



RI TRANSPARENCY REPORT

2014/15

Australian Ethical Investment Ltd.



UNEP Finance Initiative
Changing finance, financing change



United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the [PRI website](#), ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2014-15 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six [Principles for Responsible Investment](#). It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
🔍	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	Asset mix disclosed in OO 06							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Segregated mandates or pooled funds	🔒	n/a							✓
OO 08	Breakdown of AUM by market	✓	Public							✓
OO 09	Additional information about organisation	✓	Public							✓
OO 10	RI activities for listed equities	✓	Public							✓
OO 11	RI activities in other asset classes	✓	Public							✓
OO 12	Modules and sections required to complete	✓	Public							✓

Overarching Approach				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OA 01	RI policy and other guidance documents	✓	Public							✓
OA 02	Publicly available policies / documents	✓	Public						✓	
OA 03	Policy components and coverage	✓	Public	✓	✓					
OA 04	Conflicts of interest	✓	Public							✓
OA 05	RI goals and objectives	✓	Public							✓
OA 06	Main goals/objectives this year	✓	Public							✓
OA 07	Governance, management structures and RI processes	✓	Public							✓
OA 08	RI roles and responsibilities	✓	Public							✓
OA 09	RI in performance management, reward and/or personal development	✓	Public							✓
OA 10	Collaborative organisations / initiatives	✓	Public				✓	✓		
OA 11	Promoting RI independently	✓	Public				✓			
OA 12	Dialogue with public policy makers or standard setters	✓	Public				✓	✓	✓	
OA 13	ESG issues in strategic asset allocation	✓	Public	✓						
OA 14	Allocation of assets to environmental and social themed areas	✓	Public	✓						
OA 15	ESG issues for internally managed assets not reported in framework	✓	Public							✓
OA 16	ESG issues for externally managed assets not reported in framework	🔒	n/a							✓
OA 17	RI/ESG in execution and/or advisory services	🔒	n/a	✓	✓					
OA 18	Innovative features of approach to RI	✓	Public							✓
OA 19	Internal and external review and assurance of responses	✓	Public							✓

Direct - Listed Equity Incorporation				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEI 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Public	✓						
LEI 02	Description of ESG incorporation	✓	Public	✓						
LEI 03	Percentage of each incorporation strategy	✓	Public	✓						
LEI 04	Type of ESG information used in investment decision	✓	Public	✓						
LEI 05	Information from engagement and/or voting used in investment decision-making	✓	Public	✓						
LEI 06	Types of screening applied	✓	Public	✓						
LEI 07	Processes to ensure screening is based on robust analysis	✓	Public	✓						
LEI 08	Processes to ensure fund criteria are not breached	✓	Public	✓						
LEI 09	Types of sustainability thematic funds/mandates	✓	Public	✓						
LEI 10	Description of ESG integration	✓	Public	✓						
LEI 11	Review ESG issues while researching companies/sectors	✓	Public	✓						
LEI 12	Processes to ensure integration is based on robust analysis	✓	Public	✓						
LEI 13	Aspects of analysis ESG information is integrated into	✓	Public	✓						
LEI 14	ESG issues in index construction	⚙	n/a	✓						
LEI 15	How ESG incorporation has influenced portfolio composition	✓	Public	✓						
LEI 16	Incorporation of ESG issues has improved financial/ESG performance and reduced risk	-	n/a	✓						
LEI 17	Examples of ESG issues that affected your investment view / performance	-	n/a	✓						
LEI 18	Disclosure of approach to ESG incorporation	✓	Public		✓				✓	

Direct - Listed Equity Active Ownership				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEA 01	Description of approach to engagement	✓	Public		✓					
LEA 02	Reasoning for interaction on ESG issues	✓	Public	✓	✓	✓				
LEA 03	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 04	Objectives for engagement activities	✓	Public		✓					
LEA 05	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 06	Objectives for engagement activities	✓	Public		✓					
LEA 07	Role in engagement process	✓	Public		✓		✓			
LEA 08	Monitor / discuss service provider information	✓	Public		✓				✓	
LEA 09	Share insights from engagements with internal/external managers	✓	Public	✓	✓					
LEA 10	Tracking number of engagements	✓	Public		✓					
LEA 11	Number of companies engaged with, intensity of engagement and effort	✓	Public		✓					
LEA 12	Engagements on E, S and/or G issues	✓	Public		✓					
LEA 13	Companies changing practices / behaviour following engagement	✓	Public		✓					
LEA 14	Examples of ESG engagements	✓	Public		✓					
LEA 15	Disclosure of approach to ESG engagements	✓	Public		✓				✓	
LEA 16	Description of approach to (proxy) voting	✓	Public		✓					
LEA 17	Typical approach to (proxy) voting decisions	✓	Public		✓					
LEA 18	Percentage of voting recommendations reviewed	🔒	n/a		✓					
LEA 19	Confirmation of votes	✓	Public		✓					
LEA 20	Securities lending programme	✓	Public		✓					
LEA 21	Informing companies of the rationale of abstaining/voting against management	✓	Public		✓					
LEA 22	Percentage of (proxy) votes cast	✓	Public		✓					
LEA 23	Proportion of ballot items that were for/against/abstentions	✓	Public		✓					
LEA 24	Shareholder resolutions	✓	Public		✓					
LEA 25	Examples of (proxy) voting activities	✓	Public		✓					
LEA 26	Disclosing voting activities	✓	Public		✓				✓	

Direct - Fixed Income				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
FI 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Public	✓						
FI 02	Breakdown of investments by credit quality	✓	Public							✓
FI 03	Description of ESG incorporation	✓	Public	✓						
FI 04	Percentage of each incorporation strategy	✓	Public	✓						
FI 05	Type of ESG information used in investment decision	✓	Public	✓						
FI 06	Types of screening applied	✓	Public	✓						
FI 07	Processes to ensure screening is based on robust analysis	✓	Public	✓						
FI 08	Processes to ensure fund criteria are not breached	✓	Public	✓						
FI 09	Types of sustainability thematic funds/mandates	✓	Public	✓						
FI 10	Description of ESG integration	✓	Public	✓						
FI 11	Review of ESG issues while researching companies/sectors	✓	Public	✓						
FI 12	Processes to ensure integration is based on robust analysis	✓	Public	✓						
FI 13	Incorporation of ESG issues into analysis and decision making	✓	Public	✓						
FI 14	ESG issues in index construction	🔒	n/a	✓						
FI 15	How ESG incorporation has influenced portfolio composition	✓	Public	✓						
FI 16	Incorporation of ESG issues has improved financial/ESG performance and reduced risk	✓	Public	✓						
FI 17	Examples of ESG issues that affected your investment view / performance	✓	Public	✓						
FI 18	Disclosure of approach to ESG incorporation	✓	Public		✓				✓	
FI 19	Engagement with corporate issuers	✓	Public		✓					
FI 20	Engagement with government issuers	✓	Public		✓					

Australian Ethical Investment Ltd.

Reported Information

Public version

Organisational Overview

PRI disclaimer

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Basic Information

OO 01	Mandatory	Gateway/Peering	General
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OO 01.1	Select the services you offer.
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☒ Fund management

	% of assets under management (AUM) in ranges
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☐ <10%

☐ 10-50%

☒ >50%

☐ Fund of funds, manager of managers, sub-advised products

☐ Other, specify

☐ Execution and advisory services

OO 02	Mandatory	Peering	General
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OO 02.1	Select the location of your organisation's headquarters.
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Australia

OO 02.2	Indicate the number of countries in which you have offices (including your headquarters).
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☒ 1

☐ 2-5

☐ 6-10

☐ >10

OO 02.3	Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).
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	FTE
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28

OO 03	Mandatory	Descriptive	General
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OO 03.1	Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.
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☐ Yes

☒ No

OO 04	Mandatory	Gateway/Peering	General
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OO 04.1

Indicate the year end date for your reporting year.

30/06/2014

OO 04.2

Indicate your total AUM at the end of your reporting year, excluding subsidiaries you have chosen not to report on, and advisory/execution only assets.

	trillions	billions	millions	thousands	hundreds
Total AUM			887	000	000
Currency	AUD				
Assets in USD			824	289	704

OO 04.5

Indicate the level of detail you would like to provide about your asset class mix.

- ☒ Approximate percentage breakdown to the nearest 5% (e.g. 45%)
- ☐ Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

OO 06**Mandatory****Descriptive****General****OO 06.1**

To contextualise your responses to the public, indicate how you would like to disclose your asset class mix.

- ☒ Publish our asset class mix as percentage breakdown

	Internally managed (%)	Externally managed (%)
Listed equity	70.4	0
Fixed income – corporate	9.2	0
Fixed income – government	11	0
Fixed income – other	0	0
Private debt	0	0
Private equity	0	0
Property	1.9	0
Infrastructure	0	0
Commodities	0	0
Hedge funds	0	0

Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	7.3	0
Other (1), specify	0.2	0
Other (2), specify	0	0

	'Other (1)' specified
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Unlisted securities

- ☐ Publish our asset class mix as broad ranges
- ☐ Publish our asset class mix as per attached file (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)

OO 08	Mandatory to Report Voluntary to Disclose	Peering	General
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OO 08.1	Indicate the breakdown of your organisation's AUM by market.
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Market breakdown	% of AUM
Developed Markets	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50 %
Emerging, Frontier and Other Markets	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %

OO 09	Voluntary	Descriptive	General
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OO 09.1	Provide any additional information about your organisation, its mission, strategies, activities or investments which are important to contextualise your responsible investment activities.
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Australian Ethical is an independent ethical wealth manager based in Australia. Australian Ethical was established in 1986 and became a publicly listed company on the Australian Securities Exchange in December 2002. We provide superannuation, pensions and managed funds to clients wishing to save and invest for their retirement in an ethical way to have a positive impact to create a better world. We believe that aligning ethics and financial decisions provides competitive long-term returns and improves quality of life for all.

All investments are managed to assist in: achieving a just and sustainable society; protecting the natural environment; and providing a competitive financial return to investors. To do this, all investments are managed using the Australian Ethical Charter, which aims to provide investment support to environmental and socially positive

activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare and workplace relations.

Gateway asset class implementation indicators

OO 10	Mandatory	Gateway	General
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OO 10.1

Select the responsible investment activities your organisation implemented, directly and/or indirectly, for listed equities in the reporting year.

- ☒ We incorporate ESG issues into investment decisions on our internally managed assets
- ☒ We engage with companies on ESG issues via our staff, collaborations or service providers
- ☒ We cast our (proxy) votes directly or via service providers
- ☐ None of the above

OO 11	Mandatory	Gateway	General
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OO 11.1

Indicate if in the reporting year you incorporated ESG issues into your investment decisions and/or your active ownership practices in the following internally managed asset classes.

- ☒ Fixed income – corporate
- ☒ Fixed income – government
- ☒ Property
- ☒ Cash
- ☒ Other (1)
- ☐ None of the above

'Other (1)' [as defined in OO 05]

Unlisted securities

OO 12	Mandatory	Gateway	General
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OO 12.1

The modules and sections that you will be required to complete are listed below.

This list is based on the percentages provided in your AUM breakdown and your responses to the gateway indicators. You are only required to report on asset classes that represent 10% or more of your AUM. You may report voluntarily on any applicable modules or sections by selecting them from the list. Fixed Income and Infrastructure are voluntary.

Core modules

- ☒ Organisational Overview
- ☒ Overarching Approach (including assets which do not have a separate module)

RI implementation directly or via service providers

Direct - Listed Equity incorporation

- ☒ Listed Equity incorporation

Direct - Listed Equity active ownership

- ☒ Engagements
- ☒ (Proxy) voting

Direct - Fixed Income

- ☒ Fixed Income - Corporate
- ☒ Fixed Income - Government

Direct - Other asset classes with dedicated modules

- ☐ Property

Closing module

- ☒ Closing module

Australian Ethical Investment Ltd.

Reported Information

Public version

Overarching Approach

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Responsible investment policy

OA 01	Mandatory	Gateway/Core Assessed	General
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OA 01.1	Indicate if you have a responsible investment policy.
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- ☒ Yes
☐ No

OA 01.2	Indicate if you have other guidance documents or more specific policies related to responsible investment.
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- ☒ Yes
☐ No

OA 01.3	Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]
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Our investment approach is guided by our Ethical Governance Framework which sets out key policies, processes and responsibilities for ethical investment decisions.

All investments are made using our Ethical Framework. This Framework has four components:

- Australian Ethical Charter - this is embedded in Australian Ethical's constitution. The Charter contains 23 principles setting out which activities we will avoid or seek to support;
- Charter Principles and Practices Policy - contains additional detail on how the Charter is applied at a practical level and provides guidance on key themes to take into consideration when making investment decisions;
- Industry and Issue Frameworks - a series of frameworks which interpret the Charter and provide specific positions on certain industry sectors and certain thematic issues;
- Company assessments - past ethical assessments of companies are used as precedents that can guide future decisions.

Generally investments are only made in entities which through their activities advance the aims of one or more elements of the Ethical Charter. However, a small number of securities (~0.003% AUM) held within our Advocacy Fund are in entities whose activities may not advance the aims of the Charter. In these cases the voting power and other rights attaching to these nominal holdings are used to further the aims of the Charter.

OA 02	Mandatory	Core Assessed	PRI 6
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OA 02.1	Indicate if your responsible investment policy is publicly available.
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- ☒ Yes

OA 02.2	Provide a URL to your responsible investment policy.
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	URL
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<http://www.australianethical.com.au/ethical-charter>

- ☐ No

OA 02.3

Indicate if your other policies or guidance documents related to responsible investment are publicly available.

- ☒ Yes
- ☐ Yes, all
- ☒ Yes, some

OA 02.4

List these other policies or guidance documents related to responsible investment that are publicly available and their URLs.

Policy or document name	URL
Corporate governance policies	http://www.australianethical.com.au/corporate-governance
Proxy voting policy	http://www.australianethical.com.au/system/files/documents/AEI%20Group_Proxy%20Voting%20Policy_Final_October%202014.pdf

☐ No

OA 03**Mandatory****Core Assessed****PRI 1,2****OA 03.1**

Indicate the components/types and coverage of your responsible investment policy and guidance documents.

Select all that apply

Policy components/types	Coverage by AUM
<input checked="" type="checkbox"/> Policy setting out your overall approach <input checked="" type="checkbox"/> (Proxy) voting policy <input checked="" type="checkbox"/> Engagement/active ownership policy <input checked="" type="checkbox"/> Specific guidelines on corporate governance <input checked="" type="checkbox"/> Specific guidelines on environmental issues <input checked="" type="checkbox"/> Specific guidelines on social issues <input checked="" type="checkbox"/> Asset class-specific guidelines <input checked="" type="checkbox"/> Screening/exclusion policy <input checked="" type="checkbox"/> Other, specify Specific guidelines on industry sectors <input type="checkbox"/> Other, specify	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

OA 04	Mandatory	Core Assessed	General
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OA 04.1	Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.
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☒ Yes

OA 04.2	Describe your policy on managing potential conflicts of interest in the investment process. [Optional]
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The company has a policy for the management of conflicts of interest. The company maintains a conflict of interest register which is reviewed by the board and audit, compliance and risk committees. Details of board responsibilities and the independence of directors are documented in our annual reports.

☐ No

Objectives and strategies

OA 05	Mandatory	Gateway/Core Assessed	General
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OA 05.1	Indicate if your organisation sets objectives for its responsible investment activities.
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☒ Yes

OA 05.2	Indicate how frequently your organisation sets or revises objectives for responsible investment.
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☒ At least once per year

☐ Less than once per year

OA 05.3	Indicate how frequently your organisation formally reviews performance against its objectives for responsible investment.
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☐ Quarterly

☒ Biannually

☐ Annually

☐ Every two years or less

☐ It is not reviewed

☐ No

OA 05.4	Additional information. [Optional]
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All Australian Ethical's investment and other activities are assessed on an ongoing basis for alignment with our commitments set out in the Australian Ethical Charter. Engagement and advocacy issues, themes and objectives are identified and reviewed by our Ethical Advisory Group with board oversight.

OA 06	Voluntary	Descriptive	General
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OA 06.1

List your three main responsible investment objectives you had set for the reporting year. For each, indicate any key performance indicators you set to measure your progress and also indicate your progress towards achieving your objectives.

☒ Add responsible investment objective 1

Objective 1	Ensure alignment of all investments with the requirements of the Australian Ethical Charter.
Key performance indicators	Percentage investments made which were assessed to be aligned with the Charter.
Describe the progress achieved	All new investments were assessed under the Charter. We did not invest in any 'non-aligned' companies (other than nominal holdings held for advocacy purposes).

☒ Add responsible investment objective 2

Objective 2	Improve the quality of fossil fuel exposure reporting by the four major Australian banks.
Key performance indicators	Improved disclosure for the 2013-2014 reporting year.
Describe the progress achieved	In October 2013 Westpac acknowledged that the engagement with Australian Ethical had been useful in identifying opportunities to improve how information is made publicly available.

☒ Add responsible investment objective 3

Objective 3	Improve the management of environmental and social impacts of the unconventional gas sector in Australia through participation in the PRI sector working group.
Key performance indicators	Meetings with Australian companies operating in the unconventional gas sector. Improved corporate transparency and practices regarding water and methane emissions impacts.
Describe the progress achieved	Working group members (including Australian Ethical) met with a range of companies in the sector to discuss water and fugitive emissions risks.

OA 06.2

List your three main objectives for responsible investment implementation for the next reporting year and indicate any key performance indicators you intend to use to measure your progress.

☒ Add responsible investment objective 1 for the next reporting year

Objective 1 for the next reporting year	Ensure alignment of all investments with the requirements of the Australian Ethical Charter.
Key performance indicators	Percentage investments made which were assessed to be aligned with the Charter.

☒ Add responsible investment objective 2 for the next reporting year

Objective 2 for the next reporting year	Set path for decarbonisation of all our investment portfolios.
Key performance indicators	Development of methodology for measurement of portfolio carbon impact and definition of path to zero. Percentage of portfolio for which carbon footprint measured.

☒ Add responsible investment objective 3 for the next reporting year

Objective 3 for the next reporting year	Increased ethical consultation and conversation with stakeholders.
Key performance indicators	Number of in house ethics seminars. Conference and seminar presentations and participation in panels.

Governance and human resources

OA 07	Voluntary	Descriptive	General
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OA 07.1

Provide a brief description of your organisation's governance, management structures and processes related to responsible investment.

Ethical considerations apply to all aspects of the Australian Ethical's operations including responsible investment activities due to the fact that the Charter is embedded in the Company's constitution and the constitutions of the managed investment schemes that the Company operates.

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

- CEO (Chairman of the EAG);
- Chief Investment Officer (CIO);
- Head of Ethics;
- General Counsel;
- Head of Marketing & Communication;
- Ethical Adviser.

The Board also adjudicates on points of contention that remain unresolved by the EAG.

Before an investment can be made it is assessed for alignment with the Ethical Charter; if this is passed the CIO can authorise a limit. In addition to the initial ethical screening all companies undergo periodic ethical review. If any serious issues are detected Australian Ethical will engage with the company with a view to resolving the issue. If the issue cannot be resolved and is sufficiently serious we will divest.

Our approach to ethical investment also includes conducting engagement and advocacy on particular issues as considered appropriate.

Australian Ethical has a team of internal investment professionals managed by the CIO whose responsibility it is to manage portfolios of securities. We use internal and external ethical analysts to conduct the ethical assessment of potential investments, with the input of the investment team and others.

☐ I would like to attach an organisation chart (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)

OA 08	Mandatory	Gateway/Core Assessed	General
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OA 08.1	Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.
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	Roles present in your organisation
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- ☒ Board members or trustees
 - ☒ Oversight/accountability for responsible investment
 - ☐ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee
 - ☒ Oversight/accountability for responsible investment
 - ☒ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Other Chief-level staff or head of department, specify
Head of Ethics

- ☒ Oversight/accountability for responsible investment
- ☒ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Portfolio managers
 - ☒ Oversight/accountability for responsible investment
 - ☒ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Investment analysts
 - ☒ Oversight/accountability for responsible investment
 - ☒ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Dedicated responsible investment staff
 - ☒ Oversight/accountability for responsible investment
 - ☒ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ External managers or service providers
 - ☒ Oversight/accountability for responsible investment
 - ☒ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Other role, specify
- ☐ Other role, specify

OA 08.2	Indicate the number of dedicated responsible investment staff your organisation has. [Optional]
----------------	---

	Number
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10

OA 09	Voluntary	Additional Assessed	General
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OA 09.1	Indicate if your organisation's performance management, reward and/or personal development processes have a responsible investment element.
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Board members/Board of trustees

- ☒ Responsible investment included in personal development and/or training plan
- ☐ None of the above

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee

- ☐ Responsible investment KPIs and/or goals included in objectives
- ☒ Responsible investment included in appraisal process
- ☒ Variable pay linked to responsible investment performance
- ☐ Responsible investment included in personal development and/or training plan
- ☐ None of the above

Other C-level staff or head of department

Head of Ethics

- ☒ Responsible investment KPIs and/or goals included in objectives
- ☒ Responsible investment included in appraisal process
- ☒ Variable pay linked to responsible investment performance
- ☒ Responsible investment included in personal development and/or training plan
- ☐ None of the above

Portfolio managers

- ☐ Responsible investment KPIs and/or goals included in objectives
- ☒ Responsible investment included in appraisal process
- ☒ Variable pay linked to responsible investment performance
- ☐ Responsible investment included in personal development and/or training plan
- ☐ None of the above

Investment analysts

- ☐ Responsible investment KPIs and/or goals included in objectives
- ☒ Responsible investment included in appraisal process
- ☒ Variable pay linked to responsible investment performance
- ☒ Responsible investment included in personal development and/or training plan
- ☐ None of the above

Dedicated responsible investment staff

- ☒ Responsible investment KPIs and/or goals included in objectives
- ☒ Responsible investment included in appraisal process
- ☒ Variable pay linked to responsible investment performance
- ☒ Responsible investment included in personal development and/or training plan
- ☐ None of the above

OA 09.3

Provide any additional information on your organisation's performance management, reward and/or personal development processes in relation to responsible investment.

Australian Ethical encourages employee equity in the company through the ownership of shares which is achieved through the provision of short and long term incentive plans. The amount awarded to individual employees under these incentive plans takes into account, where relevant, that employee's contribution to the success of our responsible investment practices.

Promoting responsible investment

OA 10

Mandatory

Core Assessed

PRI 4,5

OA 10.1

Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.

Select all that apply

☒ Principles for Responsible Investment

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
☒ Moderate
☐ Advanced

☐ Asian Corporate Governance Association

☒ Association for Sustainable & Responsible Investment in Asia

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
☒ Moderate
☐ Advanced

☐ Australian Council of Superannuation Investors

☒ CDP Climate Change

Your organisation's role in the initiative during the reporting period (see definitions)

- ☒ Basic
☐ Moderate
☐ Advanced

☐ CDP Forests

☐ CDP Water

☐ CFA Institute Centre for Financial Market Integrity

☐ Council of Institutional Investors (CII)

☐ Eumedion

☐ Extractive Industries Transparency Initiative (EITI)

☐ Global Investors Governance Network (GIGN)

☐ Global Real Estate Sustainability Benchmark (GRESB)

☐ Institutional Investors Group on Climate Change (IIGCC)

☐ Interfaith Center on Corporate Responsibility (ICCR)

☐ International Corporate Governance Network (ICGN)

☒ Investor Group on Climate Change, Australia/New Zealand (IGCC)

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
☒ Moderate
☐ Advanced
- ☐ Investor Network on Climate Risk (INCR)/CERES
☐ Local Authority Pension Fund Forum
☒ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify
 Australian Ethical is a founding member of RIAA and ASRIA.

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
☐ Moderate
☒ Advanced
- ☐ Shareholder Association for Research and Education (Share)
☒ United Nations Environmental Program Finance Initiative (UNEP FI)

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
☒ Moderate
☐ Advanced
- ☐ United Nations Global Compact
☒ Other collaborative organisation/initiative, specify
 Sustainable Business Australia / Businesses for a Clean Economy

Your organisation's role in the initiative during the reporting year (see definitions)

- ☐ Basic
☒ Moderate
☐ Advanced
- ☒ Other collaborative organisation/initiative, specify
 The Future Economy Group

Your organisation's role in the initiative during the reporting year (see definitions)

- ☐ Basic
☐ Moderate
☒ Advanced
- ☐ Other collaborative organisation/initiative, specify
☐ Other collaborative organisation/initiative, specify

OA 11

Mandatory

Core Assessed

PRI 4

OA 11.1	Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.
----------------	--

☒ Yes

OA 11.2	Indicate which of the following actions your organisation has taken to promote responsible investment, independently of collaborative initiatives.
----------------	--

- ☒ Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations
- ☒ Provided financial support for academic or industry research on responsible investment
- ☒ Encouraged better transparency and disclosure of responsible investment practices across the investment industry
- ☒ Spoke publicly at events and conferences to promote responsible investment
- ☐ Wrote and published in-house research papers on responsible investment
- ☒ Encouraged the adoption of the PRI
- ☐ Other, specify

☐ No

OA 11.3	Additional information. [Optional]
----------------	------------------------------------

We also participate in industry associations to help promote responsible investment. These include Association of Superannuation Funds of Australia (ASFA), Financial Services Council (FSC) and the Governance Institute of Australia (GIA). We also engage with the wider investment industry through our communications strategies.

OA 12	Voluntary	Additional Assessed	PRI 4,5,6
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OA 12.1	Indicate if your organisation - individually or in collaboration with others - conducted dialogue with public policy makers or standard-setters in support of responsible investment in the reporting year.
----------------	---

☒ Yes

- ☐ Yes, individually
- ☒ Yes, in collaboration with others

OA 12.2	Select the methods you have used.
----------------	-----------------------------------

- ☒ Endorsed written submissions to governments, regulators or standard-setters developed by others
- ☐ Drafted your own written submissions to governments, regulators or standard-setters
- ☐ Participated in face-to-face meetings with government members or officials to discuss policy
- ☐ Other, specify

OA 12.3	Where you have made written submissions (individually or collaboratively) to governments and regulatory authorities, indicate if these are publicly available.
----------------	--

☒ Yes, publicly available

	provide URL
--	-------------

<http://www.igcc.org.au/content/publications>

	provide URL
--	-------------

<http://www.australianethical.com.au/carbon-price>

	provide URL
--	-------------

<http://www.australianethical.com.au/emissions-reduction-fund-submission>

☐ No

☐ No

ESG issues in asset allocation

OA 13	Voluntary	Descriptive	PRI 1
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OA 13.1	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.
----------------	--

☒ Yes

- ☒ Allocation between asset classes
- ☐ Determining fixed income duration
- ☒ Allocation of assets between geographic markets
- ☐ Other, specify

OA 13.2	Describe how you apply ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.
----------------	---

Australian Ethical pursues a unique combination of ethical and financial objectives when selecting investments. The application of our Ethical Charter guides us to sectors that bring social or environmental benefits and to avoid investment in activities that are unnecessarily socially or environmentally harmful. This process includes consideration of the impact of different activities in different geographic markets. In this way the Australian Ethical Charter defines the universe of investments for our funds and has a major impact on levels of exposure to different asset classes and markets.

☐ No

OA 14	Voluntary	Descriptive	PRI 1
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OA 14.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.
----------------	---

☒ Yes

OA 14.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.
----------------	--

	% of total AUM
--	----------------

16

OA 14.3	Please specify which thematic area(s) you invest in and provide a brief description.
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	Area
--	------

- ☐ Clean technology (including renewable energy)
- ☐ Green buildings
- ☐ Sustainable forestry
- ☐ Sustainable agriculture
- ☐ Microfinance
- ☐ SME financing
- ☐ Social enterprise / community investing
- ☐ Affordable housing
- ☐ Education
- ☐ Global health
- ☐ Water
- ☒ Other area, specify

The theme of our International Equities Trust is "Global Smart Energy".

	Asset class invested
--	----------------------

- ☒ Listed equity
- ☐ Fixed income - corporate
- ☐ Fixed income - government
- ☐ Property
- ☐ Cash
- ☐ Other (1)

	Brief description of investment
--	---------------------------------

The theme of our International Equities Trust is "Global Smart Energy", benchmarked against the MSCI Global Climate Index (AUD). This represents approximately 16% of assets under management at 30 June 2014.

☐ No

Asset class implementation not reported in other modules

OA 15	Voluntary	Descriptive	General
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OA 15.1

Describe how you address ESG issues for internally managed assets for which a specific PRI asset class module has yet to be developed or for which you are not required to report because your assets are below the minimum threshold.

Asset Class	Describe what processes are in place and the outputs or outcomes achieved
Property	Investment selection for all asset classes (including property) is guided by the Australian Ethical Charter. Australian Ethical investigates the environmental, social and governance (ESG) dimensions of all potential investments. This work is conducted by the investment and ethics teams and overseen by the Ethical Advisory Group and Investment Committee.
Cash	Investment selection for all asset classes (including cash) is guided by the Australian Ethical Charter. Australian Ethical investigates the environmental, social and governance (ESG) dimensions of all potential investments. This work is conducted by the investment and ethics teams and overseen by the Ethical Advisory Group and Investment Committee.
Other (1) [as defined in Organisational Overview module]	Investment selection for all asset classes (including unlisted equities) is guided by the Australian Ethical Charter. Australian Ethical investigates the environmental, social and governance (ESG) dimensions of all potential investments. This work is conducted by the investment and ethics teams and overseen by the Ethical Advisory Group and Investment Committee.

Innovation

OA 18

Voluntary

Descriptive

General

OA 18.1

Indicate whether any specific features of your approach to responsible investment are particularly innovative.

☒ Yes

OA 18.2

Describe any specific features of your approach to responsible investment that you believe are particularly innovative.

We are innovative as a responsible investor in a number of respects.

Our Australian Ethical Charter governs all our activities, not only our investing. The Charter is included in the constitution of Australian Ethical Investment, meaning that we assess all our business undertakings and relationships against the goals of advancing the things listed in the positive principles of the Charter, and avoiding those things included in the negative principles.

Our holistic Charter requires us to assess and often balance the positive and negative social, animal and environmental impacts of all our investments.

The positive and negative screens embodied in our Australian Ethical Charter apply to all investments, across all asset classes (including equities, property, fixed income and cash).

The smart energy theme of our International Equities Trust is distinctive, in looking at energy needs and impacts globally, and requiring us to assess the optimal path to a clean energy future.

☐ No

Assurance of responses

OA 19	Voluntary	Additional Assessed	General
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OA 19.1	Indicate whether your reported information has been reviewed, validated and/or assured by internal and/or external parties.
----------------	---

☒ Yes

OA 19.2	Indicate who has reviewed, validated and/or assured your reported information.
----------------	--

- ☒ Reviewed by Board, CEO, CIO or Investment Committee
- ☐ Validated by internal audit or compliance function
- ☒ Assured by an external independent provider, specify name

☐ No

Australian Ethical Investment Ltd.

Reported Information

Public version

Direct - Listed Equity Incorporation

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Overview

LEI 01	Mandatory to Report Voluntary to Disclose	Gateway/Peering	PRI 1
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LEI 01.1

Provide a breakdown of your internally managed listed equities by passive, quantitative, fundamental and other active strategies. For strategies that account for less than 10% of your internally managed listed equities, indicate if you would still like to report your activities.

Strategies

- ☐ Passive
- ☐ Active – quantitative (quant)
- ☒ Active – fundamental and other active strategies

% of internally managed listed equities

- ☐ <10%
- ☐ 10-50%
- ☒ >50%

LEI 02	Voluntary	Descriptive	PRI 1
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LEI 02.1

Provide a brief overview of how you incorporate ESG issues into listed equity investments.

As part of its ethical investment approach Australian Ethical Investment has been a pioneer in the application of environmental, social and governance criteria (ESG) to investment in equities and other asset classes. We use the Australian Ethical Charter to guide our application of a unique combination of financial, environmental, social, governance and ethical objectives to the selection of all our investments, including our investments in listed equities.

ESG incorporation in actively managed listed equities

Implementation processes

LEI 03	Mandatory	Gateway/Core Assessed	PRI 1
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LEI 03.1

Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed listed equities and (2) the breakdown of your actively managed listed equities by strategy or combination of strategies.

ESG incorporation strategy (select all that apply)

- ☐ Screening alone (i.e. not combined with any other strategies)
- ☐ Thematic alone (i.e. not combined with any other strategies)
- ☐ Integration alone (i.e. not combined with any other strategies)
- ☐ Screening + Integration strategies
- ☐ Thematic + integration strategies
- ☐ Screening + thematic strategies
- ☒ All three strategies combined

Percentage of actively managed listed equities to which each strategy or combination of strategies is applied - you may (estimate +/- 10%)	<div> <div></div> <div>%</div> </div> 100
--	---

- ☐ No incorporation strategies applied

	Total actively managed listed equities
--	--

100%

LEI 03.2 Describe your primary reasons for choosing a particular ESG incorporation strategy.

Australian Ethical Investment was formed in 1986 to further the aims of its Ethical Charter through responsible investment. The Charter embodies the social, animal and environmental interests which the Company is bound to consider when carrying out its investing and other activities.

LEI 04	Voluntary	Additional Assessed	PRI 1
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LEI 04.1	Indicate what ESG information you use in your ESG incorporation strategies and who provides this information.
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Type of ESG information

- ☒ Raw ESG company data

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Company-related analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Sector-related analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Country-related analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Screened stock list

Indicate who provides this information

- ☐ ESG research provider
- ☐ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ ESG issue-specific analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☐ Other, specify

LEI 04.2

Provide a brief description of the ESG information used, highlighting any differences of sources of information across your ESG incorporation strategies.

Before an investment can be made it is assessed for alignment with the Ethical Charter; if this is passed the CIO can authorise a limit. In addition to the initial ethical screening all companies undergo periodic ethical review. If any serious issues are detected Australian Ethical will engage with the company with a view to resolving the issue. If the issue cannot be resolved and is sufficiently serious we will divest.

Our approach to ethical investment also includes conducting engagement and advocacy on particular issues as considered appropriate.

Australian Ethical has a team of internal investment professionals managed by the CIO whose responsibility it is to manage portfolios of securities. We use internal and external ethical analysts to conduct the ethical assessment of potential investments, with the input of the investment team and others.

LEI 04.3	Indicate if you incentivise brokers to provide ESG research.
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☒ Yes

LEI 04.4	Describe how you incentivise brokers.
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In allocating the brokerage we pay, we have regard to the ESG research provided by brokers, as well as the other research and services they provide.

☐ No

LEI 05	Voluntary	Additional Assessed	PRI 1
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LEI 05.1	Indicate if your organisation has a process through which information derived from ESG engagement and/or (proxy) voting activities is made available for use in investment decision-making.
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☒ Engagement

☒ We have a systematic process to ensure the information is made available.

☐ We occasionally make this information available.

☐ We do not make this information available.

☒ (Proxy) voting

☒ We have a systematic process to ensure the information is made available.

☐ We occasionally make this information available.

☐ We do not make this information available.

(A) Implementation: Screening

LEI 06	Mandatory	Descriptive	PRI 1
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LEI 06.1	Indicate and describe the type of screening you apply to your internally managed active listed equities.
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Type of screening

☒ Negative/exclusionary screening

Screened by

☒ Product

☒ Activity

☒ Sector

☒ Country/geographic region

☒ Environmental and social practices and performance

☒ Corporate governance

	Description
--	-------------

Australian Ethical uses both negative and positive screens, actively seeking investment in companies whose activities advance the interests of people, non-human animals and the environment.

Our Ethical Charter contains 23 principles setting out the positive things we will invest to support and those harms we will avoid. In this way the Charter provides guidance on key themes to consider when making investment decisions.

☒ Positive/best-in-class screening

Screened by

- ☒ Product
- ☒ Activity
- ☒ Sector
- ☒ Country/geographic region
- ☒ Environmental and social practices and performance
- ☒ Corporate governance

	Description
--	-------------

Australian Ethical uses both negative and positive screens, actively seeking investment in companies whose activities advance the interests of people, non-human animals and the environment.

Our Ethical Charter contains 23 principles setting out the positive things we will invest to support and those harms we will avoid. In this way the Charter provides guidance on key themes to consider when making investment decisions.

☐ Norms-based screening

LEI 06.2	Describe how the screening criteria are established, how often the criteria are reviewed and how you notify clients and/or beneficiaries when changes are made.
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Ethical considerations apply to all aspects of the Australian Ethical's operations including responsible investment activities due to the fact that the Ethical Charter is embedded in the Company's constitution and the constitutions of the managed investment schemes that the Company operates.

Ethical aspects of the investment process are overseen by our Ethical Advisory Group (EAG). The EAG develops and reviews the Ethical Frameworks which apply the 23 principles of our Charter to particular industry sectors and ethical issues. Ethical Frameworks are tested against changing circumstances (including emerging social and environmental challenges) as we apply them to new companies being considered for potential investment, as well as in the context of periodic review of existing companies. This leads to periodic updating of the frameworks.

We communicate with clients via newsletters, letters, emails, the Company's website and social media. Often this involves explaining how we apply our Ethical Charter (which is on our website) to different companies, industry sectors and ethical issues. However we do not generally publish our Ethical Frameworks.

LEI 07	Mandatory	Core Assessed	PRI 1
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LEI 07.1

Indicate which processes your organisation uses to ensure that screening is based on robust analysis.

- ☒ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products.
- ☐ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☐ External research and data used to identify companies to be excluded/included is subject to internal audit by ESG/RI staff, the internal audit function or similar
- ☒ Company ESG information/ratings are updated regularly to ensure that portfolio holdings comply with fund policies
- ☒ A committee or body with representatives independent of the individuals who conduct company research reviews some or all screening decisions
- ☒ A periodic review of the quality of the research undertaken or provided is carried out
- ☐ Other, specify
- ☐ None of the above

LEI 07.2

Additional information. [Optional]

We (and/or our research provider) will regularly approach companies to obtain additional information to assist our analysis of their environmental and social impacts and management of those impacts. This includes approaching companies to confirm specific analysis and conclusions in important cases. However, we do not give companies the opportunity to review ESG research on them and correct inaccuracies in all cases.

LEI 08

Voluntary

Additional Assessed

PRI 1

LEI 08.1

Indicate which processes your organisation uses to ensure that fund criteria are not breached

- ☒ Checks are performed to ensure that stocks meet the funds' screening criteria. These checks are:
 - ☒ Systematic
 - ☐ Occasional
- ☐ Automated IT systems prevent investment managers from investing in excluded stocks or those that do not meet positive screening criteria.
- ☐ Audits of fund holdings are undertaken regularly by internal audit function
- ☐ Other, specify
- ☐ None of the above

LEI 08.2

If breaches of fund screening criteria are identified - describe the process followed to correct those breaches.

If we identified that an investment had been made without the required ethical assessment, then either:

- the investment would be sold as soon as practical; or
- if there is a reasonable prospect that the investment would be assessed as investable under the Ethical Charter, we may conduct an assessment of the investment as soon as practical. If the investment was approved under the Charter it could be retained; if it was not approved it would be sold as soon as practical.

If the activities or circumstances of an investee company changes such that the company's activities are no longer consistent with a Charter principle, the Head of Ethics will assess the significance of the breach (including its impact on the ethical assessment of the company under the Charter) and the prospects for engagement with the company to take action which would remedy the breach. The Head of Ethics will consult with the CIO on these matters to determine if and how engagement with the investee company is to proceed, and the potential consequences of unsuccessful engagement, including the potential for divestment.

LEI 08.3	Additional information.
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The ethical assessments of potential investments identify features of the company's operations which will need to be monitored to maintain alignment with our Ethical Charter. This may include, for example, revenue thresholds for different activities or trends in environmental or social impacts of the company's operations. The investment analyst for a company notifies the ethics analysts of relevant changes to the company's business changes in order that the company can be reviewed for ongoing alignment with the Charter.

(B) Implementation: Thematic

LEI 09	Mandatory	Descriptive	PRI 1
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LEI 09.1	Indicate the type of sustainability thematic funds or mandates that your organisation manages.
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- ☐ Environmentally themed funds
- ☐ Socially themed funds
- ☒ Combination of themes

LEI 09.2	Describe your organisation's processes for sustainability themed funds. [Optional]
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The Australian Ethical Charter provides guidance on key themes to take into consideration when making investment decisions. Investments made according to the Charter support a variety of sustainability themes including building a new low-carbon economy, funding medical breakthroughs, technology breakthroughs, efficient transport and more.

In addition the International Equities Trust has a global smart energy theme.

LEI 09.3	Additional information. [Optional]
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(C) Implementation: Integration of ESG issues

LEI 10	Voluntary	Descriptive	PRI 1
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LEI 10.1	Describe how you integrate ESG factors into investment decision making processes.
-----------------	---

Ethical considerations apply to all aspects of the Australian Ethical's operations including responsible investment activities due to the fact that the Ethical Charter is embedded in the Company's constitution and the constitutions of the managed investment schemes that the Company operates.

Before an investment can be made it is assessed for alignment with the Ethical Charter; if this is passed the CIO can authorise a limit. The ethical assessment of a company involves review of relevant aspects of the Charter and Ethical Frameworks as they apply to the company. This includes consideration of the key environmental, animal and social impacts of the industry sectors in which the company operates, as well as impacts which are specific to the company being assessed. The assessment identifies features of the

company's operations which are most relevant to its alignment (or non-alignment) with our Ethical Charter. This may include, for example, revenue thresholds for different activities or trends in environmental or social impacts of the company's operations. Our positive and negative screening shapes our portfolios by reducing our investable universe by approximately 60-75%.

The ethics and investment teams (as well as a number of other stakeholders) are actively involved in this ethical investment process, including the consideration of the social, animal and environmental impacts of the different sectors and activities in which the company is engaged, as well as the company's governance and management of those impacts and of its operations generally. This investigation of the sustainability of the potential investment and relevant sectors is a source and information and insight for other aspects of the investment process, including ideas generation, fair value and risk analysis and portfolio construction. The investment analyst for a company is required to review and approve the information and analysis about the company and its operations described in the ethical assessment of the company.

The ethical assessment will also identify any potential areas for engagement with the company. In addition to the initial ethical screening all companies undergo periodic ethical review. If any serious issues are detected Australian Ethical will engage with the company with a view to resolving the issue. If the issue cannot be resolved and is sufficiently serious we will divest.

LEI 11	Mandatory	Core Assessed	PRI 1
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LEI 11.1	Indicate if E, S and G issues are reviewed while researching companies and/or sectors in active strategies.
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ESG issues	Coverage/extent of review on these issues
Environmental	<input checked="" type="radio"/> We systematically review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We do not review environmental issues
Social	<input checked="" type="radio"/> We systematically review the potential significance of social issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of social issues and investigate them accordingly <input type="radio"/> We do not review social issues
Corporate Governance	<input checked="" type="radio"/> We systematically review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We do not review corporate governance issues

LEI 12	Voluntary	Additional Assessed	PRI 1
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LEI 12.1

Indicate which processes your organisation uses to ensure that ESG integration is based on a robust analysis.

- ☒ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products
- ☐ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☒ Company information and/or ratings on ESG are updated regularly
- ☒ A periodic review of the quality of the research undertaken or provided is carried out
- ☐ Other, specify
- ☐ None of the above

LEI 12.2

Describe how ESG information is held and used by your portfolio managers.

- ☒ ESG information is held within centralised databases or tools and it is accessible by all relevant staff
- ☒ ESG information or analysis is a standard section or aspect of all company research notes or industry/sector analysis generated by investment staff
- ☒ Systematic records are kept that capture how ESG information and research was incorporated into investment decisions
- ☐ Other, specify
- ☐ None of the above

LEI 12.3

Additional information.

The ethical assessments of potential investments identify features of the company's operations which will need to be monitored to maintain alignment with our Ethical Charter. This may include, for example, revenue thresholds for different activities or trends in environmental or social impacts of the company's operations. The investment analyst for a company notifies the ethics analysts of relevant changes to the company's business changes in order that the company can be reviewed for ongoing alignment with the Charter.

All investments are assessed for alignment with our Ethical Charter. Ethical assessment records are maintained for all investments. These are generated by the ethics team (which for the purpose of the above are considered part of the investment process and staff).

LEI 13**Mandatory to Report Voluntary to Disclose****Core Assessed****PRI 1**

LEI 13.1

Indicate into which aspects of investment analysis you integrate ESG information.

- ☒ (Macro) economic analysis
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Industry analysis
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Analysis of company strategy and quality of management
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Idea generation
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Portfolio construction
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Fair value/fundamental analysis
 - ☒ Systematically
 - ☐ Occasionally

LEI 13.2

Indicate which methods are part of your process to integrate ESG information into fair value/fundamental analysis.

- ☒ Adjustments to income forecasts (sales, earnings, cash flows)
- ☒ Adjustments to valuation tools (discount rates, return forecasts, growth rates)
- ☐ Other adjustments to fair value projections, specify
- ☐ Other, specify

LEI 13.3

Additional information.

All investments are subject to an ethical assessment under our Ethical Charter. This will involve an assessment of the social, animal and environmental impacts of the different sectors and activities in which the company is engaged, as well as the company's governance and management of those impacts and of its operations generally. The ethics and investment teams (as well as a number of other stakeholders) are actively involved in this process. Our positive and negative screening shapes our portfolios by reducing our investable universe by approximately 60-75%. In addition this investigation of the sustainability of the potential investment and relevant sectors is a source and information and insight for other aspects of the investment process, including ideas generation, fair value and risk analysis and portfolio construction.

Outputs and outcomes

LEI 15	Voluntary	Descriptive	PRI 1
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LEI 15.1	Indicate how your ESG incorporation strategies have influenced the composition of your portfolio(s) or investment universe.
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☒ Screening

	Describe any reduction in your starting investment universe or other effects.
--	---

Australian Ethical uses both negative and a positive screens included in our Ethical Charter. We actively seek investment in companies with superior environmental and social credentials as well as avoiding those which cause unnecessary harm. This enables our investors to avoid investing in sectors such as tobacco and uranium mining, and to benefit from investment in companies whose activities make a positive difference on a range of ethical, social and environmental issues.

	Specify the percentage reduction
--	----------------------------------

	%
--	---

70

☒ Thematic

	Describe any alteration to your investment universe or other effects.
--	---

The Australian Ethical Charter provides guidance on key themes to take into consideration when making investment decisions. Investments made according to the Charter support a variety of sustainability themes including building a new low-carbon economy, funding medical breakthroughs, technology breakthroughs, efficient transport and more. In addition the International Equities Trust has a specific global smart energy theme. The effect of the Charter is to reduce our investment universe by 60 to 75%.

☒ Integration of ESG issues

	Select which of these effects followed your ESG integration:
--	--

- ☒ Reduce or prioritise the investment universe
- ☒ Overweight/underweight at sector level
- ☒ Overweight/underweight at stock level
- ☒ Buy/sell decisions
- ☐ Other, specify
- ☐ None of the above

Communication

LEI 18	Mandatory	Core Assessed	PRI 2,6
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LEI 18.1	Indicate if your organisation proactively discloses information on your approach to ESG incorporation in listed equity.
-----------------	---

☒ We disclose it publicly

Provide URL

<http://www.australianethical.com.au/our-ethical-approach>

Provide URL

<http://www.australianethical.com.au/ethical-charter>

LEI 18.2

Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

☒ Yes

LEI 18.3

Indicate the information your organisation proactively discloses to clients/ beneficiaries and the public regarding your approach to ESG incorporation.

- ☐ Broad approach to ESG incorporation
- ☒ Detailed explanation of ESG incorporation strategy used

LEI 18.4

Indicate how frequently you typically report this information.

- ☒ Quarterly or more frequently
- ☐ Between quarterly and annually
- ☐ Less frequently than annually
- ☐ Other, specify
- ☐ No
- ☐ We disclose it to clients and/or beneficiaries only
- ☐ We do not proactively disclose it to the public and/or clients/beneficiaries

Australian Ethical Investment Ltd.

Reported Information

Public version

Direct - Listed Equity Active Ownership

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Engagement

Overview

LEA 01	Voluntary	Descriptive	PRI 2
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LEA 01.1	Provide a brief overview of your organisation's approach to engagement.
----------	---

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

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

We constantly search for companies that meet the requirements of the Australian Ethical Charter to add to our investible universe. We monitor our investee companies on an ongoing basis to ensure that they continue to meet the requirements of our Ethical Charter. In order to inform this process, we often contact both investee and non-investee companies with requests for information.

2. Influencing the behaviour of actual or potential investee companies.

We frequently identify opportunities for improvement in the ethical performance of actual or potential investee companies. In such cases, we may engage with those companies directly, typically through correspondence and one-on-one meetings, in order encourage a change in approach.

3. Influencing the behaviour of non investee companies

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

LEA 02	Mandatory	Gateway	PRI 1,2,3
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LEA 02.1	Indicate your reasons for interacting with companies on ESG issues and indicate who carries out these interactions.
----------	---

Type of engagement	Reason for interaction
Individual/Internal staff engagements	<input checked="" type="checkbox"/> To support investment decision-making (e.g. company research) <input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via internal staff
Collaborative engagements	<input checked="" type="checkbox"/> To support investment decision-making (e.g. company research) <input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via collaborative engagements
Service provider engagements	<input checked="" type="checkbox"/> To support investment decision-making (e.g. company research) <input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via service providers

Process

Process for engagements run internally

LEA 03	Mandatory	Core Assessed	PRI 2
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LEA 03.1

Indicate whether your organisation has a formal process for identifying and prioritising engagement activities carried out by internal staff.

☒ Yes

LEA 03.2

Describe how you identify and prioritise engagements.

The Ethical Advisory Group (EAG) determines our key engagement themes, taking into account input from and issued raised by the board and internal and external stakeholders, including members, NGOs and business and investor organisations.

☐ No

LEA 03.3	Additional information. [Optional]
-----------------	------------------------------------

In developing the engagement process for a particular investment, Australian Ethical formulates the best approach suited to the issue or the particular situation and documentation of the engagement process is maintained. Typically engagements include correspondence (email or letter), telephone or face-to-face meetings with company CEOs, investment relations managers or dedicated sustainability staff, depending on the situation and issue addressed with the engagement.

LEA 04	Mandatory	Core Assessed	PRI 2
---------------	------------------	----------------------	--------------

LEA 04.1	Indicate if you define specific objectives for your engagement activities.
-----------------	--

- ☒ Yes
 - ☒ Yes, for all engagement activities
 - ☐ Yes, for the majority of engagement activities
 - ☐ Yes, for a minority of engagement activities
- ☐ No

LEA 04.2	Indicate if you monitor the actions that companies take following your engagements.
-----------------	---

- ☒ Yes
 - ☒ Yes, in all cases
 - ☐ Yes, in the majority of cases
 - ☐ Yes, in the minority of cases

LEA 04.3	Describe how you monitor and evaluate the progress of your engagement activities.
-----------------	---

Engagement activities and outcomes are monitored by the Head of Ethics, Chief Investment Officer and the Ethical Advisory Group.

We consider an outcome to be satisfactory if we achieve the objectives of the engagement (e.g. change the behaviour of companies in the way desired). We recognise that through the engagement we may come to understand that it is appropriate to revise or forgo initial objectives.

- ☐ No

Process for engagements conducted via collaborations

LEA 05	Mandatory	Core Assessed	PRI 2
---------------	------------------	----------------------	--------------

LEA 05.1	Indicate whether your organisation has a formal process for identifying and prioritising collaborative engagements.
-----------------	---

- ☒ Yes

LEA 05.2

Describe how you identify and prioritise collaborative engagements.

The Ethical Advisory Group (EAG) determines our key engagement themes, taking into account input from and issued raised by the board and internal and external stakeholders, including members, NGOs and business and investor organisations. As part of this process we will seek to identify opportunities to pursue engagements collaboratively where there is an opportunity to do this effectively.

☐ No

LEA 06**Mandatory****Core Assessed****PRI 2****LEA 06.1**

Indicate if the collaborative engagements in which you are involved have defined objectives.

☒ Yes

- ☒ Yes, for all collaborative engagement activities
- ☐ Yes, for the majority of collaborative engagement activities
- ☐ Yes, for a minority of collaborative engagement activities

☐ No

LEA 06.2

Indicate if you monitor the actions companies take following your collaborative engagements.

☒ Yes

- ☒ Yes, in all cases
- ☐ Yes, in the majority of cases
- ☐ Yes, in the minority of cases

LEA 06.3

Describe how you monitor and evaluate the progress of your collaborative engagement activities.

Collaborative engagement activities and outcomes are monitored by the Head of Ethics and Chief Investment Officer and the Ethical Advisory Group.

We consider an outcome to be satisfactory if we achieve the objectives of the engagement (e.g. change the behaviour of companies in the way desired). We recognise that through the engagement we may come to understand that it is appropriate to revise or forgo initial objectives.

☐ No

Process for engagements conducted with/on your behalf by service providers**LEA 07****Mandatory****Core Assessed****PRI 2,4****LEA 07.1**

Indicate if you play a role in the engagement process that your service provider conducts on your behalf.

☒ Yes

LEA 07.2	Indicate what role you play in engagements that your service provider conducts on your behalf.
-----------------	--

- ☒ Specify the issues for the engagement
- ☒ Specify the objectives for the engagement
- ☒ Select the companies to be engaged with
- ☒ Participate directly in the engagements with your service provider
- ☒ Actively monitor and review the activities of the service provider
- ☐ Other, specify

☐ No

LEA 07.3	Additional information. [Optional]
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Australian Ethical and ethical research provider CAER work together in identifying and conducting some engagements.

LEA 08	Mandatory	Core Assessed	PRI 2,6
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LEA 08.1	Indicate whether you monitor and/or discuss the following information provided to you by your service provider
-----------------	--

Please select all that apply

- ☒ The subject (or ESG issue(s)) of engagement
- ☒ The objectives of the engagement
- ☒ The rationale for engagement
- ☒ The frequency/intensity of interactions with companies
- ☒ Progress towards achieving engagement goals
- ☒ Outcomes that have been achieved from the engagement
- ☒ Next steps for engagement activity
- ☐ Other, specify
- ☐ None of the above

General processes for all three groups of engagers

LEA 09	Voluntary	Additional Assessed	PRI 1,2
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LEA 09.1	Indicate if the insights gained from your engagements are shared with your internal or external investment managers as input for consideration in investment decisions.
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Type of engagement	Insights shared
Individual/Internal staff engagements	<input checked="" type="radio"/> Yes, systematically <input type="radio"/> Yes, occasionally <input type="radio"/> No
Collaborative engagements	<input checked="" type="radio"/> Yes, systematically <input type="radio"/> Yes, occasionally <input type="radio"/> No
Service provider engagements	<input checked="" type="radio"/> Yes, systematically <input type="radio"/> Yes, occasionally <input type="radio"/> No

LEA 10	Mandatory	Gateway/Core Assessed	PRI 2
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LEA 10.1	Indicate if you track the number of engagements your organisation participates in.
----------	--

Type of engagement	Tracking engagements
Individual / Internal staff engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers <input type="radio"/> No, we do not track and cannot estimate our engagements
Collaborative engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers <input type="radio"/> No, we do not track and cannot estimate our engagements
Service provider engagements	<input type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers <input checked="" type="radio"/> No, we do not track and cannot estimate our engagements

Outputs and outcomes

LEA 11	Mandatory to Report Voluntary to Disclose	Core Assessed	PRI 2
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LEA 11.1	Indicate the number of companies with which your organisation engaged during the reporting year.
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	Number of companies engaged (avoid double counting, see explanatory notes)
Individual / Internal staff engagements	17
Collaborative engagements	3

LEA 11.2	Indicate what percentage of your engagements were comprehensive during the reporting year. [Optional]
-----------------	---

Type of engagement	% Comprehensive engagements
Individual / Internal staff engagements	<input type="radio"/> > 50% <input checked="" type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> None
Collaborative engagements	<input checked="" type="radio"/> >50% <input type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> None

LEA 11.3	Indicate what percentage of your collaborative engagements you were a leading organisation on during the reporting year. [Optional]
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Type of engagement	% Leading role
Collaborative engagements	<input type="radio"/> >50% <input checked="" type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> None

LEA 12	Voluntary	Additional Assessed	PRI 2
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LEA 12.1	Indicate if your engagements in the reporting year covered E, S and/or G issues.
-----------------	--

Type of engagement	Coverage
Individual / Internal staff engagements	<input checked="" type="checkbox"/> Environmental <input checked="" type="checkbox"/> Social <input checked="" type="checkbox"/> Corporate Governance <input type="checkbox"/> We do not track this information
Collaborative engagements	<input checked="" type="checkbox"/> Environmental <input checked="" type="checkbox"/> Social <input checked="" type="checkbox"/> Corporate Governance <input type="checkbox"/> We do not track this information
Service provider engagements	<input checked="" type="checkbox"/> Environmental <input checked="" type="checkbox"/> Social <input type="checkbox"/> Corporate Governance <input type="checkbox"/> We do not track this information

LEA 12.2

Provide an estimated breakdown by E, S and/or G issues.

Individual / Internal staff engagements

% Environmental only

15

% Social only

15

% Overlapping ESG issues

70

100%

Collaborative engagements

% Overlapping ESG issues

100

100%

Service provider engagements

100%

LEA 13	Voluntary	Descriptive	PRI 2
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LEA 13.1	Indicate whether you have a reliable estimate of the number of cases during the reporting year where a company has changed its practices, or made a commitment to do so, following your organisation's and/or your service provider's engagement activities.
-----------------	--

☒ Yes

LEA 13.2	Indicate the number of companies that changed or committed to change in the reporting year following your organisation's and/or your service provider's engagement activities.
-----------------	--

	Number of company changes or commitments to change
Individual / Internal staff engagements	2
Collaborative engagements	
Service provider engagements	1

☐ No

LEA 14	Voluntary	Descriptive	PRI 2
--------	-----------	-------------	-------

LEA 14.1	Provide examples of the engagements that your organisation carried out during the reporting year.
-----------------	---

☒ Add Example 1

Topic or ESG issue	Climate risk and opportunity disclosure by banks
Conducted by	<input checked="" type="checkbox"/> Individual / Internal <input type="checkbox"/> Collaborative <input type="checkbox"/> Service provider
Objectives	<p>Better transparency about lending to fossil fuel intensive sectors and to renewables and cleantech sectors.</p> <p>Better integration of climate risk and opportunities into lending decision making through e.g. individual and organisational targets and KPIs.</p> <p>Cessation of lending to new coal projects.</p>
Scope and Process	<p>We made disclosure and target setting requests to the four major Australian banks, followed by meetings with each of them. We responded with further questions and concerns to two of the four banks who responded in detail. We also met again with Westpac. We had subsequent discussions with other institutional investors to frame a disclosure request designed to attract broad investor support. We co-signed a request by the Australian Youth Climate Coalition to Westpac requesting a commitment not to lend funds to support the exploitation of the Galilee Basin coal resource or expansion of the Abbott Point coal terminal.</p>
Outcomes	<p>In October 2013 Westpac acknowledged that the engagement with Australian Ethical Investment had been useful in identifying opportunities to improve how information is made publicly available. Westpac said:</p> <p>"In response to customer, community and investor queries we have received over the course of 2013, we will be providing additional information on how we manage environmental risk when investing in high impact fossil fuel based projects in the forthcoming 2013 Annual Review. Westpac will review our existing reporting on lending exposures for energy generation to identify how to improve visibility and will review options for extending reporting to mining and extraction activities. Westpac is currently looking to undertake further benchmarking of the carbon exposures of key investment portfolios through an independent provider and will report on the outcomes in due course."</p> <p>Subsequently in their 2014 reporting (after 30 June 2014) the four Australian major banks either provided additional disclosure or a commitment for additional disclosure for 2014-15.</p>

☒ Add Example 2

Topic or ESG issue	Unconventional gas impacts (water, GHG emissions, social)
Conducted by	<input checked="" type="checkbox"/> Individual / Internal <input type="checkbox"/> Collaborative <input type="checkbox"/> Service provider
Objectives	<p>Greater monitoring and disclosure of water and emissions impacts of unconventional gas extraction.</p> <p>Cessation of unconventional gas development pending further research to establish whether regulation and technology can manage industry risks.</p>
Scope and Process	<p>This project included both individual and collaborative elements.</p> <p>Australian Ethical does not invest in unconventional gas because of risks to critical Australian groundwater supplies and uncertainties about levels of methane leakage, otherwise known as 'fugitive emissions'. More data collection, openness and analysis are needed to enable governments, companies and communities to make informed decisions about the growth and regulation of the industry.</p> <p>The Australian Ethical Advocacy Fund bought a nominal holding of shares in Santos in order to support engagement to reduce negative impacts of their business activities. We engaged with Santos on these issues both in private discussions and in group investor briefings. Australian Ethical supported the 2014 shareholder resolution for Santos to divest its investment in the Narrabri coal seam gas project. The Wilderness Society and Getup had marshalled support to include the resolution on the agenda for Santos' AGM. The resolution was not successful but encouraged important discussion of the issues in and beyond the unconventional gas sector.</p> <p>Australian Ethical also participates in an investor working group looking at the unconventional gas sector in Australia, established by the Australian division of the Principles for Responsible Investment (PRI) network. The working group is assessing best practice principles in the coal seam gas sector and engaging with Australian companies about their operational practices and risk management. The group reports progress back to the broader PRI Australian and international network.</p> <p>The working group is looking at a range of potential impacts related to water, fugitive emissions and communities. One particular area of interest is practices concerning control and measurement of methane and other emissions from exploration, extraction, production and transport. Australian Ethical considers that companies in the sector have a crucial role to play in collaborating with research organisations like CSIRO to reduce the current scientific uncertainty regarding fugitive emissions levels.</p>
Outcomes	<p>It is difficult to identify specific changes in corporate behaviour in this sector in the 2013-14 reporting year. However this engagement project is ongoing, and provides an important voice alongside the voice of community and activist groups opposing the industry.</p>

☒ Add Example 3

Topic or ESG issue	Mitigating global warming and protecting of the Great Barrier Reef
Conducted by	<input checked="" type="checkbox"/> Individual / Internal <input type="checkbox"/> Collaborative <input type="checkbox"/> Service provider
Objectives	Lend Lease not participating in the development of the Abbott Point coal terminal in the Great Barrier Reef.
Scope and Process	We wrote on several occasions to the company raising our concerns and asking that they not be involved in the development. We liaised with NGOs who were campaigning on the issue.
Outcomes	Lend Lease announced they are not participating in the development of the Abbott Point terminal.

☒ Add Example 4

Topic or ESG issue	Human rights
Conducted by	<input type="checkbox"/> Individual / Internal <input checked="" type="checkbox"/> Collaborative <input type="checkbox"/> Service provider
Objectives	Greater consideration by Australian banks of human rights impacts of land acquisitions in developing countries which the banks finance.
Scope and Process	<p>In April 2014, Oxfam released a report on links between the four big Australian banks and companies involved in 'land grabs' in countries such as Papua New Guinea and Brazil. Oxfam describes 'land grabs' as large-scale land acquisitions which violate human rights, are undertaken without free, prior and informed consent or which involve other unacceptable practices.</p> <p>At the time of the launch of the report we communicated the responsible investor perspective in the media (TV, radio and print).</p> <p>We had a number of meetings and discussions with Oxfam and Westpac, covering both the way in which the banks can better deal with land grab and other human rights issues, and also the specific allegations regarding Westpac's banking relationships highlighted in the report.</p>
Outcomes	It appears that one of Westpac's banking relationships which raised concerns ended a number of years ago (although the public record on which Oxfam relied suggested otherwise). A positive outcome has been the recent release (in late 2014) by Westpac and NAB of a policy on land grabs.

- ☐ Add Example 5
- ☐ Add Example 6
- ☐ Add Example 7
- ☐ Add Example 8
- ☐ Add Example 9
- ☐ Add Example 10

Communication

LEA 15	Mandatory	Core Assessed	PRI 2,6
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LEA 15.1 Indicate whether your organisation proactively discloses information on its engagements.

- ☉ We disclose it publicly

	provide URL
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<http://www.australianethical.com.au/sustainability-reports>

	provide URL
--	-------------

<http://www.australianethical.com.au/news/our-influence-round-our-recent-advocacy-activities>

LEA 15.2	Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.
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☒ Yes

LEA 15.3	Indicate what engagement information your organisation proactively discloses to clients/beneficiaries and/or the public.
-----------------	--

	Engagement information disclosed
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- ☒ Details of the selections, priorities and specific goals of engagement
- ☒ Number of engagements
- ☒ Breakdown of engagements by type/topic
- ☐ Breakdown of engagements by region
- ☒ An assessment of the current status of the engagement
- ☒ Outcomes that have been achieved from the engagement
- ☐ Other information

LEA 15.4	Indicate how frequently you typically report engagements information.
-----------------	---

- ☐ Disclosed continuously (prior to and post engagements)
- ☒ Disclosed quarterly
- ☐ Disclosed annually
- ☐ Disclosed every two years or less
- ☐ Other, specify
- ☐ No
- ☐ We disclose it to clients and/or beneficiaries only
- ☐ We do not proactively disclose it to the public and/or clients/beneficiaries.

LEA 15.8	Additional information. [Optional]
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Engagement and advocacy for the year is disclosed in Australian Ethical's Annual & Sustainability Report. We also provide updates on major collaborative engagements on our website and via social media, including in our quarterly Advocacy Fund reports (<http://www.australianethical.com.au/managed-funds-performance-reports>)

(Proxy) voting and shareholder resolutions

Overview

LEA 16	Voluntary	Descriptive	PRI 2
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LEA 16.1

Provide a brief overview of your organisation's approach to (proxy) voting (including the filing and/or co-filing of shareholder resolutions if applicable).

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

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

In some circumstances we will acquire nominal holdings for advocacy purposes in companies which do not otherwise meet the requirements of our Ethical Charter. Where these holdings are acquired for the purpose of supporting a particular resolution, we will typically only vote in favour of that resolution and abstain from voting on the other resolutions.

Process

LEA 17	Mandatory	Descriptive	PRI 2
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LEA 17.1

Indicate how you typically make your (proxy) voting decisions and what this approach is based on.

Approach

☒ We use our own research or voting team and make our own voting decisions without the use of service providers.

Based primarily on

- ☒ our own voting policy
- ☐ our clients requests or policy
- ☐ other, explain
- ☐ We hire service provider(s) which make voting recommendations or provide research that we use to inform our voting decisions.
- ☐ We hire service provider(s) which make voting decisions on our behalf, except for some pre-defined scenarios for which we review and make voting decisions.
- ☐ We hire service provider(s) which make voting decisions on our behalf.

LEA 19	Voluntary	Descriptive	PRI 2
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LEA 19.1	To ensure that your (proxy) votes are cast and reach their intended destination on time, indicate if you did the following.
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- ☒ Obtain confirmation that votes have been received by the company:
- ☒ for a majority of votes
 - ☐ for a minority of votes
- ☐ Participate in projects to improve the voting trail and/or to obtain vote confirmation
- ☐ None of the above

LEA 20	Voluntary	Additional Assessed	PRI 2
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LEA 20.1	Indicate if your organisation has a securities lending programme.
-----------------	---

- ☐ Yes
- ☒ No

LEA 21	Mandatory	Core Assessed	PRI 2
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LEA 21.1	Indicate if you ensure that companies are informed of the rationale when you and/or the service providers acting on your behalf abstain or vote against management recommendations.
-----------------	---

- ☐ Yes, in most cases
- ☒ Sometimes, in the following cases:
- ☐ votes in selected markets
 - ☒ votes on certain issues (all markets)
 - ☐ votes for significant shareholdings (all markets)
 - ☐ other, explain
- ☐ No
- ☐ Not applicable as we and/or our service providers do not abstain or vote against management recommendations

Outputs and outcomes

LEA 22	Mandatory	Core Assessed	PRI 2
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LEA 22.1	For listed equities where you and/or your service provider has the mandate to issue (proxy) voting instructions, indicate the percentage of votes cast during the reporting year.
-----------------	---

- ☒ We do track or collect this information

	Votes cast (to the nearest 1%)
--	--------------------------------

	%
--	---

100

Specify the basis on which this percentage is calculated

- ☒ of the total number of ballot items on which you could have issued instructions
- ☐ of the total number of company meetings at which you could have voted
- ☐ of the total value of your listed equity holdings on which you could have voted
- ☐ We do not track or collect this information

LEA 23	Voluntary	Descriptive	PRI 2
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LEA 23.1

Indicate if you track the voting instructions that you and/or your third party have issued on your behalf.

- ☒ Yes, we track this information

LEA 23.2

Of the voting instructions that you and/or third parties have issued on your behalf, indicate the proportion of ballot items that were:

Voting instructions	Breakdown as percentage of votes cast
For (supporting) management recommendations	<div> <div></div> <div>%</div> </div> 95.5
Against (opposing) management recommendations	<div> <div></div> <div>%</div> </div> 4.5
Abstentions	<div> <div></div> <div>%</div> </div> 0

100%

LEA 23.3

For the reporting year, describe your approach towards voting on shareholder resolutions.

Our proxy voting policy is that we are 'committed to voting on company resolutions where we have voting authority and responsibility to do so' consistent with FSC Standard 13.00 - Proxy Voting.

The summary covers the following trusts:

- Australian Ethical Smaller Companies Trust
- Australian Ethical Larger Companies Trust
- Australian Ethical International Equities Trust
- Advocacy Fund.

No shares are held in the Australian Ethical Cash Trust, Australian Ethical Fixed Interest Trust, or the Australian Ethical Property Trust.

Of the 1120 resolutions voted on across the four trusts, 50 were voted 'against' and we did not abstain from voting any resolutions. The negative votes related to the appointment of directors, re-election of directors and remuneration issues (including director fees and the issue of options or shares to directors and CEOs). We voted in favour of the appointment of Ian Dunlop to the board of BHP Billiton, against management recommendation.

☐ No, we do not track this information

LEA 24	Voluntary	Descriptive	PRI 2
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LEA 24.1	Indicate if your organisation directly or via a service provider filed or co-filed any shareholder resolutions during the reporting year.
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☐ Yes

☒ No

LEA 25	Voluntary	Descriptive	PRI 2
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LEA 25.1	Provide examples of the (proxy) voting activities that your organisation and/or service provider carried out during the reporting year.
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☒ Add Example 1

Topic or ESG issue	Environmental impacts of development of unconventional gas
Decision made by	<input checked="" type="checkbox"/> Internal staff <input type="checkbox"/> Service provider
Objectives	Draw attention to the further research required to assess the risks of development of unconventional gas.
Scope and Process	The Australian Ethical Advocacy Fund bought a nominal holding of shares in Santos in order to support engagement to reduce negative impacts of their business activities. We engaged with Santos on these issues both in private discussions and in group investor briefings. Australian Ethical supported the 2014 shareholder resolution for Santos to divest its investment in the Narrabri coal seam gas project. The Wilderness Society and Getup had marshalled support to include the resolution on the agenda for Santos' AGM.
Outcomes	The resolution achieved a low level of investor support but encouraged important discussion of the issues in and beyond the unconventional gas sector.

☒ Add Example 2

Topic or ESG issue	Boardroom governance of climate risk and opportunity
Decision made by	<input checked="" type="checkbox"/> Internal staff <input type="checkbox"/> Service provider
Objectives	Encourage action by BHPB and other company boards to actively consider and respond to the threat of global warming.
Scope and Process	We engaged with Ian Dunlop and other institutional investors and voted in favour of Mr Dunlop's election.
Outcomes	Mr Dunlop was not elected to the board. However we believe his campaign encouraged some clearer climate position disclosure and strategic decisions by BHPB in 2014.

- ☐ Add Example 3
- ☐ Add Example 4
- ☐ Add Example 5
- ☐ Add Example 6
- ☐ Add Example 7
- ☐ Add Example 8
- ☐ Add Example 9
- ☐ Add Example 10

Communication

LEA 26	Mandatory	Core Assessed	PRI 2,6
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LEA 26.1 Indicate if your organisation proactively discloses information on your voting activities.

- ☉ We disclose it publicly

provide URL

http://www.australianethical.com.au/system/files/documents/AEI%20Group_Proxy%20Voting%20Record_2014.pdf

provide URL

<http://www.australianethical.com.au/corporate-governance-0>

LEA 26.2

Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

- ☒ Yes

LEA 26.3

Indicate the voting information your organisation proactively discloses to the public and/or to clients/beneficiaries.

Indicate how much of your voting record you disclose

- ☒ All voting decisions
- ☐ Some voting decisions
- ☐ Only abstentions and opposing vote decisions
- ☐ Summary of votes only

Indicate what level of explanation you provide

- ☐ Explain all voting decisions
- ☒ Explain some voting decisions
- ☐ Only explain abstentions and votes against management
- ☐ No explanations provided

LEA 26.4

Indicate how frequently you typically report voting information.

- ☐ Continuously (primarily before meetings)
- ☐ Continuously (soon after votes are cast)
- ☐ Quarterly or more frequently
- ☒ Between quarterly and annually
- ☐ Less frequently than annually
- ☐ Other, specify
- ☐ No
- ☐ We disclose it to clients/beneficiaries only
- ☐ We do not proactively disclose our voting activities to the public and/or to clients/beneficiaries

Australian Ethical Investment Ltd.

Reported Information

Public version

Direct - Fixed Income

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Overview

FI 01	Mandatory to Report	Voluntary to Disclose	Gateway/Peering	PRI 1
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FI 01.1	Provide a breakdown of your internally managed fixed income investments by passive, quantitative, fundamental and other active strategies. For strategies that account for less than 10% of your fixed income investments, indicate if you would still like to report your activities.
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	Fixed income – corporate
--	--------------------------

Strategies

- ☐ Passive
- ☐ Active – quantitative (quant)
- ☒ Active - fundamental and other active strategies

	Percentage of internally managed fixed income - corporate
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- ☐ <10%
- ☐ 10-50%
- ☒ >50%

	Fixed income – government
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Strategies

- ☐ Passive
- ☐ Active – quantitative (quant)
- ☒ Active - fundamental and other active strategies

	Percentage of internally managed fixed income - government
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- ☐ <10%
- ☐ 10-50%
- ☒ >50%

FI 02	Mandatory to Report	Voluntary to Disclose	Peering	General
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FI 02.1	Provide a breakdown of your internally managed fixed income investments by credit quality.
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Credit quality	Fixed Income - Corporate
Investment grade	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%
High yield	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%
Distressed	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%

Credit quality	Fixed Income - Government
Investment grade	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%
High yield	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%
Distressed	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%

FI 02.2

Provide a breakdown of your fixed income investments between primary and secondary market.

Market	Fixed Income - Corporate
Primary market (new issues)	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50%
Secondary market	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50%

Market	Fixed Income - Government
Primary market (new issues)	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50%
Secondary market	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%

ESG incorporation in actively managed fixed income

FI 03	Voluntary	Descriptive	PRI 1
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FI 03.1	Provide a brief overview of how you incorporate ESG issues in fixed income investments.
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Fixed Income - Corporate

As part of its ethical investment approach Australian Ethical Investment has been a pioneer in the application of environmental, social and governance criteria (ESG) to investment in fixed income and other asset classes. We use the Australian Ethical Charter to guide our application of a unique combination of financial, environmental, social, governance and ethical objectives to the selection of all our investments, including our investments in fixed income securities.

Fixed Income - Government

Australian Ethical recognises the important role that governments play in the delivery of essential services to the community. The majority of spending for most governments is in areas of community benefit including social services, health and education.

Australian Ethical seeks to avoid government and semi-government debt where there is a significant proportion of support provided to activities that wouldn't be supported by the Australian Ethical Charter, such as military expenditure or coal-fired power generation. Governments will also be avoided for failing to meet specified standards for social and environmental performance.

Fixed Income - Corporate

Implementation processes

FI 04	Mandatory	Gateway/Core Assessed	PRI 1
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FI 04.1

Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed corporate fixed income investments; and, (2) the breakdown of your actively managed corporate fixed income investments by incorporation strategy or combination of strategies.

ESG incorporation strategy (select all that apply)

- ☐ Screening alone (i.e. not combined with any other strategies)
- ☐ Thematic alone (i.e. not combined with any other strategies)
- ☐ Integration alone (i.e. not combined with any other strategies)
- ☐ Screening + Integration strategies
- ☐ Thematic + integration strategies
- ☐ Screening + thematic strategies
- ☒ All three strategies combined

Percentage of active corporate fixed income to which the strategy is applied (estimate +/- 10%)	<div> <div></div> <div>%</div> </div> <div>100</div>
---	--

☐ No incorporation strategies applied

Total actively managed fixed income - corporate

100%

FI 04.2

Describe your primary reasons for choosing a particular incorporation strategy.

Australian Ethical Investment was formed in 1986 to further the aims of its Ethical Charter through responsible investment. The Charter embodies the social, animal and environmental interests which the Company is bound to consider when carrying out its investing and other activities.

FI 05	Voluntary	Additional Assessed	PRI 1
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FI 05.1

Indicate what ESG information you use in your ESG incorporation strategies and who provides this information.

Type of ESG information

- ☒ Raw ESG company data

Describe who provides this information.

In house ethics and investment research and analysis
ESG research provider (CAER and Eiris)
Broker research
Business and investor organisations and NGOs

- ☒ Issuer-related analysis or ratings

Describe who provides this information.

In house ethics and investment research and analysis
ESG research provider (CAER and Eiris)
Broker research
Business and investor organisations and NGOs

- ☒ Sector-related analysis or ratings

Describe who provides this information.

In house ethics and investment research and analysis
ESG research provider (CAER and Eiris)
Broker research
Business and investor organisations and NGOs

- ☒ Country-related analysis or ratings

Describe who provides this information.

In house ethics and investment research and analysis
ESG research provider (CAER and Eiris)
Broker research
Business and investor organisations and NGOs

- ☐ Screened bond list

- ☒ ESG issue-specific analysis or ratings

Describe who provides this information.

In house ethics and investment research and analysis
ESG research provider (CAER and Eiris)
Broker research
Business and investor organisations and NGOs

☐ Other, specify

FI 05.2

Provide a brief description of the ESG information used, highlighting any differences of sources of information across your ESG incorporation strategies.

Before an investment can be made it is assessed for alignment with the Ethical Charter; if this is passed the CIO can authorise a limit. In addition to the initial ethical screening all companies undergo periodic ethical review. If any serious issues are detected Australian Ethical will engage with the company with a view to resolving the issue. If the issue cannot be resolved and is sufficiently serious we will divest.

Our approach to ethical investment also includes conducting engagement and advocacy on particular issues as considered appropriate.

Australian Ethical has a team of internal investment professionals managed by the CIO whose responsibility it is to manage portfolios of securities. We use internal and external ethical analysts to conduct the ethical assessment of potential investments, with the input of the investment team and others.

(A) Implementation: Screening

FI 06

Mandatory

Descriptive

PRI 1

FI 06.1

Indicate and describe the type of screening you apply to your internally managed active corporate fixed income investments.

Type of screening

☒ Negative/exclusionary screening

Screened by

- ☒ Product
- ☒ Activity
- ☒ Sector
- ☒ Country/geographic region
- ☒ Environmental and social practices and performance
- ☒ Corporate governance

Description

Australian Ethical uses both negative and positive screens, actively seeking investment in companies whose activities advance the interests of people, non-human animals and the environment.

Our Ethical Charter contains 23 principles setting out the positive things we will invest to support and those harms we will avoid. In this way the Charter provides guidance on key themes to consider when making investment decisions.

☒ Positive/best-in-class screening

Screened by

- ☒ Product
- ☒ Activity
- ☒ Sector
- ☒ Country/geographic region
- ☒ Environmental and social practices and performance
- ☒ Corporate governance

	Description
	<p>Australian Ethical uses both negative and positive screens, actively seeking investment in companies whose activities advance the interests of people, non-human animals and the environment.</p> <p>Our Ethical Charter contains 23 principles setting out the positive things we will invest to support and those harms we will avoid. In this way the Charter provides guidance on key themes to consider when making investment decisions.</p>

☐ Norms-based screening

FI 06.2	Describe how the screening criteria are established, how often the criteria are reviewed and how you notify clients and/or beneficiaries when changes are made.
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Ethical considerations apply to all aspects of the Australian Ethical's operations including responsible investment activities due to the fact that the Ethical Charter is embedded in the Company's constitution and the constitutions of the managed investment schemes that the Company operates.

Ethical aspects of the investment process are overseen by our Ethical Advisory Group (EAG). The EAG develops and reviews the Ethical Frameworks which apply the 23 principles of our Charter to particular industry sectors and ethical issues. Ethical Frameworks are tested against changing circumstances (including emerging social and environmental challenges) as we apply them to new companies being considered for potential investment, as well as in the context of periodic review of existing companies. This leads to periodic updating of the frameworks.

We communicate with clients via newsletters, letters, emails, the Company's website and social media. Often this involves explaining how we apply our Ethical Charter (which is on our website) to different companies, industry sectors and ethical issues. However we do not generally publish our Ethical Frameworks.

FI 07	Mandatory	Core Assessed	PRI 1
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FI 07.1	Indicate which processes your organisation uses to ensure that screening in corporate fixed income is based on robust analysis.
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- ☒ Comprehensive research is undertaken or sourced to determine issuers' ESG performance
- ☐ Issuers are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☐ External research and data used to identify issuers to be excluded/included is subject to internal audit by ESG/RI staff, the internal audit function or similar
- ☒ Information on ESG issues and/or ratings is updated regularly to ensure that portfolio holdings comply with fund policies
- ☒ A committee or body with representatives independent of the individuals who conduct ESG research reviews some or all screening decisions
- ☒ A periodic review of the quality of the research undertaken or provided is carried out
- ☐ Other, specify
- ☐ None of the above

FI 07.2	Additional information. [Optional]
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We (and/or our research provider) will regularly approach companies to obtain additional information to assist our analysis of their environmental and social impacts and management of those impacts. This includes approaching companies to confirm specific analysis and conclusions in important cases. However, we do not give companies the opportunity to review ESG research on them and correct inaccuracies in all cases.

FI 08	Voluntary	Additional Assessed	PRI 1
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FI 08.1	Indicate which processes your organisation uses to ensure that fund criteria are not breached in corporate fixed income investments.
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☒ Checks are performed to ensure that issuers meet the funds' screening criteria. These checks are:

☒ Systematic

☐ Occasional

☐ Automated IT systems prevent investment managers from investing in excluded bonds or those that do not meet positive screening criteria

☐ Audits of fund holdings are undertaken regularly by internal audit function

☐ Other, specify

☐ None of the above

FI 08.2	If breaches of fund screening criteria are identified, describe the process followed to correct those breaches.
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If we identified that an investment had been made without the required ethical assessment, then either:

- the investment would be sold as soon as practical; or

- if there is a reasonable prospect that the investment would be assessed as investable under the Ethical Charter, we may conduct an assessment of the investment as soon as practical. If the investment was approved under the Charter it could be retained; if it was not approved it would be sold as soon as practical.

If the activities or circumstances of an investee entity changes such that their activities are no longer consistent with a Charter principle, the Head of Ethics will assess the significance of the breach (including its impact on the ethical assessment of the company under the Charter) and the prospects for engagement with the entity to take action which would remedy the breach. The Head of Ethics will consult with the CIO on these matters to determine if and how engagement with the investee company is to proceed, and the potential consequences of unsuccessful engagement, including the potential for divestment.

FI 08.3	Additional information.
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The ethical assessments of potential investments identify features of the company's operations which will need to be monitored to maintain alignment with our Ethical Charter. This may include, for example, revenue thresholds for different activities or trends in environmental or social impacts of the company's operations. The investment analyst for a company notifies the ethics analysts of relevant changes to the company's business changes in order that the company can be reviewed for ongoing alignment with the Charter.

(B) Implementation: Sustainability themed investing

FI 09	Voluntary	Descriptive	PRI 1
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FI 09.1	Indicate the type of sustainability themed funds or mandates your organisation manages.
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- ☐ Environmentally themed funds
- ☐ Socially themed funds
- ☒ Combination of themes

FI 09.2	Describe your organisation's processes for sustainability themed funds.
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The Australian Ethical Charter provides guidance on key themes to take into consideration when making investment decisions. Investments made according to the Charter support a variety of sustainability themes including building a new low-carbon economy, funding medical breakthroughs, technology breakthroughs, efficient transport and more.

(C) Implementation: Integration of ESG factors

FI 10	Voluntary	Descriptive	PRI 1
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FI 10.1	Describe how you integrate ESG issues into investment decision-making processes.
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Ethical considerations apply to all aspects of the Australian Ethical's operations including responsible investment activities due to the fact that the Ethical Charter is embedded in the Company's constitution and the constitutions of the managed investment schemes that the Company operates.

Before an investment can be made it is assessed for alignment with the Ethical Charter; if this is passed the CIO can authorise a limit. The ethical assessment of an issuer review of relevant aspects of the Charter and Ethical Frameworks as they apply to the issuer. This includes consideration of the key environmental, animal and social impacts of the industry sectors in which the issuer operates, as well as impacts which are specific to the issuer and fixed income security. The assessment identifies features of the issuer's operations which are most relevant to its alignment (or non-alignment) with our Ethical Charter. This may include, for example, revenue thresholds for different activities or trends in environmental or social impacts of the issuer's operations.

The ethics and investment teams (as well as a number of other stakeholders) are actively involved in this ethical investment process, including the consideration of the social, animal and environmental impacts of the different sectors and activities in which the issuer is engaged, as well as the issuer's governance and management of those impacts and of its operations generally. This investigation of the sustainability of the potential investment and relevant sectors is a source and information and insight for other aspects of the investment process, including ideas generation, fair value and risk analysis and portfolio construction. The investment analyst for an investment is required to review and approve the information and analysis about the issuer and its operations described in the ethical assessment.

The ethical assessment will also identify any potential areas for engagement with the issuer. In addition to the initial ethical screening all companies undergo periodic ethical review. If any serious issues are detected Australian Ethical will engage with the issuer with a view to resolving the issue. If the issue cannot be resolved and is sufficiently serious we will divest.

FI 11	Mandatory	Core Assessed	PRI 1
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FI 11.1	Indicate if E, S and G issues are reviewed while researching companies and/or sectors in active strategies.
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ESG issues	Coverage/extent of review on these issues
Environmental	<input checked="" type="radio"/> We systematically review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We do not review environmental issues
Social	<input checked="" type="radio"/> We systematically review the potential significance of social issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of social issues and investigate them accordingly <input type="radio"/> We do not review social issues
Corporate Governance	<input checked="" type="radio"/> We systematically review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We do not review corporate governance issues

FI 12	Voluntary	Descriptive	PRI 1
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FI 12.1

Indicate which processes your organisation uses to ensure that ESG integration is based on a robust analysis.

- ☒ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products
- ☐ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☒ Company information and/or ratings on ESG are updated regularly
- ☒ A periodic review of the quality of the research undertaken or provided is carried out
- ☐ Other, specify
- ☐ None of the above

FI 12.2

Describe how ESG information is held and used by your portfolio managers.

- ☒ ESG information is held within centralised databases or tools and it is accessible by all relevant staff
- ☒ ESG information or analysis is a standard section or aspect of all company research notes or industry/sector analysis generated by investment staff
- ☒ Systematic records are kept that capture how ESG information and research was incorporated into investment decisions
- ☐ Other, specify
- ☐ None of the above

FI 12.3

Additional information.

The ethical assessments of potential investments identify features of the company's operations which will need to be monitored to maintain alignment with our Ethical Charter. This may include, for example, revenue thresholds for different activities or trends in environmental or social impacts of the issuer's operations. The investment analyst for an investment notifies the ethics analysts of relevant changes to the issuer's business changes in order that the issuer can be reviewed for ongoing alignment with the Charter.

All investments are assessed for alignment with our Ethical Charter. Ethical assessment records are maintained for all investments. These are generated by the ethics team (which for the purpose of the above are considered part of the investment process and staff).

Fixed income - Government

FI 13**Mandatory****Core Assessed****PRI 1****FI 13.1**

Indicate if you incorporate ESG issues in investment analysis and decision making for your government fixed income investments.

☒ Yes

FI 13.2

Indicate for what percentage of your government fixed income investments you incorporate ESG issues in investment analysis and decision making.

- ☐ <10%
- ☐ 10-50%
- ☐ 51-90%
- ☒ >90%

FI 13.3

Indicate if in active strategies, E, S and G issues are reviewed while researching government issuers.

ESG issues	Coverage/extent of review on these issues
Environmental	<input checked="" type="radio"/> We systematically review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We do not review environmental issues
Social	<input checked="" type="radio"/> We systematically review the potential significance of social issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of social issues and investigate them accordingly <input type="radio"/> We do not review social issues
Corporate Governance	<input checked="" type="radio"/> We systematically review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We do not review corporate governance issues

☐ No

Outputs and outcomes

FI 15	Voluntary	Descriptive	PRI 1
FI 15.1	Indicate how your ESG incorporation strategies have influenced the composition of your fixed income portfolio(s) or investment universe.		

Fixed Income - Corporate

- ☒ Narrow down or prioritise the investment universe
- ☒ Buy / sell / weight decisions
- ☐ Other, specify

FI 15.1	Indicate how your ESG incorporation strategies have influenced the composition of your fixed income portfolio(s) or investment universe.
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Fixed Income - Government

- ☒ Narrow down or prioritise the investment universe
- ☒ Buy / sell / weight decisions
- ☐ Other, specify

FI 16	Voluntary	Descriptive	PRI 1
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FI 16.1	Indicate whether your organisation measures how your approach to ESG issues in Fixed Income investments has affected financial and/or ESG performance.
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- ☐ We measure whether our approach to ESG issues impacts funds' financial performance
☐ We measure whether our approach to ESG issues impacts funds' risk or volatility
☐ We measure whether our approach to ESG issues impacts funds' ESG performance
☒ None of the above

FI 17	Voluntary	Descriptive	PRI 1
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FI 17.1	Provide examples of ESG issues that affected your fixed income investment view and/or performance during the reporting year.
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- ☒ ESG issue 1

	Fixed Income - Corporate and/or Government
<input checked="" type="checkbox"/> Corporate <input type="checkbox"/> Government	
	ESG issue and explanation
<p>In view of the challenge of mitigating global warming we seek out investments which will reduce greenhouse gas emissions, including in the areas of renewables, energy storage and energy efficiency. We consider the green bond market to be attractive as providing investment opportunities of this type, and also allowing us to invest in securities of an issuer who we may not otherwise invest in under our Ethical Charter.</p>	
	ESG incorporation strategy applied
<input type="checkbox"/> Screening <input type="checkbox"/> Thematic <input type="checkbox"/> Integration <input checked="" type="checkbox"/> Combination of ESG incorporation strategies	
	Impact on investment view or performance
<p>The World Bank Australian dollar green bond issued in 2014 gave us the opportunity to obtain exposure to the World Bank and support a range of projects which were assessed as positive under our Ethical Charter.</p>	

- ☐ ESG issue 2
☐ ESG issue 3
☐ ESG issue 4
☐ ESG issue 5

Communication

FI 18	Mandatory	Core Assessed	PRI 2,6
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FI 18.1 Indicate if your organisation proactively discloses information on your approach to ESG incorporation in all fixed income investments.

☒ We disclose it publicly

Provide URL

<http://www.australianethical.com.au/our-ethical-approach>

Provide URL

<http://www.australianethical.com.au/ethical-charter>

FI 18.2 Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

☒ Yes

FI 18.3 Indicate the information your organisation proactively discloses to clients/ beneficiaries and the public regarding your approach to ESG incorporation.

- ☐ Broad approach to ESG incorporation
- ☒ Detailed explanation of ESG incorporation strategy used

FI 18.4 Indicate how frequently you typically report this information.

- ☐ Quarterly or more frequently
- ☒ Between quarterly and annually
- ☐ Less frequently than annually
- ☐ Other, specify
- ☐ No
- ☐ We disclose it to clients/beneficiaries only
- ☐ We do not proactively disclose it to the public and/or clients/beneficiaries

Engagement in fixed income investments

Fixed Income - Corporate

FI 19	Voluntary	Descriptive	PRI 2
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FI 19.1	Indicate if you engage with corporate issuers.
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☒ Yes

FI 19.2	Describe your organisation's approach to engagement in corporate fixed income.
----------------	--

We frequently identify opportunities for improvement in the ethical performance of actual or potential investee companies. In such cases, we may engage with those companies directly, typically through correspondence and one-on-one meetings, in order encourage a change in approach.

☐ No

Fixed Income - Government

FI 20	Voluntary	Descriptive	PRI 2
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FI 20.1	Indicate if you engage with government issuers such as government departments (national or local), agencies and other entities in order to influence their approach to ESG issues that may affect creditworthiness.
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☐ Yes

☒ No