

# Outcomes Assessment for the Australian Ethical Retail Superannuation Fund

As at 30 June 2024

## Overview

The information in this document is for the Australian Ethical Super Fund's Pension Division offered by the Fund.

Each year the Fund's Trustee conducts an assessment that considers all aspects of the Fund including fees and returns, and the ethical impact of its investments. The assessment for the year to 30 June 2024 is set out below and the Trustee has formed the view that the Pension product offered by the Fund promotes the best financial interests of its members.

## Determination

On completion of their assessment, which is summarised in this document, the Trustee concluded that the financial interests of the Fund's pension members and their beneficiaries continue to be promoted and the following determinations were made:

- The Fund continues to invest in line with the Ethical Charter and the rigorous investment criteria adopted by Australian Ethical continues to evolve to develop an ethical investment universe of companies aligned with a better future for people, animals and the planet
- The options, benefits and facilities offered are appropriate for members and their beneficiaries
- The investment strategy, including the level of investment risk, is appropriate for members to align with their values
- The basis for the setting of fees is appropriate for members of the Fund
- The scale of the Fund and the Trustee's business operations does not disadvantage members

## Assessment Criteria

A summary of the Trustee's assessment is set out below.

### Ethical Investment

The key purpose of the Fund is to invest Australians' retirement savings to achieve competitive returns alongside influencing positive change for the people, animals, and the planet. The Ethical Charter sets out the 23 principles that guide the ethical criteria for investment decisions which can be found on the Australian Ethical website.

Over the past year, the principles have been met and the highlights for the year for Australian Ethical's listed share investments are:

- 75% lower carbon intensity (tonnes of carbon dioxide per \$ company revenue) in listed companies in our share portfolio compared to a mainstream share market benchmark as at 30 June 2024.<sup>1,2</sup>
- 2.3x the revenue from sustainable impact solutions compared to a mainstream share market benchmark as of 30 June 2024.<sup>3</sup>
- 4.7x the revenue from sustainable water and agriculture and pollution prevention compared to a mainstream share benchmark as of 30 June 2024.<sup>3</sup>
- 5.2x the investment in renewables and energy solutions compared to a mainstream share benchmark as of 30 June 2024.<sup>3</sup>

The Trustee has determined that it has acted in accordance with, and furthered the aims of, the Ethical Charter for the year and the Australian Ethical business continues to work for positive influence through its superannuation and investment activities.

## Investment Returns

Our objective is to provide our members with investment returns that are higher than inflation over the long term, which we continue to achieve. As at June 2024 the majority of the Pension product investment options exceeded their performance objectives for the time periods measured.

The Trustee is aware that when compared to peers in the SuperRatings surveys, the returns of many of our investment options are below median. The exception to this is the Australian Shares option, which is above median for 5 and 10 years, achieving the top spot for 10-year returns. Over the long-term, returns across all options are within a reasonable range of the median target, and the Trustee has determined that returns are appropriate to meet members long term super needs.

A breakdown of these results is provided in the Appendix.

## Investment Risk

Our ethical investing approach aims to identify, understand and manage investment risk and opportunity at company, portfolio and systemic level which we believe can help construct better investment portfolios.

The calculation of investment risk is based on industry guidance and can be used to compare investment options that are expected to deliver a similar number of negative annual returns over any 20-year period. It is not a complete assessment of all forms of investment risk and does not take in to account the impact of administration fees and tax on the likelihood of a negative return, the size of potential positive and negative returns, or whether the likely returns will meet your individual needs. The level of risk is shown on a scale from Very Low to Very High. The "Medium to High" risk classification applies to funds with an estimated likelihood of "3 to less than 4" negative returns over any 20-year period.

Our ethical approach produces investment portfolios which are different to market portfolios constructed without ethical constraints. Our ethical exclusions mean that there will be no or lower investment in some sectors (e.g. fossil

<sup>1</sup> Benchmark is a blended benchmark of S&P ASX200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings).

<sup>2</sup> Carbon/CO<sub>2</sub>e intensity of listed companies whose shares we invest in across our funds and options, measured as tonnes CO<sub>2</sub>e per \$ revenue. This should not be considered representative of individual funds or options which will have their own mix of share and other investments.

<sup>3</sup> Based on the revenue from sustainable impact solutions earned by companies whose shares we invest in, and the proportion of our share investments in the relevant category of solutions. Compared to a blended benchmark of S&P ASX200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Sustainable impact solutions are defined by MSCI as products or services with positive impact on society and the environment. Based on shareholdings at 30 June 2024 and analysis tools provided by external sources for which we have relevant data. More information on Sustainable Impact Measures available at [https://www.msci.com/documents/1296102/16472518/ESG\\_ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b](https://www.msci.com/documents/1296102/16472518/ESG_ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b)

fuels and mining) which may offer higher or lower returns than the investments we include. This increases the likelihood of differences between investment performance of our funds and of market benchmarks, particularly over shorter time frames. We believe our ethical investment approach has the potential to contribute to stronger risk return characteristics and performance of our portfolios. Further information is available in our Ethical Investment Guide.

Comparisons available from the SuperRatings Volatility and Risk Adjusted Returns Survey dated 30 June 2024 show that the risk-adjusted returns for the Pension product's investment options are below median for most of the options. The Trustee has reviewed the investment risk measures for all investment options and has determined that they meet the investment risk strategy set by the Trustee, given the approach to risk described above.

## Fees and Costs

The fees charged by the Fund are separated into administration and investment fees. The administration fee is the same across all products, however the investment fees differ for each option due to the complexities in managing the underlying investment portfolios of each option.

Fees have been benchmarked against peers using SuperRatings Pension Surveys as at 30 June 2024 and the total annual fee for a representative \$50,000 account balance. The Trustee's analysis of fees found that the fees for the options available within the Pension product are within the 3<sup>rd</sup> quartile for administration fees and 4<sup>th</sup> quarter for investment fees across all corresponding SuperRatings Surveys.

The Trustee has determined that, despite the fees being higher relative to peers, they currently represent reasonable value to members. The Trustee reviews its fee structure each year and is on a path of fee reduction over time.

Details of these findings can be found in the Appendix.

## Options, Benefits and Facilities

The Fund offers the following services to pension members, including;

- ❖ Access to a range of investment options with varying risk profiles
- ❖ Pension payments or lump sum withdrawals available throughout members' retirement
- ❖ A choice of pension payment frequency (monthly, quarterly, six-monthly or annually)
- ❖ Online tools and calculators
- ❖ Access to an online member portal
- ❖ Access to a transition to retirement product to allow access to an income stream prior to fully retiring

The Fund has also won multiple awards over the past few years including as green superannuation fund and best retail fund which can also be found on the Australian Ethical website.

The Trustee has determined that these services are consistent with its strategy, which is primarily to provide members with a superannuation fund that invests in line with its Ethical Charter, along with providing services that are cost effective and don't inappropriately erode members' retirement benefits.

The Trustee has outsourced administration services to two external administrators providing the member portal, adviser services and claims handling. The Trustee has recently brought call centre services inhouse and during the

next period, will also bring claims and complaints handling inhouse to improve the Trustee's ability to communicate and transact with members.

## Fund Growth, Operating Expenses and Scale

The Fund's overall growth continues to be above the industry average, with substantial increases in total funds under management and membership over the last 5 years to 30 June 2024, the Fund has grown from \$2.25 billion to \$8.25 billion in that time. Total Fund membership was just over 122,000 at 30 June 2024, growing 183% in the last 5 years.

The Fund has grown significantly over the past number of years allowing the Trustee to capture the increasing economies of scale that this has brought. Despite being one of the smaller super funds in the industry we are one of the fastest growing and we have a unique differentiator by providing Australians with access to a range of ethical super investment options which are subjected to our ethical screening process which is detailed in our Ethical Guide.

Data in the APRA Annual Statistics published December 2023 showed that the Fund has high account number growth along with high levels of rollovers and contributions and is one of the top five funds for growth. Overall, the Fund's management expense ratio has decreased over time as the total number of members in the Fund and the funds under management has increased. The Trustee is confident that the Fund is in a good position for further growth.

The Trustee will transition administration services from the dual administration arrangements to GROW Super Ops Pty Ltd over two tranches during the next period which will put the Trustee in a strong position to promote members outcomes and improve the sustainability of the Fund:

- A more modern administration system will be in place with technology that will provide quicker member servicing and more effectively deliver member experiences;
- a reduction in operational costs through a more cost-effective administration services provider;
- a reduction of operational risks associated with older administration systems;
- improved ability to scale and support growth including with onboarding activities to improve scalability; and
- improved ability to bring member or product solutions to market more quickly.

Australian Ethical is the 3<sup>rd</sup> most trusted Super brand in Australia, according to a 2023 Roy Morgan Trusted Brand Awards Report, and the Fund is in the top 5 for super member retention (based on APRA data to 30 June 2023). All the Fund's products have maintained a SuperRatings Gold rating for 2024.

The Trustee has a Retirement Income Strategy in place which set outs what Australian Ethical intends to do over the next 3 years to enhance the Pension product. This includes a review of advice to pre-retirees and retirees, consideration of enhancements to the investment options available to members, and additional online tools and digital forms to enhance member experience.

As the Fund grows, the Trustee's strategy is to use this scale to continue to reduce fees charged to members. This has been demonstrated over the years with incremental reductions in costs and fees. The agreement in place with the Fund's administrator includes a stepped reduction in cost as the number of members increases, so gaining scale is an important part of the strategy to reduce member fees.

The Trustee has determined that members are not disadvantaged by the scale and size of the Fund and continued growth will benefit members as increased scale is able to be used to further reduce fees and improve the benefits offered to members by the Fund.

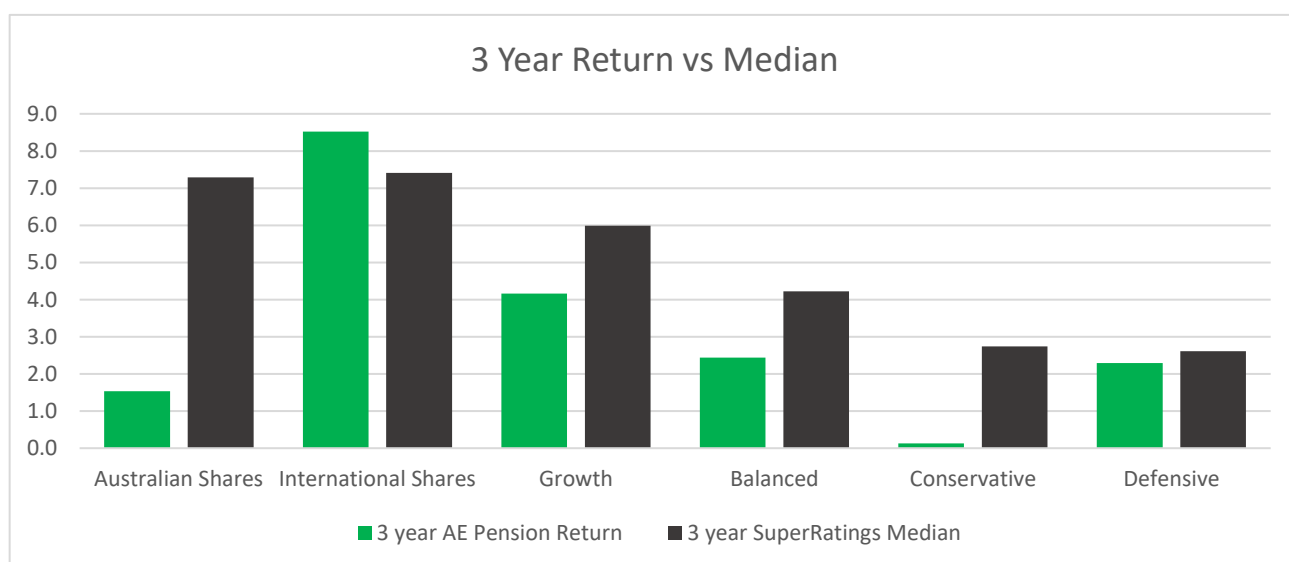
# Appendices

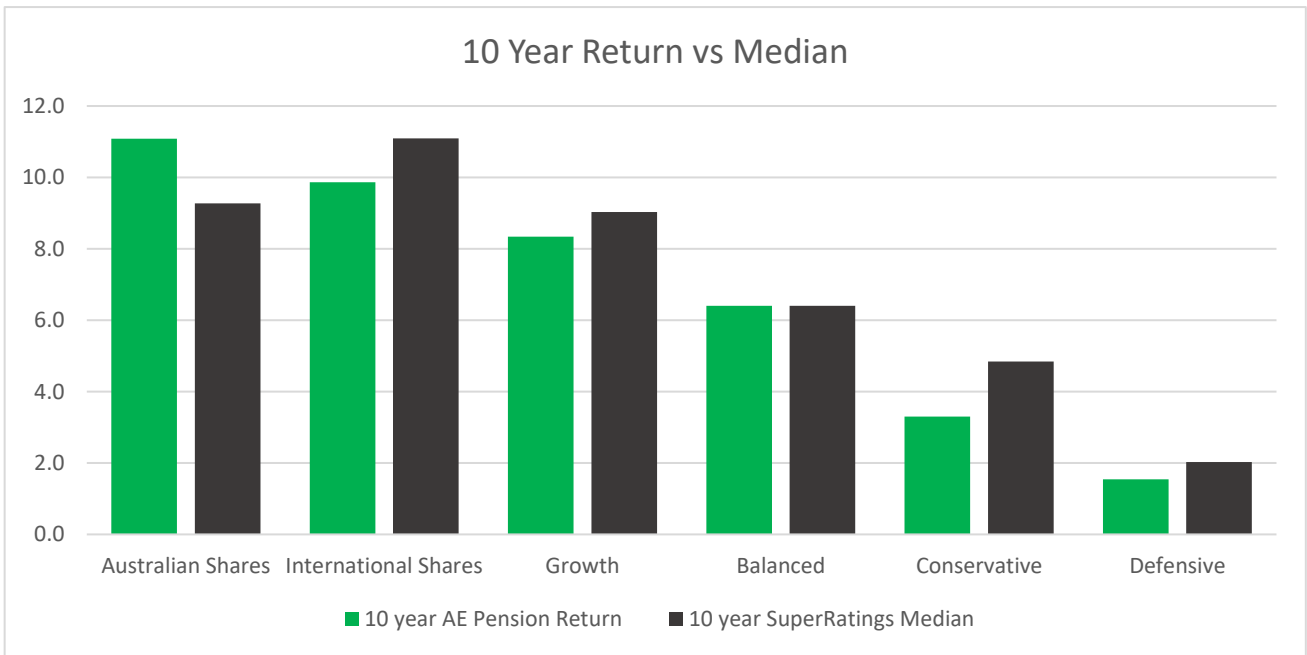
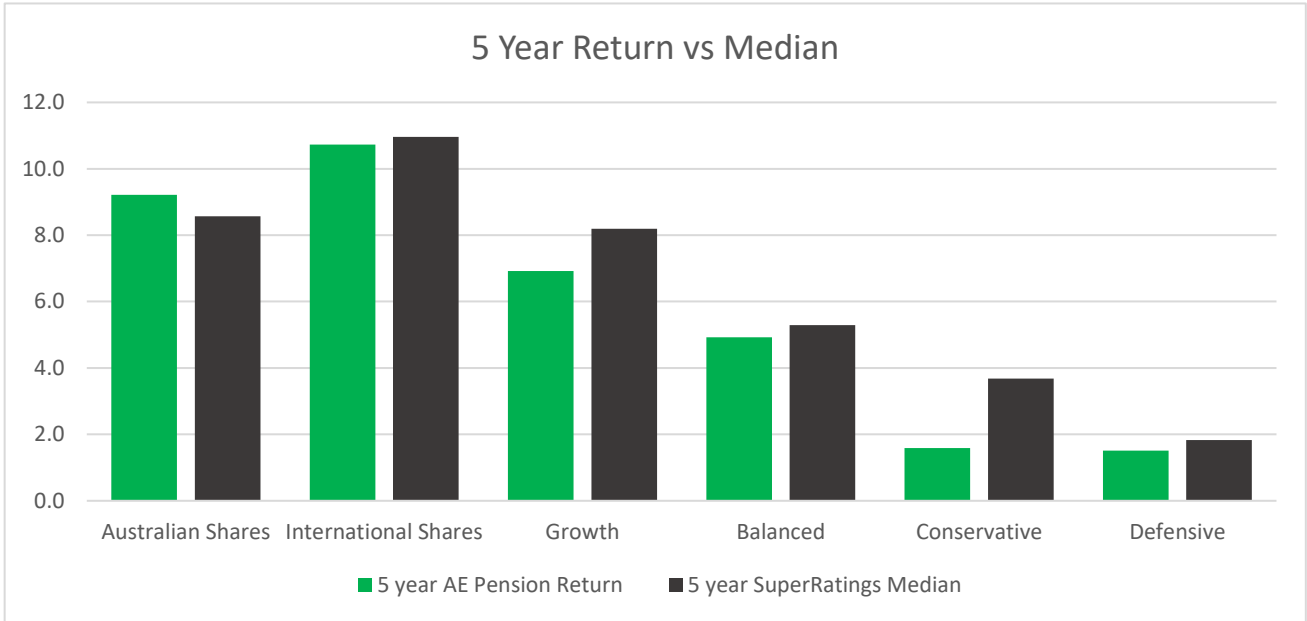
## Investment Performance Assessment

Returns compared to objectives are as follows for all investment options.

	Return pa	Objective pa	Objective Description
<b>Growth</b>	8.3%	6.7%	CPI+3.75% relative performance over 10 years
<b>Balanced</b>	6.4%	5.6%	CPI+2.75% relative performance over 10 years
<b>Conservative</b>	3.3%	3.7%	CPI+1.25% relative performance over 10 years
<b>Defensive</b>	4.7%	4.1%	Bloomberg Ausbond Bank Bills relative performance over 1 year
<b>Australian Shares</b>	9.6%	8.4%	S&P/ASX 300 relative performance over 7 years
<b>International Shares</b>	8.5%	10.9%	MSCI World ex AUD unhedged relative performance over 3 years

The returns for each of the Pension investment options are set out below. The data has been sourced from SuperRatings Fund Crediting Rate Survey of Pension Funds at 30 June 2024 and the values shown are net of fees, costs and taxes, for 3, 5 and 10 year periods.





## Fee Assessment

### Fee by investment option

To benchmark the fees for each of Australian Ethical’s options available in the Pension product, an assessment of the total fee paid on average balance of \$50,000 account balance was completed using data from SuperRatings Pension product fee surveys as at 30 June 2024 and the fee compared to peers. The administration, investment and total fees were benchmarked against each survey and the results are shown below.

Option	Survey	Percentile		
		Admin fee	Investment fee	Total fee
Growth	SuperRatings Pension 50			
	Growth	62%	91%	87%
Balanced	SuperRatings Pension 25			
	Conservative Balanced	76%	84%	92%
Conservative	SuperRatings Pension 50			
	Capital Stable	63%	85%	84%
Defensive	SuperRatings Pension 50			
	Cash	70%	91%	85%
Australian Shares	SuperRatings Pension 50			
	Australian Shares	67%	93%	95%
International Shares	SuperRatings Pension 50			
	International Shares	62%	89%	86%