Australian Ethical Emerging Companies Fund
ARSN 606 254 157

Annual Financial Report for the year ended 30 June 2020

Australian Ethical Emerging Companies Fund

Annual Financial Report for the year ended 30 June 2020

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Directors' Report
For the year ended 30 June 2020

The directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Emerging Companies Fund (the "Scheme") present the directors' report together with the financial report of the Scheme for the year ended 30 June 2020 and the accompanying independent auditor's report.

Responsible Entity
Australian Ethical Investment Limited (ABN 47 003 188 930) serves as the Responsible Entity for the Scheme. The registered office and principal place of business for the Responsible Entity is:

Registered office:
Boardroom Pty Limited
Grosvenor Place
Level 12, 225 George Street
Sydney NSW 2000

Principal place of business is:

Level 8, 124 - 130 Pitt St
Sydney, NSW 2000

The following persons were directors of Australian Ethical Investment Limited (AEIL) during the period under review and up to the date of this report unless otherwise indicated:

John McMurdo (appointed 10 February 2020)
Kate Greenhill
Stephen Gibbs
Mara Bun
Michael Monaghan
Julie Orr
Phil Vernon (resigned 31 August 2019)

Principal activities and state of affairs
The principal activity of the Scheme is to pool investors' savings to invest in a diversified portfolio of small capitalisation companies, in accordance with the investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's Constitution. The Constitution of the Scheme authorises investments in a range of assets, which may include listed and unlisted Australian equity investments, with a bias towards smaller capitalisation stocks listed on the ASX. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

There were no other significant changes in the nature of the Scheme's principal activities during the year and there were no significant changes in the Scheme's state of affairs, except those highlighted in the Review of operations.

Review of operations
There is no doubt that FY20 was an unprecedented year for the world. In Australia we experienced record temperatures, drought, bushfires, floods, the global COVID-19 pandemic and waves of demand for social change. We saw the increasing severity, scope and societal consequences of natural disasters beginning to reshape Australians' attitudes towards climate change. The COVID-19 health crisis has had a devastating impact on the global population and economy. Measures taken to contain COVID-19 have affected economic activity. Despite economic damage faced by COVID-19, there was good recovery in the last quarter of the financial year.

Overview
The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 2 October 2018.

Directors' Report
For the year ended 30 June 2020

Review of operations - continued

Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance Calculation of Return. The Scheme achieved the following total returns for the year:

- Retail class 13.19% (2019: 15.58%); and
- Wholesale class 13.94% (2019: 16.17%).

Distributions paid and/or payable

Distributions paid and/or payable by the Scheme during the year are shown in the accompanying Statement of Profit or Loss and Other Comprehensive Income.

As per note 11 the Scheme paid interim distributions to the classes as follows:

- Retail class of nil (December 2018: nil) cents per unit;
- Wholesale class of nil (December 2018: nil) cents per unit; and
- Zero class of 2.34 (December 2018: 1.61) cents per unit.

The year end distribution payable is as follows:

- Retail class of 8.35 (June 2019: 7.72) cents per unit;
- Wholesale class of 9.14 (June 2019: 8.51) cents per unit; and
- Zero class of 15.73 (June 2019: 10.79) cents per unit.

An interim distribution of $461,732 was paid in January 2020 and a final distribution of $8,173,640 was paid in July 2020.

The prior year final distribution of $5,343,121 was paid during the period.

Net Assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2020 was $114,918,774 (30 June 2019: $82,572,535)

Fees

Responsible Entity fees per annum charged for the year were as follows:

- 1.99% for the retail class (2019: 2.20% reduced to 1.99% effective 2 October 2018);
- 1.20% for the wholesale class (2019: 1.20%); and
- Nil for the zero class (2019: Nil).

A performance fee was accrued during the year as the Fund performance after management fees exceeded the S&P/ASX Small Industrials Accumulation Index (the hurdle). The performance fee is equal to 20% of the difference between the class returns and the hurdle, multiplied by the value of the class assets after Responsible Entity fees. There is no performance fee charged by AEIL in relation to the zero class units which are held by other AEIL Managed Investment Schemes.

The performance fee (net of GST) payable is as follows:

- Retail class of $301,778 (June 2019: 55,757); and
- Wholesale class of $3,429,693 (June 2019: $732,299).

Response to COVID-19

The response to COVID-19 saw regular stress testing of the Risk & Compliance framework. Our initial response in March 2020 was rapid and efficient. The responsible entity’s team, including the contact centre, was transitioned seamlessly to remote-working arrangements within a week with minimal disruption to business-as-usual operations. Regular stress testing included modelling of different levels of increased investor redemptions, market volatility and other economic shocks. To date, impacts have been in line with the forecasts.

Directors' Report
For the year ended 30 June 2020

Review of operations - continued

Response to COVID-19 - continued

As the COVID-19 situation is still unfolding, we are conducting regular reviews to respond effectively to any further government measures and any further COVID-19-related disruptions. Our response includes ongoing proactive communication with investors about the potential impact of the pandemic on them and their investment objectives. Australian Ethical is continuing to monitor the COVID-19 situation and is following a robust crisis management plan that focuses on protecting the health, safety and wellbeing of all employees; ensuring the uninterrupted operation of the business and meeting the varying needs of investors.

The Scheme’s liquid assets are valued daily at fair value based on a market price where the security is traded on a properly regulated market. The listed and liquid asset classes (e.g. listed equity and cash) are the primary source of liquidity to meet the redemption, distribution and expense obligations of the Scheme. At all times during the year, requests for redemptions have been met through available cash or via the sale of liquid investments at fair value.

Impact of COVID-19

Investments held in unlisted and illiquid securities include private equity investments. As market values declined since 20 February 2020, the proportion of the Scheme allocated to these asset classes varied, whilst the strategic allocation remained unchanged. During the period, the Scheme's allocation to these types of assets remained within its strategic asset allocation, which is no more than 10%.

Net assets attributable to unitholders for the full year increased by 39.2% to $114.9m, up from $82.6m reported for the previous year. Net assets grew strongly in the first half of FY20, rising 41.7% to $117m at 31 December 2019, following strong net inflows and positive investment performance. From 20 February 2020, COVID-19’s impact has resulted in net assets attributable to unitholders falling by 11.7% to $114.9m as at 30 June 2020, despite positive inflows during this period.

Change to Operating Model

From 1 May 2020, Investment Administration of the Scheme is conducted by National Australia Bank Limited Asset Servicing (NAS). Prior to NAS, Investment Administration of the Scheme was conducted by Australian Ethical Investment Limited. The outsourcing of Investment Administration services to NAS was to improve the fund accounting control environment, enable the decommissioning of a legacy system, enhance operational efficiency and improve tax recording. The outsourcing also provides adequate resources and expertise to ensure the Fund’s investment management accounting records are maintained as investments change over time.

Likely developments

The Responsible Entity continually reviews the Scheme and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors. The Responsible Entity plans to continue to invest in line with the strategy set out in the Product Disclosure Statement.

Events occurring after the reporting date

As the investments in the Scheme are measured at their 30 June 2020 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However the current value of investments is reflected in the current unit price.

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

Directors' Report
For the year ended 30 June 2020

Indemnities and insurance premiums for the Responsible Entity and auditor

No insurance premiums are paid for out of the assets of the Scheme for insurance cover provided to the Responsible Entity, its officers or auditor of the Scheme. Where the Responsible Entity acts in accordance with the Scheme's Constitution and the law, it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is not indemnified out of the assets of the Scheme.

Rounding of amounts

The Scheme is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Related party disclosures

Fees paid to the Responsible Entity and its associates out of Scheme assets is shown in note 14 of the attached financial statements.

Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory legislation.

Auditor’s declaration

The auditor’s independence declaration is included on page 5 of the annual report and forms part of the Directors' report for the financial year ended 30 June 2020.

Signed in accordance with a resolution of the directors of Australian Ethical Investment Limited.

John McMurdo
Managing Director
Australian Ethical Investment Limited
22 September 2020

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical Emerging Companies Fund:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Emerging Companies Fund for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A.R

Andrew Reeves
Partner

Sydney
22 September 2020

Australian Ethical Emerging Companies Fund

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020

	Note	2020	2019
		$'000	$'000
Investment income			
Interest	2	**42**	58
Dividends	3	**2,516**	2,049
Net change in fair value of financial assets	4	**15,716**	11,675
Other income		**15**	19
Net investment income		**18,289**	13,801
Operating expenses			
Management fees	14	**953**	635
Performance fees	14	**3,731**	788
Other expenses		**57**	10
Operating expenses before finance costs		**4,741**	1,433
Profit from operating activities		**13,548**	12,368
Finance costs			
Distributions paid and payable to unitholders of the Scheme	11	**(8,636)**	(5,634)
Change in net assets attributable to unitholders (total comprehensive income)	6	**4,912**	6,734

Australian Ethical Emerging Companies Fund

Statement of Financial Position as at 30 June 2020

	Note	2020	2019
		$'000	$'000
Assets			
Cash and cash equivalents	7	**8,293**	3,955
Receivables	8	**817**	165
Financial assets held at fair value through profit or loss	9	**118,430**	84,653
Total assets		**127,540**	88,773
Liabilities			
Payables	10	**4,447**	857
Distribution payable	11	**8,174**	5,343
Total liabilities		**12,621**	6,200
Net assets attributable to unitholders	6	**114,919**	82,573
Represented by:			
Net assets attributable to unitholders at net asset unit price		**124,167**	88,501
Distribution payable to unitholders of the Scheme		**(8,174)**	(5,343)
Adjustments arising from different unit pricing and accounting valuation		**(1,074)**	(585)
Total net assets attributable to unitholders	6	**114,919**	82,573

Statement of Changes in Equity for the year ended 30 June 2020

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 '*Financial Instruments: Presentation'* . As such the Scheme has no equity and no items of changes in equity at the start and end of the year.

Australian Ethical Emerging Companies Fund

Statement of Cash Flows for the year ended 30 June 2020

	Note	2020	2019
		$'000	$'000
Cash flows from operating activities			
Interest received		**46**	60
Dividends received		**2,378**	1,999
Other income received		**15**	19
Management fees paid		**(911)**	(631)
Performance fees paid		**(788)**	-
Other expenses paid		**(101)**	(10)
Net cash provided by operating activities	13	**639**	1,437
Cash flows from investing activities			
Proceeds from sale of investments		**50,944**	18,796
Purchase of investments		**(68,848)**	(34,009)
Net cash used in investing activities		**(17,904)**	(15,213)
Cash flows from financing activities			
Proceeds from issue of units		**34,550**	18,429
Payments for redemption of units		**(11,572)**	(5,432)
Distributions paid to unitholders		**(1,375)**	(901)
Net cash provided by financing activities		**21,603**	12,096
Net increase/(decrease) in cash and cash equivalents		**4,338**	(1,680)
Cash and cash equivalents at 1 July		**3,955**	5,635
Cash and cash equivalents at 30 June	7	**8,293**	3,955

Notes to the Financial Statements for the year ended 30 June 2020

Note 1 - Significant accounting policies

Reporting entity

The Australian Ethical Emerging Companies Fund ("the Scheme"), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 3 June 2015 and will terminate on 2 June 2095 unless terminated earlier in accordance with the provisions of the Scheme's constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the year ended 30 June 2020.

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors of the Australian Ethical Investment Limited on 22 September 2020.

Basis of preparation

These financial statements are presented in Australian dollars which is the functional currency and are prepared on a fair value basis with financial assets designated at fair value through profit and loss and derivatives measured at fair value, with the exception of receivables and payables which are measured at cost.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The Statement of Financial Position is prepared on a liquidity basis. All balances including investments are readily converted to cash.

Estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Scheme's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that may have a financial impact on the Scheme and are believed to be reasonable under the circumstances.

The areas involving estimates or judgements is the assessment of fair value of unlisted shares (note 9).

Refer to note 15(g) Financial risk management and financial instruments - fair values, which contains information about estimation of fair values of financial instruments.

Management have considered the impact from the ongoing COVID-19 pandemic and its impact on the financial statements. The areas considered as being potentially affected were the assumptions within our market risk disclosures and the valuation of financial assets. Despite the volatility in markets during the year and initial reduction in FUM from 20 February 2020, there has been growth with positive net inflows and strong investment performance.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Scheme in the management of short-term commitments.

Notes to the Financial Statements for the year ended 30 June 2020

Note 1 - Significant accounting policies - continued

Fair value measurement principles

Financial instruments comprise financial assets held at fair value through profit or loss, receivables, cash and cash equivalents, payables and distributions payable.

The Scheme can invest into a variety of assets, including property, fixed interest securities and both domestic and international equities. Generally, valuation information is obtained from third party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security;
- quoted 'bid' prices on securities; and
- redemption prices published by the relevant Responsible Entity, for investments into unlisted unit trusts.

For certain investments, prices cannot be obtained from the above sources. In these instances, valuations obtained from service providers are estimated through the use of valuation models which are consistent with accepted industry practice and incorporate the best available information regarding assumptions that market participants would use when pricing the assets or liabilities. Irrespective of the method used by third party industry standard service providers to obtain valuations, prices achieved in actual transactions may be different.

Classification

On initial recognition a financial asset is classified as measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income. Financial liabilities are classified as measured at amortised cost or fair value through profit or loss.

Recognition and initial measurement

A financial instrument is recognised when the Scheme becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are accounted for at trade date (i.e. the date the Scheme commits itself to purchase or sell the asset).

Measurement

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income. All other financial instruments are carried at amortised cost using the effective interest rate method less any recognised impairment.

Financial liabilities arising from redeemable units issued by the Scheme are carried at the redemption amount representing the unitholders' rights to the residual interest in the Scheme's assets, effectively the fair value at the reporting date.

Derecognition

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Scheme neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Scheme is recognised as a separate asset or liability.

The Scheme derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

AASB 9 replaces the 'incurred loss' model in AASB 139 with an ‘expected credit loss’ model. The new 'expected credit loss' model applies to financial assets measured at amortised cost, contract assets and debt instruments, but not equity instruments held at fair value through profit or loss. Under AASB 9 credit losses are recognised earlier than under AASB 139.

The financial assets at amortised cost consists of trade receivables and cash and cash equivalents.

Note 1 - Significant accounting policies - continued

Fair value measurement principles - continued

Offsetting

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivative financial instruments

In accordance with the Investment Mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

Receivables

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC).

Payables

Payables are carried at amortised cost and may include amounts for unsettled purchases, accrued expenses and other payables such as GST and redemption monies owing by the Scheme. Unsettled purchases are amounts due to brokers for securities purchased that have not been paid at reporting date. Trades are recorded on trade date and normally settle within three business days. Accrued expenses include management fees and performance fees payable.

Distributions paid and payable

In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Profit or Loss and Other Comprehensive Income as 'Finance costs'.

From 1 July 2017 the Scheme elected into the new tax regime for managed investment trusts (MITs). Responsible Entity's of eligible MITs who elect into the new attribution managed investment trust (AMIT) regime are required to calculate the income entitlements of unitholders on an ‘attribution’ basis, which will be reflected in the AMIT member annual (AMMA) statement. The AMMA statement (previously the tax statement) is provided to each person or entity who received a distribution from the Scheme during the income year. This event has no impact on the classification of net assets attributable to unitholders as liabilities in the financial statements.

Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising from fluctuations in the value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

Revenue

Interest income

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues. Interest income is recognised on a gross basis, including withholding tax, if any. Interest is measured using the effective interest rate method.

Dividend and distribution income

Dividend and distribution income relating to exchange-traded equity investments is recognised as dividend income in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date.

Notes to the Financial Statements for the year ended 30 June 2020

Note 1 - Significant accounting policies - continued

Revenue - continued
In some cases, the Scheme may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Scheme recognises the dividend income with a corresponding increase in investments.

Income tax
Under current income tax legislation the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the beneficiaries (the unitholders). The income of the Scheme is to be attributed to unitholders in accordance with the Scheme's Constitution which requires the distribution of the net accounting income for the year.

Deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Scheme to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Scheme's Constitution.

Net assets attributable to unitholders
In accordance with AASB 132, unitholders' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as 'Net assets attributable to unitholders'. The units can be put back to the Scheme at any time for cash equal to the proportionate share of the Scheme's net asset values. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Scheme. Changes in the value of this financial liability are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Expenses
All expenses, including management fees and performance fees, are recognised in the profit or loss on an accruals basis.

Foreign currency transactions and balances
Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currency are translated at the rates of exchange ruling at the reporting date. Unrealised foreign exchange gains or losses, arising on translation of assets and liabilities denominated in foreign currency at reporting date, are recognised as part of the 'Net change in fair value of investments' in the Statement of Profit or Loss and Other Comprehensive Income. Realised gains and losses on amounts denominated in foreign currencies are also brought to account as part of 'Net change in fair value of investments' and 'Other expenses' or 'Other income' in the Statement of Profit or Loss and Other Comprehensive Income, and as part of 'Other expenses paid' or 'Other income received' in the Statement of Cash Flows.

Standards and interpretations on issue but not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting period and have not been early adopted by the Scheme.

Notes to the Financial Statements for the year ended 30 June 2020

Note 2 - Interest income	**2020**	2019
	$'000	$'000
Bank interest	**42**	58
	42	58

Note 3 - Dividend income

Dividend income from securities designated at fair value through profit or loss	**2,516**	2,049
	2,516	2,049

Note 4 - Net change in fair value of financial assets

Unrealised gain arising on financial assets designated at fair value through profit or loss	**4,061**	6,994
Realised gain arising on the disposal of financial assets	**11,655**	4,963
Net change in fair value of financial assets	**15,716**	11,957

Gains include movement in underlying securities and foreign exchange.

Note 5 - Issued units

Each unit represents a right to an individual share in the Scheme per the Constitution. Zero class units are issued to other schemes managed by the Responsible Entity and are not charged a Responsible Entity fee. All other rights attached to zero class units are the same as those of the other classes.

	2020	2019
Retail class	**Units**	Units
On issue at beginning of period	**3,522,951**	3,317,073
Issued	**4,139,751**	2,747,405
Transferred to other classes	**(2,440,037)**	(2,155,310)
Redeemed	**(504,372)**	(386,217)
On issue at period end	**4,718,293**	3,522,951
Wholesale class		
On issue at beginning of period	**36,313,513**	28,418,482
Issued	**19,113,182**	9,430,774
Transferred from other classes	**2,435,829**	2,152,486
Redeemed	**(7,122,760)**	(3,688,229)
On issue at period end	**50,739,764**	36,313,513
Zero class		
On issue at beginning of period	**18,344,615**	14,382,678
Issued	**1,626,343**	3,961,937
On issue at period end	**19,970,958**	18,344,615

Notes to the Financial Statements for the year ended 30 June 2020

Note 6 - Net assets attributable to unitholders

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders. Daily applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the responsible entity has the discretion to reject an application for units and to defer a redemption of units if the exercise of such discretion is in the best interest of the unitholders.

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to deliver income and capital appreciation through investing in equities. The Scheme is not subject to any externally imposed capital requirements.

	2020	2019
	$'000	$'000
Opening balance	**82,573**	59,856
Issued	**34,539**	18,426
Distributions reinvested	**4,430**	2,989
Redeemed	**(11,535)**	(5,432)
Change in net assets attributable to unitholders	**4,912**	6,734
Total net assets attributable to unitholders	**114,919**	82,573

Note 7 - Cash and cash equivalents

Cash at bank	**8,293**	3,955
	8,293	3,955

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash includes cash at bank and cash on deposit.

Note 8 - Receivables

Dividends	**211**	73
Interest	**-**	4
Investment sales proceeds	**274**	-
Applications	**37**	15
GST	**295**	73
	817	165

Note 9 - Financial assets at fair value through profit or loss

Designated at fair value through profit or loss	Note		
Equities:			
Australian listed		**94,380**	70,080
Stapled securities - Listed		**4,664**	1,036
International listed		**18,774**	12,976
Unlisted		**612**	561
	15	**118,430**	84,653

The Scheme’s accounting policy on fair value measurements is disclosed in note 1.

Notes to the Financial Statements for the year ended 30 June 2020

Note 10 - Payables	**2020**	2019
	$'000	$'000
Investment purchases	**426**	-
Management and performance fees	**4,021**	857
	4,447	857

Note 11 - Distributions paid and payable

Distributions paid during the year	**462**	291
Distributions payable	**8,174**	5,343
	8,636	5,634

The Scheme paid interim distributions to the classes as follows:

- Retail class of nil (December 2018: nil) cents per unit;
- Wholesale class of nil (December 2018: nil) cents per unit; and
- Zero class of 2.34 (December 2018: 1.61) cents per unit.

The year end distributions payable are as follows:

- Retail class of 8.35 (June 2019: 7.72) cents per unit;
- Wholesale class of 9.14 (June 2019: 8.51) cents per unit; and
- Zero class of 15.73 (June 2019: 10.79) cents per unit.

The prior year final distribution of $5,343,121 was paid during the period.

Note 12 - Auditor's remuneration

Audit and tax fees in relation to the Scheme are paid directly by the Responsible Entity. During the year the following fees were paid or payable by the Responsible Entity for services in relation to the audit of the Scheme.

	2020	2019
	$	$
Financial statements audit fees	**15,569**	15,375
Compliance plan audit	**4,627**	4,569
Tax compliance audit	**4,164**	4,724
	24,360	24,668

Note 13 - Reconciliation of profit for the period to net cash provided by operating activities

	2020	2019
	$'000	$'000
Net profit from operating activities	**13,548**	12,368
Adjustments for:		
Net realised gain on disposal of investments	**(11,655)**	(4,963)
Net unrealised gain on revaluation of investments	**(4,061)**	(6,712)
Changes in assets and liabilities:		
Increase in receivables	**(357)**	(110)
Increase in payables	**3,164**	854
Net cash provided by operating activities	**639**	1,437

Non-cash financing and investing activities
During the year income distributions totalling $4,430,310 (2019: $2,988,969) were reinvested by unitholders for additional units in the Scheme.

Notes to the Financial Statements for the year ended 30 June 2020

Note 14 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of each Scheme, provides investment services for the Scheme in accordance with each Scheme's Constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

John McMurdo (appointed 10 February 2020)
Kate Greenhill
Stephen Gibbs
Mara Bun
Michael Monaghan
Julie Orr
Phil Vernon (resigned 31 August 2019)

Some of the directors may indirectly hold units in the Scheme through a Superannuation Fund.

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly and indirectly during or since the end of the financial year.

The Responsible Entity earns fees for the management and administration of the Scheme. Responsible Entity fees charged for the year were as follows:

- 1.99% for the retail class (2019: 2.20% reduced to 1.99% effective 2 October 2018);
- 1.20% for the wholesale class (2019: 1.20%); and
- Nil for the zero class (2019: Nil).

A performance fee was accrued during the year as the Fund performance after management fees exceeded the S&P/ASX Small Industrials Accumulation Index (the hurdle). The performance fee is equal to 20% of the difference between the class returns and the hurdle, multiplied by the value of the class assets after Responsible Entity fees. There is no performance fee charged by AEIL in relation to the zero class units which are held by other AEIL Managed Investment Schemes.

	2020	2019
	$'000	$'000
Management fees	**953**	635
Performance fees	**3,731**	788
	4,684	1,423

Fees payable to the Responsible Entity at 30 June 2020 were $4,021,088 (2019: $856,703) and are included in payables.

Notes to the Financial Statements for the year ended 30 June 2020

Note 14 - Related party disclosures - continued

Parties related to the Scheme held units in the Scheme (Zero class) as follows:

30 June 2020	**Units held opening**	**Units held closing**	**Interest held**	**Units acquired**	**Distributions paid/payable by the Scheme**
	$	**$**	**%**	**$**	**$**
Australian Ethical Balanced Fund	**26,432,419**	**31,309,667**	**26.99%**	**2,440,722**	**3,604,025**

30 June 2019	Units held opening	Units held closing	Interest held	Units acquired/(disposed)	Distributions paid/payable by the Scheme
	$	$	%		$
Australian Ethical Balanced Fund	18,959,053	26,432,419	32.02%	5,086,214	2,270,202

Distributions paid/payable to related parties represent those distributions that accrued during the current financial year.

Note 15 - Financial risk management and financial instruments

The Responsible Entity recognises that risk is part of doing business and that the ongoing management of risk is critical to its success. The approach to managing risk is articulated in the Risk Management Strategy and the Risk Appetite Statement. The Chief Risk Officer is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Audit, Risk & Compliance Committee (ARC). The Board regularly monitors the overall risk profile of the Responsible Entity and sets the risk appetite, usually in conjunction with the annual planning process.

The Board is responsible for ensuring that management has appropriate processes in place for managing all types of risk. To assist in providing ongoing assurance and comfort to the Board, responsibility for risk management oversight has been delegated to the ARC. The main functions of the ARC are to identify emerging risks, determine treatment and monitor current and emerging risks. In addition, the ARC is responsible for seeking assurances from management that:

- the systems and policies in place to assist the Responsible Entity to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained;
- the Responsible Entity is complying with its Licences, and the regulatory requirements relevant to its roles as fund manager; and
- there is a structure, methodology and timetable in place for monitoring material service providers.

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including operational risk, market risk, credit risk and liquidity risk. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risks and the management of unitholder funds.

Note 15 - Financial risk management and financial instruments - continued

(a) Categories of financial instruments	**2020**	2019
Financial assets	**$'000**	$'000
Cash and cash equivalents	**8,293**	3,955
Financial assets at fair value through profit or loss	**118,430**	84,653
Receivables	**817**	165
	127,540	88,773
Financial liabilities		
Other financial liabilities		
Payables	**4,447**	857
Distribution payable	**8,174**	5,343
Net assets attributable to unitholders	**114,919**	82,573
	127,540	88,773

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Scheme's activities with financial instruments, either internally within the Scheme or externally at the Scheme's service providers.

The Scheme's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for:
  - appropriate segregation of duties between various functions, roles and responsibilities;
  - reconciliation and monitoring of transactions; and
  - periodic assessment of operational risk faced;
- documentation of controls and procedures;
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance.

Assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions, monthly/quarterly KPI's, incident reporting, monitoring visits and a review of the service providers' Controls Reports (GS007) on internal controls.

From 1 May 2020, Investment Administration of the Fund is conducted by National Australia Bank Limited Asset Servicing (NAS). Prior to NAS, Investment Administration of the Fund was conducted by Australian Ethical Investment limited.

All of the assets of the Scheme are held by external custodian, NAS. The Fund Accounting team monitors the credit ratings and capital adequacy of its custodian on a quarterly basis.

(c) Financial risk management objectives

The Scheme is exposed to a number of risks due to the nature of its activities as further set out in its Product Disclosure Statement. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Scheme's objective in managing these risks is the protection and enhancement of unitholder value.

The Scheme's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 - Financial risk management and financial instruments - continued

(c) Financial risk management objectives - continued

The Responsible Entity Board oversee the processes which govern the investment of money of the Scheme for which Australian Ethical Investment Limited is the responsible entity. The Board bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

(d)(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and this will affect the Scheme's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme’s Constitution and Product Disclosure Statement. The Scheme’s investment mandate is to invest in a range of assets, which may include listed and unlisted Australian equity investments, with a bias towards smaller capitalisation stocks listed on the ASX. There has been no change to the Scheme’s exposure to market risks or the manner in which it manages and measures the risk.

(d)(ii) Foreign currency risk management

The Scheme can invest in financial instruments and enter into transactions that are denominated in currencies other than its functional currency. Consequently, the Scheme is exposed to risk that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of the Scheme's financial assets or liabilities denominated in currencies other than Australian dollar.

The Responsible Entity can use derivative financial instruments such as foreign currency options and forward contracts, to hedge the foreign currency risk exposures. The foreign currency exposure of the Scheme is reviewed regularly and updated as required. The use of derivative financial instruments is subject to policies and parameters set out in the Responsible Entities' Derivatives Risk Statement and Trust Investment Parameters. The Board is responsible for monitoring adherence to the Derivatives Risk Statement and the Trust Investment Parameters. No derivative financial instruments are currently held.

The carrying amounts of the Scheme's foreign currency denominated assets at the end of the reporting period are as follows:

	2020	2019
	$'000	$'000
NZD	**18,774**	12,976
	18,774	12,976

Management has performed a sensitivity analysis relating to the Scheme's exposure to currency risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in exchange rates by 10% (2019: 10%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in foreign exchanges rates as at balance sheet date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in foreign exchange rates have been taken into account.

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 - Financial risk management and financial instruments - continued

(d)(ii) Foreign currency risk management - continued
At balance date, the effect on net assets attributable to unitholders and the change in net assets attributable as a result of changes in foreign currency rates with all other variables remaining constant would be as follows:

Currency	FX Exposure	**2020**	2019
		$'000	$'000
10% increase in FX rate (2019: 10% increase)	NZD	**(1,707)**	(1,180)
10% decrease in FX rate (2019: 10% decrease)	NZD	**2,086**	1,442

(d)(iii) Interest rate risk management
Interest rate risk represents the risk that the Scheme's financial performance will be adversely affected by fluctuations in interest rates.

The Scheme's interest rate risk is managed on a daily basis by the portfolio managers in accordance with the defined investment process and within the guidelines and restrictions outlined in the Scheme's investment mandate. The Scheme is monitored for mandate compliance. Where the interest rate risk exposure moves outside the Scheme's mandate restrictions or guidelines, the portfolio managers will rebalance the portfolios.

The Scheme's exposures to interest rates on financial assets and financial liabilities are detailed in liquidity risk management (see note 15(f)).

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 1% (2019: 1%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance sheet date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At balance date, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Increase in interest rate by 1%	**83**	40
Decrease in interest rate by 1%	**(83)**	(40)

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Scheme has investments in equity instruments which exposes it to price risk. The investment manager manages the Scheme’s market risk on a daily basis in accordance with the Scheme’s investment objectives and policies.

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 - Financial risk management and financial instruments - continued

(d)(iv) Price risk - continued

The Scheme's portfolio managers aim to manage the impact of market price risk through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Investments (including derivatives) are only purchased when they meet investment criteria.

As the majority of the Scheme’s financial instruments are carried at fair value with changes in fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income, all changes in market conditions will directly affect investment income.

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unitholders which could result from a change in market prices of 10% (2019: 10%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in market prices as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

At balance date, the effect on net assets attributable to unitholders and the change in net assets attributable to unitholders as a result of changes in market prices with all other variables remaining constant would be as follows:

	2020	2019
	$'000	$'000
Increase in market prices by 10%	**11,843**	8,465
Decrease in market prices by 10%	**(11,843)**	(8,465)

(e) Credit risk management

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is predominately exposed to credit risk through its deposits at banks and trade and other receivables. The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trades (within 3 business days) and other receivables (normally within a month).

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2020 (2019: AA-).

No financial assets carried at amortised cost were past due or impaired at 30 June 2020 (2019: nil).

The maximum credit risk exposure is represented by the respective carrying amounts of the relevant financial asset in the Statement of Financial Position.

The table below details the maximum exposure to credit risk for the assets held by the Scheme.

Cash and cash equivalents	**8,293**	3,955
Receivables	**817**	165
	9,110	4,120

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 - Financial risk management and financial instruments - continued

(f) Liquidity risk management
Liquidity risk is the risk that the Scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Scheme is exposed to daily cash redemptions of redeemable units. Therefore, the approach to managing liquidity is for the Scheme to invest a significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash (for example, the Scheme's listed securities). As a result, there is a risk that the Scheme may not be able to liquidate all of these investments at their fair value in order to meet its liquidity requirements. In the event of significant redemptions, the Scheme has the ability to suspend redemptions until it can realise investments to meet the redemptions.

All payables of the Scheme are classed as normal operating obligations and are to be paid within one month of balance date.

The table below details the financial instrument composition and maturity analysis.

			2020			
	Weighted average interest rate	**0-3 months**	**3 months to 1 year**	**1 to 5 years**	**5+ years**	**Total**
	%	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Variable interest-bearing assets						
Cash and cash equivalents	**0.56**	**8,293**	**-**	**-**	**-**	**8,293**
Non-interest bearing						
Receivables	**N/A**	**817**	**-**	**-**	**-**	**817**
Financial assets	**N/A**	**117,818**	**-**	**612**	**-**	**118,430**
Total financial assets		**126,928**	**-**	**612**	**-**	**127,540**
Non-interest bearing						
Payables	**N/A**	**4,447**	**-**	**-**	**-**	**4,447**
Distribution payable	**N/A**	**8,174**	**-**	**-**	**-**	**8,174**
Amounts payable to unitholders	**N/A**	**114,308**	**-**	**612**	**-**	**114,919**
Total financial liabilities		**126,928**	**-**	**612**	**-**	**127,540**

			2019			
	Weighted average interest rate	0-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000
Variable interest-bearing assets						
Cash and cash equivalents	1.38	3,955	-	-	-	3,955
Non-interest bearing						
Receivables	N/A	165	-	-	-	165
Financial assets	N/A	84,092	-	561	-	84,653
Total financial assets		88,212	-	561	-	88,773
Non-interest bearing						
Payables	N/A	857	-	-	-	857
Distribution payable	N/A	5,343	-	-	-	5,343
Amounts payable to unitholders	N/A	82,012	-	561	-	82,573
Total financial liabilities		88,212	-	561	-	88,773

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 - Financial risk management and financial instruments - continued

(g) Fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: Using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Derived from valuation techniques that include inputs for the asset or liability that is not based on observable market data (unobservable inputs). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques.

		2020		
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**$'000**	**$'000**	**$'000**	**$'000**
Designated at fair value through profit or loss				
Equities				
Australian listed	**94,380**	**-**	**-**	**94,380**
Unlisted	**-**	**-**	**612**	**612**
International listed	**18,774**	**-**	**-**	**18,774**
Stapled securities				
Listed	**4,664**	**-**	**-**	**4,664**
TOTAL	**117,818**	**-**	**612**	**118,430**

		2019		
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	$'000	$'000	$'000	$'000
Designated at fair value through profit or loss				
Equities				
Australian listed	70,080	-	-	70,080
Unlisted	-	-	561	561
International listed	12,976	-	-	12,976
Stapled securities				
Listed	1,036	-	-	1,036
TOTAL	84,092	-	561	84,653

The fund does not hold any Level 2 assets. During the year there was no transfers between levels.

Notes to the Financial Statements for the year ended 30 June 2020

Note 15 - Financial risk management and financial instruments - continued

(g) Fair values - continued

Although the Responsible Entity of the Scheme believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used as reasonably possible alternative assumptions by 10% upwards or 10% downwards (2019: 10%) would have the effect on profit or loss as disclosed in the table below. The fair value of these investments could change if there are further capital raisings or the underlying value of the business changes.

Description	Fair value at 30 June 2020 ($'000)	Valuation techniques	Unobservable input	Range (value adopted)	Sensitivity to a 10% change in significant unobservable inputs ($'000)
Unlisted equities	$612 (2019: $561)	Referenced capitalised coupon rate	Referenced capitalised coupon rate	0 - 100% (2019:0 - 100%)	$61/($61) 2019:$56/($56)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2020	2019
Unlisted Equities	**$'000**	$'000
Opening balance at 1 July	**561**	515
Transfers into Level 3	**-**	-
Purchases	**-**	-
Sale of investments	**-**	-
Total gains in profit or loss	**51**	46
	612	561

Carrying amounts versus fair value

The fair values of financial assets and liabilities approximates their carrying amounts in the Statement of Financial Position.

Note 16 - Contingencies and commitments

There are no contingent assets or liabilities or commitments as at 30 June 2020 (2019: Nil).

Note 17 - Events subsequent to the reporting date

As the investments in the Scheme are measured at their 30 June 2020 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However the current value of investments is reflected in the current unit price.

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

Management have considered the impact of ongoing COVID-19 pandemic in Australia and assessed there are no changes required to the financial statements subsequent to the end of the financial year.

Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Emerging Companies Fund (the "Scheme"):

(a) The annual financial statements and notes that are set out on pages 6 to 25 are in accordance with the Corporations Act 2001, including:

i. Giving a true and fair view of the Scheme's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable.

(c) The Scheme has operated during the year in accordance with the provisions of the Scheme's constitution.

The Directors draw attention to Note 1 of the financial statements which contains a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors of Australian Ethical Investment Limited.

John McMurdo
Managing Director
Australian Ethical Investment Limited
22 September 2020

Independent Auditor's Report

To the unitholders of Australian Ethical Emerging Companies Fund

Opinion

We have audited the ***Financial Report*** of **Australian Ethical Emerging Companies Fund** (the Scheme)

In our opinion, the accompanying Financial Report of the Scheme is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises

- Statement of financial position as at 30 June 2020;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Scheme in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Australian Ethical Emerging Companies Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

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Andrew Reeves
Partner

Sydney
22 September 2020