy of Sustainable Activities, and other sustainability related frameworks. More information available here. See page 48 for more.

Where we invest less compared to the market



Energy

We restrict+ investment in fossil fuel companies which make up most of the energy sector.

Materials

We have low exposure to the materials sector which includes the mining of non-renewable resources. During the year we updated our ethical framework for the mining sector to define criteria for investable "transition minerals"

Examples

Materials – transition minerals

Our ethical assessment of investments in the mining sector balances three factors: the value that the mined mineral has to the well-being of society; the harms of the mining process and mineral for people, planet and animals; and the scarcity and recyclability of the mineral.

Considering these factors, we restrict+ investment in most mining companies, including those mining fossil fuels and uranium. However, we will invest in approved lithium mining companies, recognising that the production of minerals such as lithium and copper need to grow significantly for decarbonisation of high emissions sectors like energy and transport. More lithium is needed to help expand battery energy storage for the transition from fossil fuel to renewable energy. More copper is needed for the electrification of transport and of many emissions intensive industrial processes.

Pilbara Minerals is a producer of lithium, a resource in increasing demand as the world pursues a sustainable energy future.

The company's stated focus is environmentally responsible mining of essential resources, such as lithium and tantalum, key ingredients in batteries. Pilbara Minerals says it aims to use innovative technologies and efficient processes to reduce water usage and waste generation in mining operations. This approach can not only mitigate environmental harm but also reduce regulatory risks. While Pilbara has a longer term net zero target and has completed a PV solar farm for its Pilangoora project, we would also like to see the company set shorter term emissions reduction targets to help it achieve the transition of its operations in line with the Paris Climate Agreement.

Pilbara Minerals reports its approach to modern slavery and human rights risks and impacts – serious matters in the mining industry – in its annual Modern Slavery Statement. Through responsible labour practices and procurement they aim to safeguard against forced labour or exploitation in their operations and supply chains. They also report positive relationships with Traditional Owners.

By investing in Pilbara Minerals, we are supporting the growth of lithium production needed for the transition to net zero. At the same time we would like to see continuous improvement in their initiatives to protect the environment and human rights.

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

How our equity investments align to the SDGs

Our investments can provide products and services that can contribute toward the SDGs. We can compare the revenue earned from these products and services from companies in our portfolio, with that of the companies in the Benchmark portfolio, to determine if our portfolio is meeting or exceeding the market's contribution to the SDGs. We use the MSCI Sustainable Impact Metrics framework and data to make this comparison.[41]

Through this analysis we can see how our investments (categorised under 13 of MSCI's global impact themes) are helping to support the delivery of the SDGs.

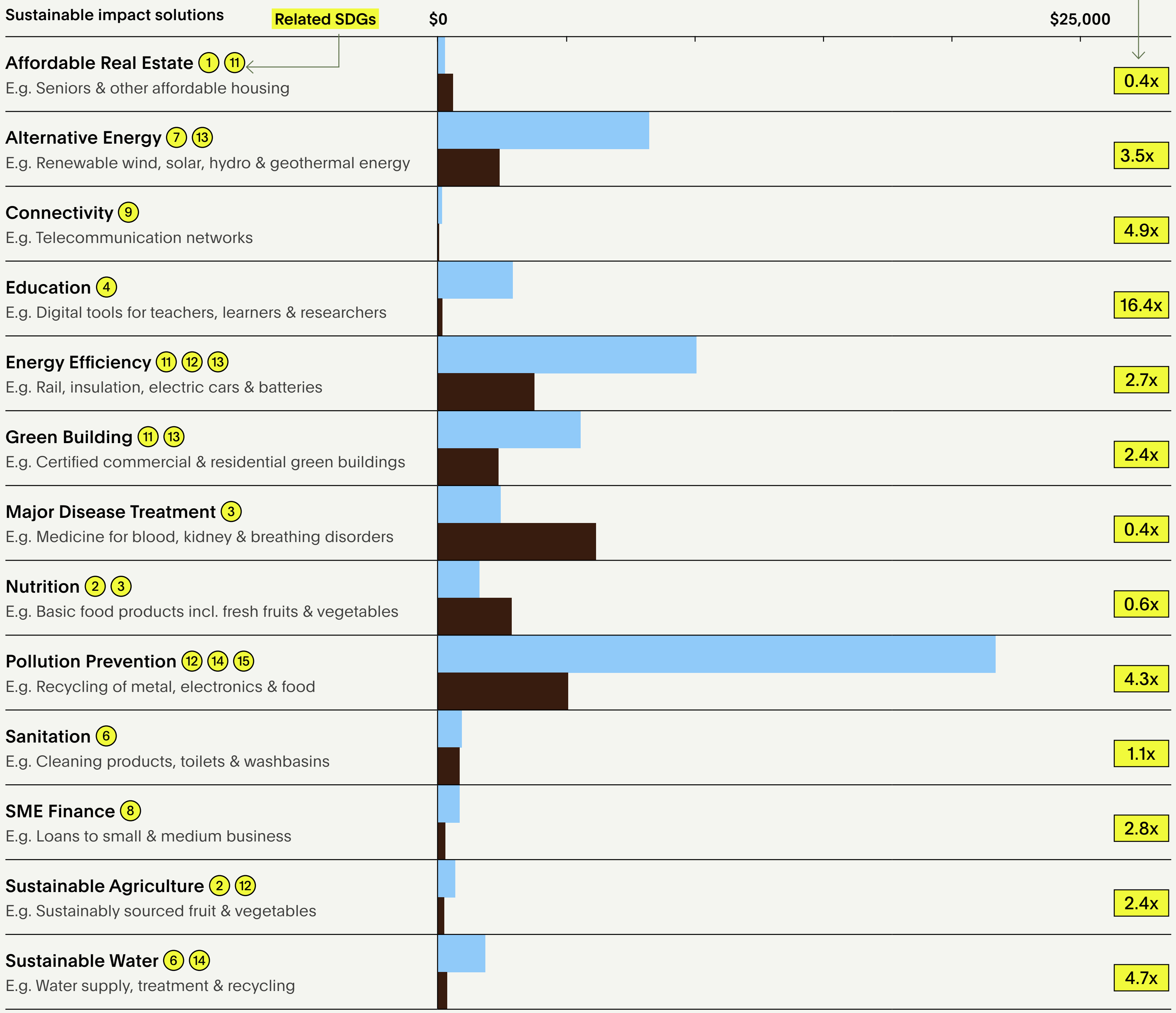
Key highlights

- Overall, revenue from sustainable impact solutions is 2.3 times[42] the sustainable impact revenue for an equivalent investment in the Benchmark.
- Revenue from sustainable water and agriculture and pollution prevention solutions is 4.2 times Benchmark.[42]
- On the climate front, revenue from Alternative Energy, Green Buildings and Energy Efficiency is 2.8 times Benchmark.[42]
- Revenue from "major disease treatment solutions" is well below Benchmark (about one half). Our lower revenue for these solutions is impacted by our current exclusion of some 'big pharma' companies like Pfizer and Johnson & Johnson. While these companies develop and produce many important drugs and vaccines, they can also raise ethical concerns from the use of animal testing (in some cases for non-medical products) and slowness to act on product safety concerns. We do invest significantly in smaller biotech companies, though often their current revenue is small as they are focused on research and development of new medical solutions.

Alignment with the SDG targets

This graph shows the revenue of 'sustainable impact' products and services produced annually by Australian and international companies in which we invest, per $million invested, compared to Benchmark.

AE vs Benchmark
AE shares
Benchmark shares



41 For the information on these pages we have used our portfolio shareholdings at 30 June 2023 and sustainable impact revenue data and analysis tools provided by MSCI ESG Research LLC accessed 20 October 2023. The analysis and comparison to benchmark is based on listed shares in those companies for which we have relevant data available from MSCI, being 92% of our listed share investments by value and over 99% of benchmark shares by value. For the comparison we have selected indices which we consider to be an appropriate investment benchmark for listed shares which Australian Ethical invests in. We use a blended benchmark of S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). The benchmark indices reflect the composition of relevant share markets, without selection of companies based on ethical, sustainability or ESG factors. The industry mix and other characteristics of Australian Ethical's portfolios are different. We have determined the links between the MSCI categories of sustainable impact solutions and the Sustainable Development Goals (SDGs). MSCI ESG Research is not responsible for the way we have used their data and tools to calculate the amounts in the table. We present information and the benchmark comparison only for investment in listed shares in those companies which have been analysed by MSCI ESG Research for their sustainable impact. MSCI ESG Research is not responsible for the information presented or the way we have used their data and tools. More information on page 48.

42 Based on the revenue from sustainable impact solutions earned by listed companies whose shares we invest in across our funds and options, and the proportion of those listed share investments in renewables and energy solutions. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. For our analysis we use sustainable impact criteria and revenue data from external sources which aim to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the U.N. Sustainable Development Goals (SDGs), EU Taxonomy of Sustainable Activities, and other sustainability related frameworks. More information available at https://www.msci.com/documents/1296102/16472518/ ESG_ImpactMetrics-cfsen.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b See page 48 for more.

* We have asked KPMG to provide limited assurance over key sustainability disclosures in our reporting. KPMG's assurance opinion is available on page 49. Data points that are covered by the limited assurance are identified in the document.

Case studies

Pollution prevention

4.3x
market

Targets

SDG 12

Responsible consumption and production

Target 12.2

By 2030, achieve the sustainable management and efficient use of natural resources

Target 12.5

By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Pollution Prevention continues to be the largest contributor to our portfolio's overall sustainable impact revenue. Analysis indicates roughly $22,000 of sustainable impact revenue going towards pollution prevention per million dollars is invested into our portfolio, compared to roughly $5,000 for an equivalent investment in the benchmark. Under Charter element e (the amelioration of wasteful or polluting practices) we invest in companies that assist in the prevention of pollution.

Examples of companies in our portfolio

Sims Metal Management Limited ($19,000 of sustainable impact revenue per million invested) is a metals and electronics recycler. For some items, like refrigerators and certain electrical and electronic equipment, the cost of recycling can be more than the value of recycled materials, however Sims Metal Management is able to also offer services to recycle these products in an environmentally responsible manner.

Nutrition

0.6x
market

Targets

SDG 2

Zero hunger

Target 2.1

By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

We invest in companies that contribute to Charter element f, the development of sustainable land use and food production. We also avoid investment in companies that contribute to Charter element iii, around unnecessary harm to humans, non-human animals and the environment. Considering heavy climate and animal impacts, we rule out direct investment in conventional commercial animal agriculture, which makes up a large part of the market. As a result, revenue relating to nutrition in our investment portfolio lags behind the Benchmark at roughly $1,700 per million dollars invested compared to $2,900 for an equivalent investment in the Benchmark.

Examples of companies in our portfolio

Costa Group ($1,600 of sustainable impact revenue per million invested) produces, packs, and markets a wide range of fresh produce (berries, mushrooms, tomatoes, citrus, bananas, grapes and avocados). We invest in the company because its products form part of a healthy diet (as recommended by the World Health Organisation), are produced in an environmentally sustainable way, and avoid unnecessary harm to humans and animals.

Energy efficiency

2.7x market

Targets

SDG 12

Responsible consumption and production

Target 12.5

By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Analysis indicates roughly $10,000 of sustainable impact revenue going towards energy efficiency per million dollars invested into our portfolio, compared to roughly $4,000 for an equivalent investment in the Benchmark.

Energy efficiency includes a range of products and services including those that improve business and industrial operations, optimise information technology performance, increase the efficiency of power usage, help reduce fuel consumption, or improve transport infrastructure. These products aim to deliver equitable access to sustainable energy both now and in the future.

Examples of companies in our portfolio

Downer Limited ($2,000 of sustainable impact revenue per million invested) provides clean transportation infrastructure, water management services and renewable power facilities. The company's products reduce energy consumption through metering technology and field mobility technology, which ensures the utilisation of resources with optimal efficiency. The company also contributes to alternative energy and sustainable water sustainable impact revenue categories.

The East Japan Railway Company ($700 of sustainable impact revenue per million invested) manufactures railway carriages and provides transport services (including bus and high-speed train). Through continuous improvements to its transportation vehicles, the company is able to make substantial energy efficiency progress, along with plans to shift to renewable energy completely in the long term.

Major disease treatment

0.4x market

Targets

SDG 3

Good health and well-being

Target 3.4

By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and wellbeing

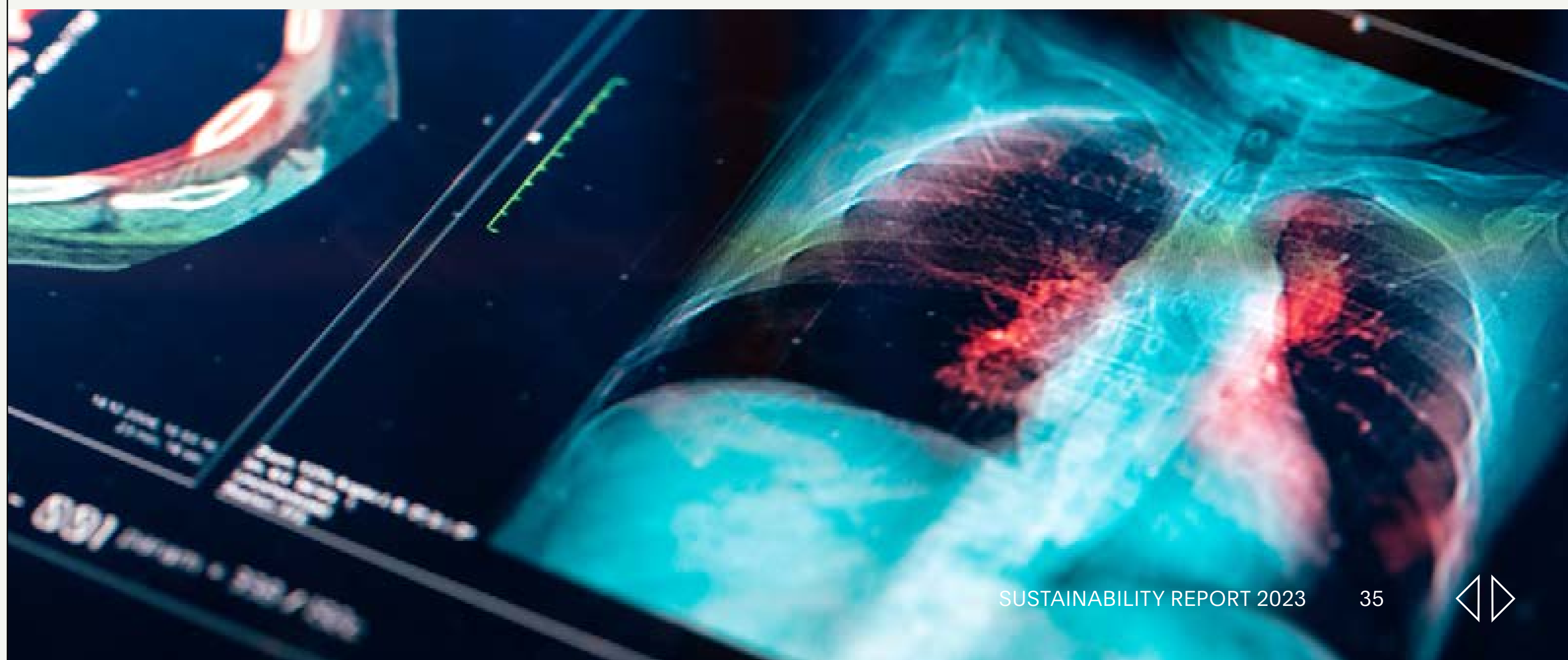
Our revenue from major disease treatment continues to lag the Benchmark. Roughly $2,500 of sustainable impact revenue goes towards major disease treatment per million dollars invested into our portfolio, compared to roughly $6,000 for an equivalent investment in the benchmark. One reason for this is that general hospital care is not included in the scope of this objective, an area in which we invest heavily. Furthermore, as impact is measured by revenue data, the positive impact of many of our investments supporting medical research is not captured as revenue will only be earned once successful research is commercialised. Our lower revenue is also impacted by our current exclusion of some 'big pharma' companies like Pfizer and Johnson & Johnson. While these companies develop and produce many important drugs and vaccines, they can also raise ethical concerns from the use of animal testing (in some cases for non-medical products) and slowness to act on product safety concerns.

Examples of companies in our portfolio

CSL Limited ($1,000 of sustainable impact revenue per million invested) develops products for the treatment of diseases. These include respiratory diseases, infections and hepatitis B, and orphan drugs used for the treatment of bleeding episodes and attacks of angiodema.

Amgen Inc ($200 of sustainable impact revenue per million invested) develops and manufactures drugs, including orphan drugs, used for the treatment of diseases such as chronic heart failure, migraine, hyperparathyroidism, and drugs used for the treatment of juvenile rheumatoid arthritis, end-stage renal disease, hypercalcemia in parathyroid carcinoma and multiple myeloma.

Incyte Corporation ($300 of sustainable impact revenue per million invested) sells products for the treatment or diagnosis of major diseases including lung cancer, leukemia, bile duct cancer, B-cell lymphoma, myelofibrosis, and polycythemia vera.



Our carbon footprint

For more than 37 years, Australian Ethical has been investing to protect our planet. During these three decades, the scientists with the IPCC have been issuing major reports about the state of the climate, gradually expressing more certainty about what is happening and why and the action needed to limit global warming.

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

The climate threat is also bringing climate investment opportunity in reducing emissions and helping communities adapt to the changes already underway and locked in by historical emissions.

We use a range of measures to check the effectiveness of our ethical investment approach to manage climate risk and to pursue our climate ambition as highlighted in this breakout box.

We report on key metrics in the following pages, but for an in-depth look at our climate reporting see our 2023 Climate Report.

Emissions intensity of investments

We report carbon footprint and fossil fuel reserves relative to benchmark for our listed share investments below. We focus on our listed share (equity) investments because listed shares comprise a large proportion of our total funds under management (~70%), and because data is less readily available across our other investments.

We believe this measurement remains a useful demonstration that our Ethical Investing approach – which is applied across all investments – results in our portfolio maintaining an emissions intensity well below the relevant benchmark, this is particularly so when we add in Scope 3 emissions, which we do so for the first time in this report. See our 2023 Climate Report for more detail.

Our climate ambition

We pursue net zero outcomes for our investments and the world (our climate ambition) aligned with the emissions reduction needed to limit temperature rise to 1.5°C – consistent with the most ambitious aims of the Paris Agreement.

We pursue our climate ambition using ethical screening, engagement and advocacy to promote positive change in economies and societies through influence on companies, governments, consumers and citizens.

Our action, measurement and reporting include:

- Annual carbon footprint measures for our share investments.
- Engagement and advocacy to help stop finance for expansion of the fossil fuel sector; to help stop and reverse land clearing and deforestation for animal agriculture; to help increase the development and use of low carbon building materials necessary for the net zero transition of the real estate sector.
- Seeking to leverage the collective power of aligned investors by leading and participating in collaborative engagements with high emissions companies, including through the global initiative Climate Action 100+.
- Work to encourage better government climate policy, including contributing to the policy engagement and advocacy of the Investor Group on Climate Change.
- Applying and communicating our climate-related Ethical Criteria which govern our ethical assessment of investments in key sectors with important climate impacts, including the energy, finance, food, transport and mining sectors.

See our Ethical Guide for more detail on our climate ambition and its limitations.

Our investment in clean energy

4.6x investment in renewables and energy solutions than Benchmark

Our carbon footprint metrics capture the emissions of renewable energy companies from their production of electricity from sources like wind, solar, hydro and geothermal. But the metrics don't capture the emissions lowering effects of these companies when they create new renewable energy capacity which displaces higher emissions fossil fuel energy. That's one of the reasons we measure our listed share investment in renewable power generation and other clean energy solutions, which this year is proportionately 4.6 times that of a comparable share market Benchmark.[43]

This includes investment in renewable energy generation from wind, solar, geothermal, biomass, small scale hydro (25 MW or less) and wave tidal energy. Also included are biofuels, waste-to-energy, renewables equipment (e.g. solar inverters and wind turbines), transmission of renewable energy, and batteries and other energy storage supporting renewable energy.

77% lower CO_2 intensity in listed companies in our share portfolio compared to Benchmark

The carbon intensity of the listed companies in our share portfolio remain at around one quarter of the share market Benchmark at 77% lower than the market.[43] This is when we consider scope 1 and 2 emissions only. These are those emissions that arise directly from the business operations of our investee companies (from things like car and truck fleets, and furnaces and boilers) and from their purchase of fossil fuel based electricity.

Over the last nine years we have been tracking this measure, we have been sitting significantly lower than our Benchmark. In the meantime, we have been monitoring the availability of robust scope 3 data (the additional 'upstream' and 'downstream' emissions sources) for our investment portfolio. While calculating scope 3 emissions involves more uncertainty than the more direct attribution of scope 1 & 2 emissions, they are significant in scale and critically important to the climate challenge.

When scope 3 emissions are included in the data mix our portfolio has even lower relative emissions (as much as 80%) than the Benchmark. This is a result of our strong restrictions on investment in fossil fuel companies, whose downstream scope 3 emissions include the burning of these fossil fuels (coal, petrol, gas) by their customers.

What is the difference between Scope 1, 2 & 3 emissions?

This video from WRI may help.

Scope 1 are the direct emissions created onsite by the business activity; while Scope 2 are those generated by purchased heat or electricity used in that business activity. Scope 3 are all the indirect emissions along a supply or value chain that are not covered by Scope 1 or 2.

For example, if your company bakes bread, then Scope 1 emissions are generated by the onsite manufacture and delivery of bread, including those from refrigerants, generators or from vehicles owned by the company. Scope 2 are the emissions created by the electricity purchased from a third party to enable these activities (from a coal-fired power station for example). Scope 3 covers the emissions from all the other activities along the supply chain. Those from the growing of and transport of wheat; from the manufacture of flour, yeast and other ingredients. From the transport of these and other inputs to the manufacturer; and then the distribution of the baked bread by third parties; for the commuting of all the employees involved in the value chain; and the disposal of waste at the input, manufacture, distribution and consumption stages.

Scope 3 emissions are broad and complex to account for and for this reason, they are only now reaching a critical mass in terms of robust data capture.

43 Comparison based on shareholdings at 30 June 2023 and analysis tools provided by external sources which cover 92% of the listed companies we hold shares in by value. The comparison benchmark is a blended benchmark of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). There is more information about the calculations and metric limitations on page 48.

80% lower

CO_2 intensity in listed companies in our share portfolio compared to Benchmark (scope 1, 2 & 3)

Influence

Using our influence

"... our approach is to work backwards from solutions to these system-level issues and ask ourselves, how can we best leverage our position as an investor to most effectively be part of that solution."

Now representing more than $9 billion invested, we are able to use our growing influence and many tools at our disposal, to catalyse change aligned to our Ethical Charter. This influence extends to the companies we invest in, but also those we exclude and the broader world in which we operate.

Ethical stewardship is a key way we influence for the change we want to see in the world. We need systemic change across multiple industries to tackle the most difficult and important challenges of our time, such as climate change, nature loss, human rights abuse and industrialised animal cruelty. As an ethical investor, we use capital allocation to help drive this change, by investing in companies that on balance benefit people, animals and the planet, and restricting+ our investment in we consider those which cause unnecessary harm in accordance with the Principles of our Ethical Charter.

Ethics-driven capital allocation is critical, but on its own is not enough to achieve the economic and social transformation to a future where people, animals and the planet prosper. There are a few reasons for this:

- The fact that we do not allocate capital to harmful industries does not mean they will stop existing. We restrict+ our investment in fossil fuel companies for example, but new oil and gas projects are still being built in Australia.
- The companies we invest in have been assessed as positive under our Ethical Criteria, but this doesn't mean they can't improve. There will always be companies inside and outside our investable universe that we will need to engage with.

Our ability to deliver healthy financial outcomes for customers relies on social and environmental foundations which are currently under threat, and therefore we see it as part of our responsibility as investors to help address these system-level risks.

Our rationale means we do not limit our efforts to ensuring that investee companies' financial returns versus the level of risk is acceptable. That is obviously important but on its own will not address — and can even exacerbate — system-level challenges. This is recognised in the PRI's guidance for investors on active ownership.[44] A company can seek to strengthen its position by externalising costs onto others. This might be good for their financial performance but bad for humanity, the planet, and the other sentient beings we share it with. And from a purely financial point of view, those negative externalities can be a cost across the rest of the portfolio.

As you will see our Stewardship Report, our approach is to work backwards from solutions to these system-level issues and ask ourselves, how can we best leverage our position as an investor to most effectively be part of that solution. We are not claiming that we can solve any of these issues ourselves. We recognise that we can play a role in positively influencing and contributing towards resolving them. And that we have a responsibility to do so.

44 Active Ownership 2.0 available at unpri.org/download?ac=9721.

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

Investors as ethical stewards

To focus our efforts, we pursue four strategic ethical stewardship initiatives targeting high impact sectors:

- turning off finance for unsustainable expansion of fossil fuels
- stopping livestock driven deforestation in Australia
- reducing building sector emissions
- advancing alternatives to animal research

We understand that advocating for change on behalf of our customers and shareholders is a privilege and a responsibility. We strive to be transparent about our ethical stewardship activities so that these important stakeholders can hold us to account and see how we are leveraging their capital to influence for people, animals and the planet.

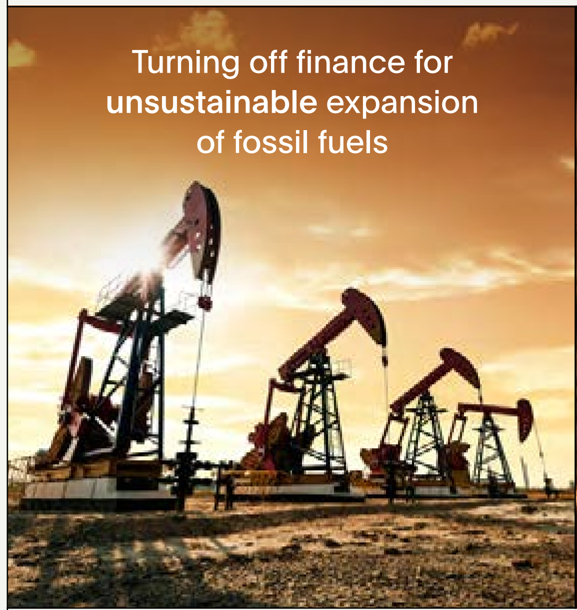
See our website for more information about our ethical stewardship, why we do it, how we think it achieves change, our process for identifying our priority areas of focus, and our commitment to achieving real world outcomes. We provide a detailed update on our FY23 activities in our 2023 Stewardship Report.

FY23 Snapshot

The Impact & Ethics Research team engaged[45] over 250 companies for people, animals and the planet.

- More than 65 of these were 'proactive' engagements (that is we did more than simply 'sign on' to an engagement coordinated by another organisation)[46]
- Companies committed to change following approximately 25% of our proactive engagements
- 35 of our proactive engagements were 'in depth' engagements (involving 3+ activities in the FY, or had been part of a multi-year engagement)
- Companies committed to change in FY23 following approximately 40% of our in depth, proactive engagements
- 4 company engagements ended with divestment. Overall during the year there were 5 divestments on ethical grounds[47]

Our four strategic ethical stewardship initiatives:



45 We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with QBE is counted as one engagement which included a meeting, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with Boral in relation to its efforts to align with the climate transition (as lead CA100+ investor for Boral) and a separate engagement with Boral in relation to worker safety.

46 We distinguish proactive engagements from passive engagements. Our 'proactive' engagement count includes where we engaged directly with a company, actively contributed to collective engagements (as distinct from simply 'signing on'), used a nominal advocacy holding to support shareholder resolutions, or co-filed a resolution

47 including companies excluded from initial investment or companies not held due to financial investment considerations.

Lendlease: an example of divestment with impact

In March 2023, our multi-year engagement with Lendlease ended with divestment. Specifically, we divested our debt and equity positions in the Lendlease Group. We intend to sell our investment in an unlisted property trust, the Australian Prime Property Fund – Retail, which is managed by Lendlease, in the first liquidity window.

We divested because we did not have sufficient certainty that Lendlease or the NSW government was taking appropriate steps to protect the koala colony that will be impacted by Lendlease's Mount Gilead development.

Our divestment announcement reached a potential audience of 8.5 million Australians through 110 unique pieces of earned media coverage, including the ABC, Channel 9 News, the Guardian, The Australian and Bloomberg.

Following our request for support, 1,799 people copied us in on their letters to the then NSW Minister for Environment and Heritage, the Hon James Griffin, requesting a transparent public consultation on the environmental impacts of the development.

Post divestment, we sent briefings to the new NSW ministers (the Hon Penny Sharpe, Minister for the Environment; and the Hon Paul Scully, Minister for Planning). We met with the Minister for Environment's Office. We also gave briefings to other investors explaining our concerns with the proposed development.

Impact

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

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

What next?

This process has demonstrated to us how poorly nature is protected at all levels of government and how urgent the need for reform of our environmental protection laws, including the federal Environmental Protection and Biodiversity Conservation Act (EPBC Act). We look forward to seeing the Federal government's reform proposal.

We will also continue to agitate with respect to Lendlease's Mt Gilead development where opportunities arise. For example, in September 2023 we made a submission under the EPBC Act assessment process about this development.

Microsoft and human rights

In FY23 we commenced an engagement with Microsoft about its provision of certain products and services that may be used in ways which contribute to breaches of human rights in China. We are concerned with the potential for uses which invade privacy and facilitate censorship and surveillance, for example.

Under our human rights framework, we seek to avoid investments in companies that are not making genuine efforts to discharge their business responsibility for human rights (as set out by the UN Guiding Principles). This includes where we assess that a company is directly causing or contributing to adverse human rights impacts by knowingly providing products or services to a third party, that supports that party's abuse of human rights.

We believe artificial intelligence and other existing and emerging technologies can have a beneficial impact for people without necessarily impeding human rights. We also believe companies can positively contribute to human rights while operating in countries with authoritarian regimes. However, we are concerned about the use and proliferation of technology in ways which can harm human rights.

We are engaging with Microsoft to understand how human rights risks of this type are assessed, managed and mitigated by Microsoft. Microsoft says it conducts due diligence to assess the impact of its technologies on human rights. Microsoft also applies international principles and norms such as the UN Guiding Principles on Business and Human Rights to guide its due diligence. However, to date Microsoft has not provided the additional information we sought to better understand the practical measures it takes to safeguard against misuse of its products and services.

We may explore whether collaborative engagement opportunities might help advance our dialogue with Microsoft.

An ethical business

Customer experience with heart

We believe all businesses must respond to the urgent needs of our planet, in addition to their business-as-usual activities. Our purpose-driven business model allows us to address the interests of employees, communities, suppliers, the environment, customers, and shareholders simultaneously.

Our growth supports the delivery of our purpose. It enables us to grow our portfolio of good money, raise the volume of our voice as an active shareholder and contribute to the world we operate in through the activities of the Australian Ethical Foundation.

By 30 June 2023, Australian Ethical had reached a milestone of more than 120,000 customers Though our new ex-Christian Super members joined us through a transaction (a successor fund transfer), rather than electing to join the fund directly, more than six months after the transfer date, the retained member balances have been above our original expectations.

Our 2023 Net Promoter Score survey was conducted just after the completion of this transfer. This survey demonstrated different results for member groups. Existing Australian Ethical Super members rated us in the Top 10 with an NPS of +16%. The cohort of newly-joined SFT members however, scored us lower at +6% NPS. This was not unexpected, given their recent experience of joining us through a successor fund transfer process, rather than a more conventional approach .

It was a challenging year of growth and change, and we listened deeply to feedback from our new and existing members. In response we further enhanced our Contact Centre leadership, resourcing, process automation and telephony. Towards the end of the financial year and despite record levels of interaction, our grade of service, quality measures and abandonment rates were back at high-quality pre-SFT levels.

Values-aligned organisations

We are also increasing our sales focus on 'values-aligned' organisations, not-for profits including charities and foundations as well as values-aligned businesses and have created a new role to lead this channel. They will be managing a panel of values-aligned organisations as well as ultra-high net worth individuals and will be prospecting for new opportunities.

Enhancing our digital experience

Our aspiration is to provide our direct customers with a best-in-class digital experience to manage their super and investments. In FY23 we continued developing the functionality of our digital experience, building out a welcoming experience for our new SFT members, along with additional enhancements to the app and desktop environment for managed fund customers. Our next significant customer experience uplift will be delivered to our super members through the transition to our new super administrator, GROW, commencing in FY24.

As for any financial services provider, cyber security and customer privacy are critical concerns for our business. We understand the risks posed by data breaches or the loss of data integrity, as well as the potential disruption to our business or financial loss that could occur from a cyber security event, natural disaster or the failure of a technology service provider to meet the needs of our business.

In recognition of the importance to our business of our both our digital capability and resilient IT infrastructure, we appointed our first Chief Technology Officer, Conrad Tsang in October 2022. With more than 20 years' IT experience across a variety of financial sectors, including banking, markets and funds management, Conrad is well-placed to help us deliver our digital experience aspirations, while managing our cyber and customer privacy risks in a rapidly evolving external environment.

Key activities undertaken by Conrad and his team include a comprehensive security assessment of the third party vendors we use when delivering services to our customers. The implementation of Multi-Factor Authentication on critical systems to protect customer information. An ongoing program of penetration testing of our systems' environment to identify any areas we can improve, along with the continual uplift of our cybersecurity protection, detection and recovery processes.

Communicating with customers

As long term advocates of responsible investing, we support the recent efforts by regulators to focus their efforts on 'greenwashing'. Not only does greenwashing undermine investor confidence in the labelling of investments but – if left unchecked – it may actually stymie progress towards a sustainable future by directing the capital of the well-intentioned towards investments that aren't actually contributing positively to the world.

As a pure-play ethical investment manager operating under strict frameworks reflecting our Ethical Charter, we are mindful of the need to carefully explain our ethical approach to prospective and existing customers. We work hard to continuously improve the quality of our communications and the transparency of our disclosure.

To help customers understand the nuances of our ethical assessment of our investments we publish our ethical criteria and how we manage thresholds for different sectors. To provide more detail we have published our Ethical Guide. Customers can see the top 10 holdings for their investment option or managed fund on our website and can then download the full holdings with the click of a button if they wish.

We continue to provide information in customer annual statements setting out their sustainability metrics along with their financial outcomes.

Case Study

Customer experience with heart is about putting the needs of our customers first. After supporting one of our super members undergoing a traumatic experience, our customer service leader responded by empowering internal teams to improve the experience for other vulnerable members. Learning from the experience of the original member, the team created a supportive and practical process to help vulnerable members access the financial assistance they need while minimising additional stress and improving their overall experience.

Early in 2023 one of our members contacted our internal contact centre multiple times for financial hardship. They were escalated to a team leader after a difficult interaction. During the conversation, it was revealed that the member was a victim of domestic abuse. This interaction prompted the team leader to advocate for change in how we handle vulnerable members. To address this issue, we assigned a dedicated person to manage the member's case. This meant the member could contact them directly, eliminating the need for the member to repeat their story to multiple people. Additionally, the team leader collaborated with the Australian Ethical Risk team to help smooth the process for the financial hardship application, while ensuring compliance with regulations.

Recognising that vulnerable members often struggle during these times of hardship, we took steps to create a more inclusive and accessible customer experience. Changes included additional training for customer service teams on our policy for vulnerable members, a modified process to assess documentation and streamline the application process for vulnerable members, priority given to processing of these members' applications and understanding the urgency of their financial needs.

The changes implemented have already had positive outcomes, benefiting vulnerable members in subsequent instances. Each time, the newly designed experience allowed the team to make an initially anxious and distressed member feel supported and enabled to take back control.

Our People

Diversity, Equity & Inclusion

We are committed to Diversity, Equity & Inclusion and to fostering an inclusive and equitable environment so our diverse talent can bring their authentic selves to work and be at their best.

We believe in the inherent strength this creates which inevitably leads to better outcomes for our people, customers, shareholders, and the wider community.

86% of participants in our 2023 employee engagement survey[48] affirmed 'Australian Ethical builds teams that are diverse', and 76% of participants agreed 'We have initiatives that inspire a positive and inclusive environment'.

Diversity Census

This year we conducted a Diversity Census to better understand the profile of our workforce - so we focus on initiatives that will drive meaningful and sustainable change across AE.

The diversity categories in the census included:

- Aboriginal & Torres Strait Islander Peoples
- Qualifications & Work Experience
- Cultural including religion
- Carers Status
- Gender Identity
- Sexual Orientation
- Disability, Neurodiversity & Health

The results are available in our databook.

Our investment team providing networking and mentoring opportunities to early career professionals at a Future IM/Pact event.

Gender Equity

We've held targets for achieving gender diversity at board level, senior management level and across the workforce for a number of years. We have been tracking well against these targets and continue to meet them.

In 2021, we added a gender diversity target to our investment management team, when we became one of eight signatories to the FSC Women in Investment Management Charter. As a signatory we adopted the following four principles:

- appoint a senior executive from the investment management team who is responsible and accountable for gender diversity within the investment management team;
- set internal targets for gender diversity in investment management division;
- monitor and report annually on progress against targets; and
- demonstrate an intention to link the pay of staff to delivery against the gender diversity target.

The 2022 FSC Diversity Survey of 20 global and domestic fund manager members found that women on average make up 27% of investment teams, an increase of two percentage points over the prior 12 months.

Our target is to have women represent 30% of our investment team by 2025. At the end of FY23 we had 28% female representation. In FY24, we will set ourselves a new stretch target.

To help improve gender diversity within our investment team and also more broadly in the investment management industry, we are partners of and avid participants in the Future Impact program. This year our investment team were involved in mentoring circles and attended in person events where our team provided both mentorship and networking opportunities. Together we're helping women launch a career in investment management.

48 The response rate was 73%

We also celebrated International Women's Day to recognise and honour women's achievements and to promote gender equality. Leaders from the Karrkad Kanjdji Trust, an organisation of Indigenous Women Rangers in West and Central Arnhem Land, that Australian Ethical has been supporting for a number of years, shared their inspirational stories.

Inclusive Benefits

For a number of years, AE has shown support for First Nations People and remained open for business on the 26 January Australia Day public holiday, offering our staff the option to work on that day and have an alternative day off in lieu.

We understand that public holidays in Australia may not reflect each person's observations, beliefs and lifestyle and we believe everyone should have the opportunity to celebrate what's important to them and feel included in doing so, regardless of who they are, what they believe in, where they come from.

This year we introduced Flexible Public Holiday Leave to show our commitment to diversity, equity and inclusion, and flexibility. This initiative allows employees to apply to work on a gazetted public holiday and swap it for another day that better reflects their beliefs or observations. This has been well-received by our staff and further strengthens our inclusive culture.

LGBTQIA+

At AE, we have and always will advocate for the LGBTIQA+ community. We embrace and celebrate diversity and encourage everyone to share stories and experiences as we try to spread compassion and awareness. This year during World Pride, staff showed their support and allyship in their email signatures with the addition the Pride flag and by displaying our PRIDE edition AE merchandise; we also celebrated and recognised Mardi Gras, IDAHOBIT day and Wear It Purple day.

Culture and Employee Experience

Success in achieving our strategic goals is largely contingent on the quality and performance of our people, and the health of our organisation's culture.

FY23 was a year of significant growth and change. We experienced both capability uplift and a 20% headcount increase as we grew from 102 to 124 employees (including contractors). We successfully integrated a number of ex-Christian Super employees as a result of the Successor Fund Transfer, including Ross Piper as our new Chief Executive Superannuation.

In addition, our ethical investment leadership capability was further enhanced with the appointment of Chief Investment Officer, Ludovic Theau and Alison George as Head of Impact and Ethics, and the appointment of Conrad Tsang, Chief Technology Officer has brought new capability to enable our data and technology strategy.

Investing in our people

We continued to invest in our people, and our purpose driven and high performance culture, with the rollout of further leadership training across the business. Our Leadership residential programs have been incredibly powerful in teaching skills and conveying mindset learning. Approximately 80% of our employees have participated in this program. We also held education sessions with managers and employees to improve their understanding of the link between performance and reward and to further embed our performance framework.

Our second "AEx week" was held in March 2023, the theme for this year was "The power of tiny gains" inspired by the book Atomic Habits by James Clear. Sessions focused on developing our people's skills in and knowledge of innovation and continuous improvement, both personally and professionally. Feedback from the event confirmed 88% of respondents believe "AE has a commitment to and culture of innovation".

Volunteering and giving

Giving back to the community continues to be a strong feature of our culture. In addition to providing all employees with access to volunteering leave as a way to encourage them to pursue their personal volunteering initiatives, we also held a number of company-wide initiatives.

As part of our social and community wellbeing offering, we organised tree planting volunteering days with Greenfleet in Sydney and Melbourne.

Following the devastating Turkiye-Syria earthquake disaster, we matched donations made by employees to support the lifesaving response effort, and to help provide immediate and longer-term relief to communities affected by the earthquakes.

We also helped raise vital funds for the amazing work of the Asylum Seeker Resource Centre (ASRC), through donation matching with a Feast for Freedom event.

95% of respondents to the employee engagement survey agreed "Australian Ethical's commitment to social responsibility (e.g. community support, sustainability, etc.) is genuine".

Wellbeing@AE

Wellbeing is an important part of employee experience at AE. Our Wellbeing@AE program encourages our people to engage with their financial, physical, emotional, and social wellbeing so that they can bring their best selves to work.

In FY23, in recognition of World Mental Health Day, and as part of AE's ongoing investment in employee wellbeing, we introduced Mental Health First Aid (MHFA) Officers. In partnership with, Allos, 10 employees who are passionate about mental health, the wellbeing of others and developing their skills, completed their training and became accredited MHFA officers.

Also, over the year employees were able to access a range of wellbeing offerings including:

- $299 personal wellbeing allowance health memberships, subscriptions and fees, sporting equipment and sporting clothing, home office equipment to support ergonomic set up
- Flu vaccinations and skin checks
- Financial wellbeing workshop
- City2Surf, Bloomberg Square Mile Relay, Run Melbourne
- Lunch time team sports competitions
- Five days additional wellbeing leave
- Counselling support via Allos our EAP partner
- Expert medical support and guidance at no cost with 360Health Virtual Care

Pleasingly 76% of respondents to the employee engagement survey affirmed "I believe wellbeing is considered a priority at Australian Ethical" and "I feel genuinely supported through the wellbeing initiatives."

Employee engagement

In FY23, 73% of our employees completed the employee engagement survey. Our overall employee engagement score was strong at 70%, but a decrease on the prior year. This was to be expected given the significant growth and change experienced during the period.

83% of respondents answered favourably to "I am proud to work for Australian Ethical" and "I would recommend Australian Ethical as a great place to work".

Our strengths are our commitment to social responsibility and purpose, knowing what is required to be a high performer, and management support. Opportunities to improve employee experience are known and which we're already working on. In particular, Enablement is a key focus area to uplift systems, processes, and data to allow employees to perform their role more effectively and efficiently.

Employee Engagement 70%

To measure employee engagement we used the following five key questions in our employee engagement survey, conducted in June 2023.

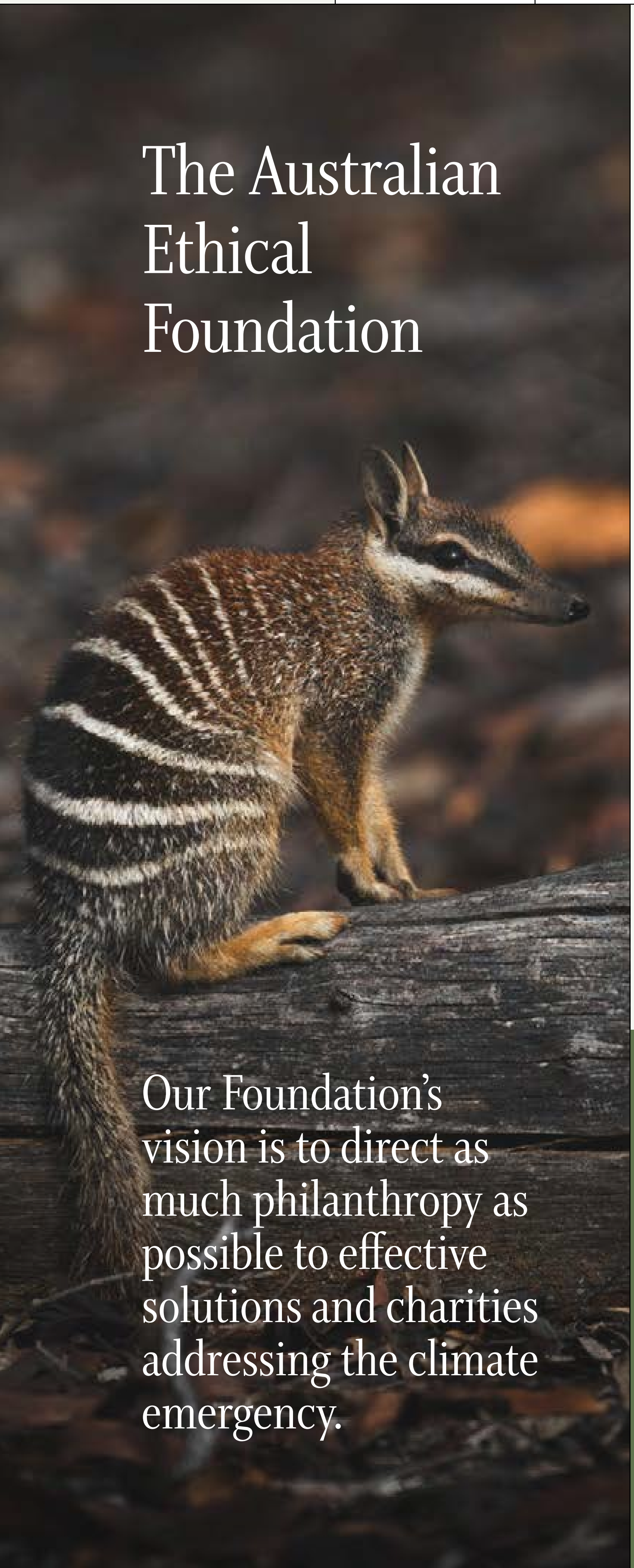
"I am proud to work for AE"

"I would recommend AE as a great place to work"

"I rarely think about looking for a job at another company"

"I see myself still working at AE in two years' time"

"AE motivates me to go beyond what I would in a similar role elsewhere"



The Australian Ethical Foundation

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

One of the most direct benefits of our increasing scale is the contribution we can make to the Australian Ethical Foundation. Every year we donate 10% of our profits[49] to the Australian Ethical Foundation, meaning the more we grow, the more we're able to donate to organisations that are as passionate about making the world a better place as we are.

In FY23 the Australian Ethical Foundation allocated $1.1M in funding support to over 25 charities fighting climate change and protecting our natural ecosystems across our strategic priority areas: stopping sources of carbon pollution, supporting carbon sinks and empowering women and girls. The public grant round, Visionary Grants, unearthed a suite of projects and organisations undertaking innovative and high impact work to mitigate climate change.

$500,000 was awarded across 12 winning projects, ranging from showcasing the capabilities of electric utes across regional Australia, to converting unused cane farms to wetlands for carbon sequestration. Each organisation used the funding to test or scale their projects. The 2023 Visionary Grant winners will be named in December 2023.

The Foundation's strategic grant program continued to fund proven and effective charities working across our focus areas. Projects spanned from progressing alternative protein markets, developing clean tech investment hubs, empowering First Nations women rangers in Arnhem Land and advancing environmental accounting standards.

Process of change

The Australian Ethical Foundation utilises the following framework to ensure our philanthropic funds are donated efficiently across the most appropriate sectors.

The Foundation distributes grants through two funding streams:

1. Visionary Grants – a public grant round targeted at innovative climate solutions
2. Strategic Grants – private by-invitation funding directed at the most effective climate charities.

The role of The Foundation's grant-making is to:

1. Drive innovative climate solutions
2. Scale effective and proven climate mitigating activities; and/or
3. Inspire a new vision for a sustainable future.

Details on governance, our theory of change and grant making approach can be found in 2023 Australian Ethical Foundation Impact Report.

2023

10%	$1.1M	$500,000	25+	$9M
yearly profits donated through the Australian Ethical Foundation[49]	provisioned for donations in FY23[50]	funded through Visionary Grants program[51]	charities supported fighting the climate crisis	donated since 2000[49]

49 After tax and before bonuses
50 Utilising funding provision in FY22
51 Included in the provisioned $1.1 million

2022 Strategic Grant recipients

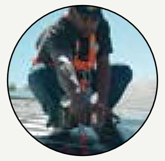
To create the most effective impact, The Foundation's funding is targeted at:

1. Stopping Sources of Carbon Pollution
2. Supporting the development of Carbon Sinks
3. Educating and empowering women and girls

The following Strategic Grant case studies illustrate our three areas of support:

For more information on these and other organisations supported by the Australian Ethical Foundation, see the 2023 Australian Ethical Foundation Impact Report.

Stopping Sources of Carbon Pollution



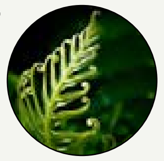
Original Power

The Australian Ethical Foundation has been a crucial supporter of Original Power's ambitious initiative, the First Nations Clean Energy Network (Network), initiated in November 2021 in Alice Springs. The Network was established to empower First Nations communities and enable them to seize opportunities arising from Australia's thriving renewables sector.

Throughout 2022, the Network diligently organised specialised working groups focused on community, policy, and industry. Notably, they collaborated with national organisations to host the First Nations Clean Energy Symposium in Melbourne and secured a pivotal commitment from the Federal government and Energy Ministers to jointly craft a transformative First Nations Clean Energy Strategy. They also launched resources to empower communities in navigating the renewables industry.

In 2023, the Network maintains its unwavering focus on vital initiatives, including energy security, rights, capacity building, and promoting inclusivity in renewable energy. Noteworthy achievements include the successful launch of Best Practice Principles and Clean Energy Negotiations Guides. The Network's impressive growth, marked by a substantial increase in members and supporters, underscores their dedication. Their ongoing efforts include creating a comprehensive 'How to Guide' for communities entering solar projects and advocating for streamlined policy reforms to expedite regulatory approvals for community solar projects, aligning with their mission to drive positive change in the renewables landscape.

Supporting the Development of Carbon Sinks



Australian Climate and Biodiversity Foundation

The Foundation has been supporting the work of the Australian Climate and Biodiversity Foundation (ACBF) which was established to cut through and deliver their forest futures mission to rapidly protect, restore, and better manage Australia's native forests, with the goal to stop native logging by 2030.

ACBF has worked closely with various leading nature organisations and relevant Federal government departments to infuse nature-positive principles into key government initiatives, including draft national environment standards, the innovative Nature Repair Market, and the new federal Environmental Protection Authority (EPA) and Environment Information Australia (EIA).

Additionally, ACBF worked to bolster and facilitate the passage of the Safeguard Mechanism and have actively contributed to shaping the reformed carbon market, ensuring it generates high-integrity carbon credits by safeguarding crucial forests.

ACBF's efforts have transcended policy reform as we've harnessed the transformative momentum generated by the Chubb reforms and new biodiversity protection laws. This has enabled ACBF to forge a pioneering alliance to advocate for a multi-Ministerial taskforce aiming to craft a new national forest policy. This strategic shift promises to offer long-term protection, enhanced management, and the restoration of our severely depleted forests.

Looking ahead, ACBF priorities include advocacy for the establishment of a national forest policy task force, forging research partnerships, exploring 'Nature Positive' policy and legislative reforms, informing the future design of the new federal EIA and EPA, launching targeted research projects, exploring corporate leaders for private sector leadership, and implementing our multi-regional 'Forest Futures' communication strategy—a key driver of change.

Educating and Empowering Women & Girls

Human Rights Watch

In collaboration with the Australian Ethical Foundation, Human Rights Watch is dedicated to safeguarding the rights of Indigenous women in Indonesia and addressing the pressing issue of deforestation. The focus of their work lies in Indonesia's Papua region, where the rapid depletion of forests presents significant challenges to Indigenous communities, particularly women.

Human Rights Watch has conducted in-depth research into the intersection of climate change and gender discrimination in the context of land rights. Through this research, they have identified structural barriers within Indonesia's laws and policies that result in violations of the rights of Indigenous women. Despite international obligations to respect Indigenous rights, these laws are often left unimplemented or disregarded, creating an environment of impunity for rights abuses.

The organisation's efforts have centered on a comprehensive analysis of Indonesia's legal framework concerning land-based investments, including the production of oil palm and environmental management practices. By gaining a profound understanding of the weaknesses in these laws and their impact on Indigenous peoples, particularly women, Human Rights Watch seeks to exert pressure on the Indonesian government to enact policies that respect rights. The goal is to ensure consistent monitoring and oversight of land clearance and plantation development.

More information

+Investment Restrictions

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

External tool and data providers MSCI ESG Research LLC

We have used data and tools provided by MSCI ESG Research when calculating the sustainability information for our listed share portfolio in this report about sustainable impact revenue, carbon intensity, carbon footprint and investment in renewables and energy solutions. We used the MSCI tools and data for our calculations on 20 October 2023.

More information on MSCI methodology and metrics is available here: msci.com/documents/10199/2043ba37-c8e1-4773-8672-ae43e9e3fd0

and here:

msci.com/documents/1296102/16472518/ESG_ ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211- c07ab992d17b

MSCI ESG Research is not responsible for the impact information or the way we have used their data and tools. MSCI ESG Research (1) retains copyright in all its data; (2) does not warrant or guarantee the originality, accuracy and/or completeness of their data; (3) makes no express or implied warranties of any kind, and disclaims all warranties of merchantability and fitness for a particular purpose; (4) has no liability for any errors or omissions in connection with their data or for our reporting and use of their data; and (5) without limiting any of the foregoing, has no liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Carbon footprinting and impact measurement limitations

Investment carbon footprint metrics need to be used with caution. Company carbon data often includes estimates or is incomplete, and may include errors. Companies make different decisions about what they do and don't include when measuring and reporting their operational footprints. MSCI uses estimates for some companies. There are also different portfolio measurement methodologies, and different carbon metrics which can be used to assess carbon footprint, each with different strengths and weaknesses.

Similar limitations apply to measurement of other types of impact of companies. Company reporting of the revenue they earn from different products and services may be inaccurate or incomplete, and MSCI may make estimates in breaking down and categorising company revenue. There are different methodologies and frameworks for classifying sustainable products and services and for taking account of negative impacts of a company's operations.

Some of the impact data we use is provided in US$ terms, and some of this data has been converted to US$ using exchange rates selected by the data provider.

Where we report impact information in A$ terms, we have used an average exchange rate as published by the Australian Taxation Office for the 2023 financial year. Investing ethically and sustainably means that the investment universe will generally be more limited than non-ethical, non-sustainable portfolios in similar asset classes. This means that the Portfolio may not have exposure to specific assets which over or underperform over the investment cycle. This means that the returns and volatility of the Portfolio may be higher or lower than non-ethical, non-sustainable portfolios over all investment time frames.

Use of sustainability information

The sustainability information in this report does not relate to specific financial products and may or may not be relevant to individuals' investment decisions.

This information is of a general nature and is not intended to provide you with financial advice or take into account your personal objectives, financial situation or needs.

Investing ethically and sustainably means that the investment universe will generally be more limited than non-ethical, non-sustainable portfolios in similar asset classes. This means that the Portfolio may not have exposure to specific assets which over or underperform over the investment cycle. This means that the returns and volatility of the Portfolio may be higher or lower than non-ethical, non-sustainable portfolios over all investment time frames.

The information in this report is general information only and does not take account of your individual investment objectives, financial situation or needs. Before acting on it, consider its appropriateness to your circumstances and read the Financial Services Guide (FSG), the Product Disclosure Statement (PDS) and Target Market Determination (TMD) for the relevant product available on our website for information on the benefits and risks of our Funds. You should consider seeking advice from an authorised financial adviser before making an investment decision.

Past performance is not a reliable indicator of future performance.

Unless otherwise indicated, the photographs and drawings of assets in the report are not real assets connected to the Australian Ethical Managed Funds investment schemes (managed funds) or the Australian Ethical Retail Superannuation Fund (Super Fund). Photographs and drawings of public buildings, transport, or panoramic views do not depict Managed Funds or Super Fund assets.

Where used, photographs of the assets of the Managed Funds or Super Funds are the most recent available. Any views or opinions expressed are the author or quoted person's own and may not reflect the views or opinions of Australian Ethical.

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Independent Limited Assurance Report to the Directors of Australian Ethical Investment Limited

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the Selected Sustainability Information, which has been prepared by Australian Ethical Investment Limited in accordance with Management's Reporting Criteria as reported at 30 June 2023.

Information Subject to Assurance

The Selected Sustainability Information as at 30 June 2023, is presented in the Australian Ethical Sustainability Report 2023 *("the Report")* available on the Australian Ethical Investment Limited (AEI) website, and is comprised of the following:

Selected Sustainability Information	Value
Proportion of investments ethically evaluated (%)	100%
Proportion of revenue from sustainable impact solutions v Benchmark	2.3 x Benchmark
Carbon intensity of listed share investments compared to Benchmark (%)	77% less
Proportion of our listed share investments in renewables and energy solutions	4.6 x Benchmark
Scope 1, 2 and 3 operational emissions per full time equivalent employee (CO_{2-e})	6.1
Offsetting of reported operational Scope 1, 2 & 3 emissions (%)	100%
Companies (or other entities) engaged with on ethical issues (number)	>250
% of proactive engagements followed by commitments to change	25%
Divestments on ethical grounds (number)	5
Proportion of votable meetings where proxy votes cast (%)	100%
Votes cast against management recommendation (%)	17%
Diversity of leadership team	50%
Diversity of investment team	28%

Criteria Used as the Basis of Reporting

The applicable criteria used in relation to the Selected Sustainability Information as the basis of reporting has been developed by AEI management *("the criteria")* and is included in the Report.

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Basis for Conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (Standards). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Selected Sustainability Information, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Summary of Procedures Performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant AEI personnel to understand the internal controls, governance structure and reporting process of the Selected Sustainability Information;
- analytical procedures over the Selected Sustainability Information;
- walkthroughs of the Selected Sustainability Information to source documentation on a sample basis;
- evaluating the appropriateness of the criteria with respect to the Selected Sustainability Information; and
- review of the 2023 Sustainability Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard Defines Limited Assurance and Material Misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Directors of AEI.

Use of this Assurance Report

This report has been prepared for the Directors of AEI for the purpose of providing an assurance conclusion on the Selected Sustainability Information and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of AEI, or for any other purpose than that for which it was prepared.

Management's responsibility

Management are responsible for:

- determining that the criteria is appropriate to meet their needs;
- preparing and presenting the Selected Sustainability Information in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the Selected Sustainability Information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to perform a limited assurance engagement in relation to the Selected Sustainability Information as at 30 June 2023, and to issue an assurance report that includes our conclusion.

Our Independence and Quality Control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Management 1 to design, implement and operate a system of quality management.

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KPMG
Sydney
17 November 2023

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