Australian Ethical

High Growth Fund

Annual Financial Report
for the year ended 30 June 2023

ARSN 140 444 211

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Directors' Report

Directors' Report
For the year ended 30 June 2023

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical High Growth Fund ("the Scheme") present the directors' report together with the financial statements and notes to the financial statements of the Scheme for the year ended 30 June 2023 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 Street
Sydney, NSW 2000

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

- Steve Gibbs (Chair)
- John McMurdo (Managing Director and CEO)
- Julie Orr
- Kate Greenhill
- Mara Bun
- Michael Monaghan (ceased to be a Director on 31 March 2023)
- Sandra McCullagh (commenced as a Director on 1 March 2023)

PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activity of the Scheme is to pool investors' savings to invest in a diversified portfolio of securities, 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 listed and unlisted asset classes, including shares, property, alternative assets and cash. 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.

In November 2022, Australian Ethical successfully managed and completed the Christian Super successor fund transfer (SFT). This resulted in the Scheme receiving a $235m inflow from the SFT, of which $14.1m was received in cash and $220.9m of in-specie assets.

There were no 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

The financial landscape in 2022-23 saw unparalleled market volatility and ethical investment portfolios were not immune to the challenges. As energy market disruption sent shockwaves through markets in early 2022, inflation and interest rate expectations surged and small and micro-cap stock valuations came under pressure, while Resources and Energy stocks (underweight sectors for our ethically screened Funds) performed strongly, causing headwinds in the first half of the financial year.

Soaring energy and food prices, spiralling inflation and the monetary tightening policies meted out by central banks in response, were the economic hallmarks of FY23. Sanctions by the West on Russia, one of the largest fossil fuel producers in the world, drought in Europe and China, along with broader supply chain disruptions amplified by protracted Covid-zero lock-downs in China, made food and energy harder to access and more expensive. This contributed to burgeoning inflation across much of the globe. Central Banks around the world responded to this challenging environment with the fastest monetary tightening in recent history. In Australia, after increasing rates in May 2022 for the first time since November 2010, the Reserve Bank of Australia raised interest rates 10 times in the 2023 financial year from 0.85% to 4.10%. Similarly, as it battled to stabilise prices, the US Federal Reserve raised rates from near zero (0.08%) in February 2022 to 5.08% by the end of FY23, the highest level in 16 years.

The year was also a demanding one for investors as the ballooning interest rates impacted equity valuations and dampened the bond market. Of all sectors, fossil fuels and resources performed better than others, making the first half of the year a challenging one for ethical investors. The recovery of China after Covid Zero proved slower than expected, interest rates continued to bite and by March there were concerns of recession and of more banking failures in the US and Europe.

We maintain our long-held view that the transition to renewable energy is a compelling economic as well as ethical proposition. Indeed, by its illegal actions, Russia has served to highlight that dependence on fossil fuel imports is an untenable security risk for many countries, and it has helped to supercharge investment in renewable energy around the world. The International Energy Agency (IEA) tells us that 2023 will be remembered as a tipping point: the year global investment in renewables exceeded that of fossil fuels for the very first time.

Greenwashing, the practice of misleading consumers by promoting environmentally friendly initiatives or products that do not fully deliver on those claims, is a growing global concern for the financial services industry as a whole, and responsible investors in particular. Not only does greenwashing erode consumer confidence in responsible investment products but it means money is supporting investments with less beneficial outcomes for people, the planet, and animals.

ASIC issued stricter guidelines on how to avoid greenwashing when communicating financial products and has carried out 35 interventions this financial year to 31 March 2023, including initiating civil penalty proceedings.

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

Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 15 September 2023.

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 Returns. The Scheme achieved the following total returns for the year:

- Retail class 14.74% (2022: -9.48%); and
- Wholesale class 15.31% (2022: -9.04%).

The wholesale class generated a return of 15.31% compared to its strategic asset allocation weighted benchmark which returned 15.46% in the year ended 30 June 2023.

Absolute returns were driven by the equities portfolios, with the international equities portfolio rising 21.0% and domestic equities up 16.0%. Despite persistent high levels of inflation, rapid increases in interest rates, and a “minor” banking crisis, the global economy remained resilient. GDP growth has remained positive, and unemployment remains near all-time lows in much of the developed world, with the resulting positive sentiment in equities driving a continued recovery in the MSCI World Index post its 18% decline in the first half of 2021. The artificial intelligence excitement following the introduction of ChatGPT provided a further benefit to equity markets, particularly technology stocks.

Sentiment in fixed income markets did not match equity markets, with the MOVE index, a measure of volatility expectations on US Treasury bonds, reaching its highest levels since the 2008 global financial crisis. The Australian government bond yield fluctuated significantly between its starting point of 3.48% and end point of 4.02%, as the market pendulated between concerns of further rate hikes, or a recession.

The Scheme is subject to our ethical screening that supports the Australian Ethical Charter. This can lead the Scheme to be underweight and overweight in the certain sectors that form the benchmark and lead to short term volatility against the benchmark return.

The Scheme seeks to provide capital growth through an exposure to growth assets such as Australian and international shares, unlisted property and alternative assets that meet the Australian Ethical Charter. The recommended minimum investment timeframe is 10 years.

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 as follows:

- Retail class of 0.50 (December 2021: 0.43) cents per unit;
- Wholesale class of 0.88 (December 2021: 0.72) cents per unit; and
- Zero class of 1.18 (December 2021: 1.58) cents per unit.

The year-end distributions payable are as follows:

- Retail class of 2.13 (June 2022: 13.85) cents per unit;
- Wholesale class of 2.73 (June 2022: 14.53) cents per unit; and
- Zero class of 3.83 (June 2022: 15.73) cents per unit.

An interim distribution of $3,305,210 was paid in January 2023 and a final distribution of $11,269,596 was paid in July 2023. The prior year final distribution of $22,319,258 was paid in July 2022.

Net assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2023 was $644,329,790 (30 June 2022: $269,606,979).

Fees

Responsible Entity fees charged for the year were as follows:

- 1.39% for the retail class (2022: 1.39%);
- 0.90% for the wholesale class (2022: 0.90% reduced from 0.95% from 1 October 2021); and
- Nil for the zero class (2022: Nil).

Climate change

Climate change awareness is contributing to growth in responsible and ethical investing, leading also to both competition and regulation accelerating. There is also rapid growth in climate investment opportunities both in decarbonisation and adaptation. Imperfect information on climate attributes creates challenges to investment management as well as opportunities for outperformance.

All of our investments are made considering our Ethical Charter, which is embedded in our Constitution and overseen by our Board. The Charter's 23 principles are applied using our ethical frameworks, policies, and measurement systems. These ensure we prioritise action to avoid dangerous climate change and its serious impacts on the planet, people, and animals. This priority is pursued through the way we invest, including through negative and positive screening, engagement and advocacy, and climate performance measurement and reporting.

Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit climate change consistent with the global goals set out in the Paris Agreement. We believe these investments are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. Our approach can also strengthen specialist investment capabilities to navigate technological change associated with climate disruption and transition.

While our investment approach focuses on the need to reduce emissions to limit dangerous climate change, we also recognise it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

Our Chief Investment Officer and Head of Impact & Ethics are responsible for implementation of our Ethical Charter across our investment activities. They approve new and updated ethical frameworks, which include our climate-related ethical screening criteria.

We report quarterly to the Board, via the investment committee, of changes to frameworks and critical ethical issues. Climate change related topics are regular agenda items, and the board includes members with climate change expertise.

Our ethics research team applies our Ethical Charter on a day-to-day basis in our investment processes. The team includes members with expertise in climate change. Using diverse company, industry, government, responsible investment, scientific, civil society and news sources, the team monitors developments in:

- scientific understanding of the rate and impacts of global warming;
- domestic and international climate policy and regulation; and
- technological innovation in climate mitigation and adaptation.

Through our investments and stewardship, we are working towards the emissions reduction needed to limit temperature increase to 1.5°C - consistent with the most ambitious aims of the Paris Agreement.

We report on the action we are taking to pursue our climate ambition, including indicators of progress, in our annual sustainability report, which is developed with reference to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Action in pursuit of our climate ambition includes:

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

The impact of these actions is uncertain, and it is uncertain whether we will achieve our climate ambition. There are many factors outside our control including climate policy and regulation in Australia and globally, as well as the action of companies, other investors and individuals. While we aim to influence stronger climate action by others, we do not control their actions.

LIKELY DEVELOPMENTS

The Responsible Entity continually reviews the Scheme and depending on that review may, during 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 2023 fair values in the financial report, any volatility in values after 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 significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial periods.

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 are 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 11 of this report and forms part of the directors' report for the financial year ended 30 June 2023.

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

John McMurdo
Managing Director
Australian Ethical Investment Limited
20 September 2023

Lead Auditor’s Independence Declaration

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 High Growth Fund:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical High Growth Fund for the financial year ended 30 June 2023 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

Andrew Reeves
Partner
Sydney
20 September 2023

Financial Statements

Financial Statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Investment income			
Interest	2	122	2
Dividends	3	16,414	16,990
Net change in fair value of financial assets	4	54,183	(44,937)
Net investment income/(loss)		70,719	(27,945)
Operating expenses			
Management fees	14	691	691
Operating expenses before finance costs		691	691
Profit/(loss) from operating activities		70,028	(28,636)
Finance costs			
Distributions paid and payable to unitholders of the Scheme	11	(14,575)	(24,024)
Change in net assets attributable to unitholders (total comprehensive income)	6	55,453	(52,660)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	**2023 $'000**	2022 $'000
Assets			
Cash and cash equivalents	7	**3,097**	2,809
Receivables and prepaid	8	**12,597**	15,388
Financial assets held at fair value through profit or loss	9	**639,927**	273,743
Total assets		**655,621**	291,940
Liabilities			
Payables	10	**21**	14
Distribution payable	11	**11,270**	22,319
Total liabilities		**11,291**	22,333
Net assets attributable to unitholders	6	**644,330**	269,607
Represented by:			
Net assets attributable to unitholders at net asset value price		**655,934**	292,074
Distribution payable to unitholders of the Scheme		**(11,270)**	(22,319)
Adjustments arising from different unit pricing and accounting valuations		**(334)**	(148)
Total net assets attributable to unitholders	6	**644,330**	269,607

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2023

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.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Interest received		**122**	2
Dividends received		**605**	127
Management fees paid		**(685)**	(689)
Net cash provided by operating activities	**13**	**42**	(560)
Cash flows from investing activities			
Proceeds from sale of investments		**17,235**	77,060
Purchase of investments		**(75,620)**	(150,000)
Net cash used in investing activities		**(58,385)**	(72,940)
Cash flows from financing activities			
Proceeds from issue of units		**80,646**	87,624
Payments for redemption of units		**(20,504)**	(11,034)
Distributions paid to unitholders		**(1,511)**	(702)
Net cash provided by financing activities		**58,631**	75,888
Net increase/(decrease) in cash and cash equivalents		**288**	2,388
Cash and cash equivalents at 1 July		**2,809**	421
Cash and cash equivalents at 30 June	**7**	**3,097**	2,809

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Notes to the Financial Statements
For the year ended 30 June 2023

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Australian Ethical High Growth Fund ("the Scheme"), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 18 November 2009 and will terminate on 17 November 2089 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 2023.

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 comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

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 or loss and derivatives which are measured at fair value, except for 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 financial assets held at fair value are readily converted to cash, except for investments in the Australian Ethical Alternatives Fund, Australian Ethical Defensives Alternatives Fund, Australian Ethical Global Credit Fund, Australian Ethical Unlisted Property Fund and direct unlisted property assets.

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.

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

Refer to Note 16 - Investment in unconsolidated structured entities which contains information about judgements made in relation to whether the Scheme meets the definition of an investment entity.

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. Cash and cash equivalents are used by the Scheme in the management of short-term commitments.

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 listed Australian equities, unit trusts and derivative contracts. 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 using 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.

The Scheme's assets are measured at fair value in accordance with AASB 13 Fair Value Measurement. This is taken as last market bid price being the price a market participant would pay to buy the asset and is different to the price used in the unit pricing process which is the last sale price. The statement of financial position presents the difference in the values used in unit pricing to this financial report.

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

After 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.

Impairment of financial assets held at amortised cost

AASB 9 requires an 'expected credit loss' model to apply to financial assets measured at amortised cost, contract assets and debt instruments, but not equity instruments held at fair value through profit or loss. The financial assets at amortised cost consists of trade receivables and cash and cash equivalents.

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. After 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). Unsettled sales are amounts due from brokers for securities sold that have not been received at reporting date. Trades are recorded on trade date and normally settle within two business days.

Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables as at 30 June 2023 and management have not identified any additional concerns regarding collection of the receivables.

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 two business days. Accrued expenses include management 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'.

Responsible Entities of eligible MITs who elect into the 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 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, on a gross basis including withholding tax. Interest is measured using the effective interest rate method.

Dividend 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. Income distributions from other managed investment schemes are recognised in the Statement of Profit or Loss and Other Comprehensive Income as dividend income in accordance with the declaration set out in their Constitutions.

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 cost 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, are recognised in the profit or loss on an accrual basis.

STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET ADOPTED

Management have assessed there are no new accounting standards, interpretations or amendments to existing standards that are effective for the period beginning 1 July 2022 that would be expected to have a material impact on the Scheme.

NOTE 2 – INTEREST INCOME

	2023 $'000	2022 $'000
Bank interest	**122**	2
Total interest income	**122**	2

NOTE 3 – DIVIDEND INCOME

	2023 $'000	2022 $'000
Dividend income from securities designated at fair value through profit or loss	**16,414**	16,990
Total dividend income	**16,414**	16,990

NOTE 4 – NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS

	2023 $'000	2022 $'000
Unrealised gain/(loss) arising on financial assets designated at fair value through profit or loss	**52,806**	(47,795)
Realised gain/(loss) arising on the disposal of investments	**1,377**	2,858
Net change in fair value of financial assets	**54,183**	(44,937)

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 the Australian Ethical Retail Superannuation Fund (AERSF) and are not charged a Responsible Entity fee. All rights attached to zero class units are the same as those of the other classes.

	2023 Units	2022 Units
Retail class		
On issue at beginning of period	**2,779,656**	1,957,969
Issued	**930,559**	1,658,584
Reclassified to wholesale class	**(338,280)**	(602,772)
Redeemed	**(302,238)**	(234,125)
On issue at period end	**3,069,697**	2,779,656
Wholesale class		
On issue at beginning of period	**32,267,157**	25,954,169
Issued	**4,942,210**	8,685,178
Reclassified from retail class	**338,004**	602,298
Redeemed	**(4,770,653)**	(2,974,488)
On issue at period end	**32,776,718**	32,267,157
Zero class		
On issue at beginning of period	**109,630,519**	78,541,864
SFT investment	**117,654,621**	-
Other issued	**47,086,822**	32,756,296
Redeemed	**(5,175,939)**	(1,667,641)
On issue at period end	**269,196,023**	109,630,519

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 daily as the Scheme is subject to daily applications and redemptions at the discretion of unitholders. 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 capital growth through an exposure to growth assets such as Australian and international shares, unlisted property and alternative assets.

	2023 $'000	2022 $'000
Opening balance	**269,607**	235,682
SFT investment	**235,015**	-
Issued	**80,646**	87,624
Distributions reinvested	**24,113**	9,995
Redeemed	**(20,504)**	(11,034)
Change in net assets attributable to unitholders	**55,453**	(52,660)
Net assets attributable to unitholders	**644,330**	269,607

NOTE 7 – CASH AND CASH EQUIVALENTS

	2023 $'000	2022 $'000
Cash at bank	**3,097**	2,809
Total cash and cash equivalents	**3,097**	2,809

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 AND PREPAID

	2023 $'000	2022 $'000
Dividends and distributions	**12,583**	14,875
Investment prepaid	-	500
GST	**14**	13
Total receivables	**12,597**	15,388

On 28 June 2022, the Scheme applied and paid $500,000 for units in the Australian Unity Specialist Disability Accommodation Fund. The units were allocated to the Scheme on 08 July 2022.

NOTE 9 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2023 $'000	2022 $'000
Designated at fair value through profit or loss			
Unit trusts			
Unlisted Australian Ethical trusts		**622,493**	256,685
Unlisted property trusts		**17,434**	17,058
Financial assets at fair value through profit or loss	**15**	**639,927**	273,743

The Scheme's accounting policy on fair value measurements is disclosed in Note 1.

NOTE 10 – PAYABLES

	2023 $'000	2022 $'000
Management fees	**21**	14
Total payables	**21**	14

NOTE 11 – DISTRIBUTIONS PAID AND PAYABLE

	2023 $'000	2022 $'000
Interim distribution paid	**3,305**	1,705
Distributions payable	**11,270**	22,319
Total distributions paid and payable	**14,575**	24,024

The Scheme paid interim distributions as follows:

- Retail class of 0.50 (December 2021: 0.43) cents per unit;
- Wholesale class of 0.88 (December 2021: 0.72) cents per unit; and
- Zero class of 1.18 (December 2021: 1.58) cents per unit.

The year-end distributions payable are as follows:

- Retail class of 2.13 (June 2022: 13.85) cents per unit;
- Wholesale class of 2.73 (June 2022: 14.53) cents per unit; and
- Zero class of 3.83 (June 2022: 15.73) cents per unit.

The prior year final distribution of $22,319,258 was paid in July 2022.

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.

	2023 **$**	2022 $
Financial statements audit fees	**15,305**	11,112
Compliance plan audit	**4,734**	4,403
Tax compliance service	**5,559**	4,561
Total auditor's remuneration	**25,598**	20,076

NOTE 13 – RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2023 **$'000**	2022 $'000
Net profit/(loss) from operating activities	**70,028**	(28,636)
Adjustments for:		
Net realised (gain)/loss on disposal of investments	**(1,377)**	(2,858)
Net unrealised (gain)/loss on revaluation of investments	**(52,806)**	47,795
Dividends and distributions reinvested	**(18,101)**	(12,551)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**2,291**	(4,313)
Increase/(decrease) in payables	**7**	3
Net cash provided by operating activities	**42**	(560)

Non-cash financing and investing activities

During the year, dividends and distributions received totalling $18,100,702 (2022: $12,550,760) were reinvested for additional units.

During the year, income distributions totalling $24,112,664 (2022: $9,995,037) were reinvested by unitholders for additional units in the Scheme.

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:

- Steve Gibbs (Chair)
- John McMurdo (Managing Director and CEO)
- Julie Orr
- Kate Greenhill
- Mara Bun
- Michael Monaghan (ceased to be a Director on 31 March 2023)
- Sandra McCullagh (commenced as a Director on 1 March 2023)

Some of the Directors 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:

- 1.39% for the retail class (2022: 1.39%);
- 0.90% for the wholesale class (2022: 0.90% reduced from 0.95% from 1 October 2021); and
- Nil for the zero class (2022: Nil).

	2023 $'000	2022 $'000
Management fees	**691**	691

Fees earned by the Responsible Entity are net of any non-reclaimable GST. Fees payable to the Responsible Entity at 30 June 2023 were $20,918 (2022: $13,731) and are included in payables.

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733), a subsidiary of AEIL, is the Trustee of the Australian Ethical Retail Superannuation Fund (AERSF). Transactions with the AERSF are undertaken on commercial terms and conditions.

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

30 June 2023	**Value of units held opening $**	**Value of units held closing $**	**Interest held %**	**Value of units acquired/ (disposed) $**	**Distributions paid/payable by the Scheme $**
Australian Ethical Retail Superannuation Fund	**204,132,026**	**569,295,750**	**88.33**	**317,882,384**	**13,293,734**

30 June 2022	Value of units held opening $	Value of units held closing $	Interest held %	Value of units acquired/ (disposed) $	Distributions paid/payable by the Scheme $
Australian Ethical Retail Superannuation Fund	173,907,394	204,132,026	75.89	70,335,667	18,723,511

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

The Scheme held investments in the following related parties:

30 June 2023	**Value of units held opening $**	**Value of units held closing $**	**Interest held %**	**Value of units acquired/ (disposed) $**	**Distributions paid/payable by the Scheme $**
Australian Ethical Alternatives Fund	**1,982,066**	**44,786,877**	**21.28**	**43,404,230**	**1,513,382**
Australian Ethical Australian Shares Fund	**4,499,725**	**31,970,051**	**1.91**	**26,436,522**	**1,020,156**
Australian Ethical Defensive Alternatives Fund	**-**	**12,037,901**	**8.55**	**11,483,881**	**110,119**
Australian Ethical Diversified Shares Fund	**168,948,212**	**314,359,044**	**13.31**	**112,385,645**	**7,422,483**
Australian Ethical Global Credit Fund	**-**	**1,982,734**	**0.33**	**2,000,000**	**9,159**
Australian Ethical High Conviction Fund	**11,085,537**	**26,994,779**	**10.89**	**14,824,332**	**880,783**
Australian Ethical Income Fund	**-**	**18,760,549**	**4.11**	**19,172,000**	**496,349**
Australian Ethical International Shares Fund	**70,169,299**	**160,229,970**	**7.76**	**69,401,039**	**4,064,664**
Australian Ethical Unlisted Property Fund	**-**	**11,370,949**	**8.36**	**11,893,498**	**308,338**

30 June 2022	Value of units held opening $	Value of units held closing $	Interest held %	Value of units acquired/ (disposed) $	Distributions paid/payable by the Scheme $
Australian Ethical Alternatives Fund	-	1,982,066	2.57	1,910,000	20
Australian Ethical Australian Shares Fund	-	4,499,725	0.33	5,000,000	328,070
Australian Ethical Defensive Alternatives Fund	-	-	-	-	-
Australian Ethical Diversified Shares Fund	233,688,950	168,948,212	10.56	(33,317,464)	12,504,537
Australian Ethical Global Credit Fund	-	-	-	-	-
Australian Ethical High Conviction Fund	-	11,085,537	9.01	12,250,000	191,473
Australian Ethical Income Fund	-	-	-	-	-
Australian Ethical International Shares Fund	-	70,169,299	5.57	82,898,226	3,695,707
Australian Ethical Unlisted Property Fund	-	-	-	-	-

Distributions paid to the Scheme 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 role 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.

(a) Categories of financial instruments

	2023 $'000	2022 $'000
Financial assets		
Cash and cash equivalents	**3,097**	2,809
Receivables	**12,597**	15,388
Financial assets held at fair value through profit or loss	**639,927**	273,743
Total assets	**655,621**	291,940
Financial liabilities		
Other financial liabilities		
Payables	**21**	14
Distribution payable	**11,270**	22,319
Net assets attributable to unitholders	**644,330**	269,607
Total liabilities	**655,621**	291,940

(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, either internally within the Scheme or externally at the Scheme's service providers.

The Scheme's objective is to manage operational risk 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.

Investment administration of the Scheme is conducted by National Australia Bank Limited Asset Servicing (NAS). All the assets of the Scheme are held by external custodian, NAS. The Responsible Entity conducts oversight on the investment administration services provided by NAS and monitors the credit ratings and capital adequacy of its custodian.

(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.

The Board of the Responsible Entity oversees 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 listed and unlisted asset classes, including shares, property, alternative assets and cash. There has been no change to the Scheme's exposure to market risks or the way it manages and measures the risk.

(d)(ii) Interest rate risk

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 daily 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 (refer to 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. 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:

	2023 $'000	2022 $'000
Increase in interest rates by 2.5% (2022: 1%)	**77**	28
Decrease in interest rates by 2.5% (2022: 1%)	**(77)**	(28)

(d)(iii) Price risk

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 unlisted schemes which exposes it to indirect price risk. The investment manager manages the Scheme's market price risk daily in accordance with the Scheme's investment objectives and policies.

The Scheme's portfolio managers aim to manage the impact of market price risk using 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 most 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 (i.e. redemption value for unlisted trusts) 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 redemption prices. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in redemption 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 redemption prices with all other variables remaining constant would be as follows:

	2023 $'000	2022 $'000
Increase in redemption prices by 10% (2022: 10%)	**63,993**	27,374
Decrease in redemption prices by 10% (2022: 10%)	**(63,993)**	(27,374)

(e) Credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is exposed to credit risk through its interest-bearing securities, 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 two business days, and other receivables monthly.

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 2023 (2022: AA-).

No financial assets carried at amortised cost were past due or impaired at 30 June 2023 (2022: 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.

	2023 $'000	2022 $'000
Cash and cash equivalents	**3,097**	2,809
Receivables	**12,597**	15,388
Total credit risk	**15,694**	18,197

(f) Liquidity risk

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 unlisted unit trusts). 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 classified 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.

				2023		
	Weighted average interest rate %	**0-3 months $'000**	**3 months to 1 year $'000**	**1 to 5 years $'000**	**5+ years $'000**	**Total $'000**
Variable interest-bearing assets						
Cash and cash equivalents	**2.82**	**3,097**	**-**	**-**	**-**	**3,097**
Non-interest bearing						
Receivables	**n/a**	**12,597**	**-**	**-**	**-**	**12,597**
Financial assets	**n/a**	**554,297**	**-**	**28,805**	**56,825**	**639,927**
Total financial assets		**569,991**	**-**	**28,805**	**56,825**	**655,621**
Non-interest bearing						
Payables	**n/a**	**21**	**-**	**-**	**-**	**21**
Distribution payable	**n/a**	**11,270**	**-**	**-**	**-**	**11,270**
Amounts payable to unitholders	**n/a**	**644,330**	**-**	**-**	**-**	**644,330**
Total financial liabilities		**655,621**	**-**	**-**	**-**	**655,621**

	2022					
	Weighted average interest rate %	0-3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Variable interest-bearing assets						
Cash and cash equivalents	0.07	2,809	-	-	-	2,809
Non-interest bearing						
Receivables	n/a	15,388	-	-	-	15,388
Financial assets	n/a	254,703	-	17,058	1,982	273,743
Total financial assets		272,900	-	17,058	1,982	291,940
Non-interest bearing						
Payables	n/a	14	-	-	-	14
Distribution payable	n/a	22,319	-	-	-	22,319
Amounts payable to unitholders	n/a	269,607	-	-	-	269,607
Total financial liabilities		291,940	-	-	-	291,940

(g) Fair values

The following table provides an analysis of financial instruments that are measured after 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).

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.

	2023			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Designated at fair value through profit or loss				
Unit trusts				
Unlisted Australian Ethical trusts	-	**565,668**	**56,825**	**622,493**
Unlisted property trusts	-	**17,434**	-	**17,434**
Financial assets at fair value through profit or loss	-	**583,102**	**56,825**	**639,927**

	2022			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Designated at fair value through profit or loss				
Unit trusts				
Unlisted Australian Ethical trusts	-	254,703	1,982	256,685
Unlisted property trusts	-	17,058	-	17,058
Financial assets at fair value through profit or loss	-	271,761	1,982	273,743

The Scheme does not hold any Level 1 assets. During the year there were no transfers between levels.

The table below describes the valuation techniques used in the measurement of fair value for assets categorised as Level 2 and 3. Exposure to early-stage venture capital partnerships and unlisted infrastructure is through the investment in the Australian Ethical trusts.

Asset type	**Valuation technique**	**Interest held by the Scheme**
Unlisted Australian Ethical trusts	The prices used to value the underlying investments include but is not limited to independent prices obtained for each security, quoted 'bid' prices on securities and for investments into unlisted unit trusts, redemption prices published by the Responsible Entity.	Direct investment in units issued by the Australian Ethical trusts
Unlisted property trust	The valuation measurement is market value as defined by the International Valuation Standards Council and adopted by the Australian Property Institute. The fair value of direct property assets is based on independent external valuations. A variety of established valuation techniques are used by valuers in determining the value of direct property investments. These include, discounted cashflows, capitalisation of rental income and analysis of comparable recent sale transactions.	Direct investment in units issued by the trusts and indirectly held through the Australian Ethical trusts
Early-stage venture capital partnerships	Valuation techniques are in accordance with International Private Equity and Venture Capital (IPEV) valuation principles endorsed by the Australian Investment Council (AIC). In estimating Fair Value of investments, the valuation techniques that are appropriate in light of the nature, facts and circumstances of the investment are applied. Consistent valuation techniques for investments with similar characteristics, industries and/or geographies is considered and used. There are a number of different techniques applied, including 'Price of Recent Investment', 'Multiples', 'Net Assets', 'Discounted Cash Flows or Earnings'.	Limited partnership interest indirectly held through the Australian Ethical trusts

Asset type	Valuation technique	Interest held by the Scheme
Unlisted infrastructure	Third-party experts apply valuation techniques to determine fair value. Valuers use accepted valuation methodologies that are most appropriate for each asset, considering factors such as asset size, characteristics, and domicile. The assumptions within the valuation techniques applied to infrastructure assets can include income capitalisation, discounted cash flow, trading and transaction earnings multiples or direct sales comparison. The assumptions are determined by the valuer and adjusted to reflect the current consensus view of economic conditions and asset specific drivers.	Investment is held through the Australian Ethical trusts

At balance date, the effect on net assets attributable to unitholders as a result of a 10% change in the internal valuation of Level 3 assets, with all other variables remaining constant would be as follows:

	2023 $'000	2022 $'000
Increase in alternative assets by 10% (2022: 10%)	**5,682**	198
Decrease in alternative assets by 10% (2022: 10%)	**(5,682)**	(198)

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.

	2023 $'000	2022 $'000
Opening balance at 1 July	**1,982**	-
Acquisition of units in Australian Ethical Alternatives Fund	**45,306**	1,910
Acquisition of units in Australian Ethical Defensive Alternatives Fund	**11,484**	-
Disposal of units in Australian Ethical Alternatives Fund	**(1,902)**	-
Net fair value profit	**(45)**	72
Total level 3 assets held at fair value	**56,825**	1,982

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 – INVESTMENT IN UNCONSOLIDATED STRUCTURED ENTITIES

The table below describes the type of unconsolidated structured entities that the Scheme does not consolidate but in which it holds an interest. The Scheme has concluded that the unlisted investment schemes and limited partnerships below meet the definition of structured entities because:

- The voting rights in the entities are not dominant rights in deciding who controls them as they relate to administrative tasks only;
- Each entity's activities are restricted by its Constitution, Product Disclosure Statement and/or Partnership Agreement;and
- The entities have narrow and well-defined objectives to provide investment opportunities.

Type of structured entity	Nature and purpose	Interest held by the Scheme
Investment schemes	To pool investors' savings and invest in a diversified portfolio of securities.	Investments in units issued by the scheme
Early-stage venture capital partnerships	To manage assets on behalf of third-party investors. These vehicles are financed through the issue of partnership interests to investors.	Limited partnership interest

	Fair value as at		Ownership interest	
	30-Jun-23 $	30-Jun-22 $	**30-Jun-23 %**	30-Jun-22 %
Investment schemes				
Australian Ethical Alternatives Fund	**44,786,877**	1,982,066	**21.28**	2.57
Australian Ethical Australian Shares Fund	**31,970,051**	4,499,725	**1.91**	0.33
Australian Ethical Defensive Alternatives Fund	**12,037,901**	-	**8.55**	0.00
Australian Ethical Diversified Shares Fund	**314,359,044**	168,948,212	**13.31**	10.56
Australian Ethical Global Credit Fund	**1,982,734**	-	**0.33**	0.00
Australian Ethical High Conviction Fund	**26,994,779**	11,085,537	**10.89**	9.01
Australian Ethical Income Fund	**18,760,549**	-	**4.11**	0.00
Australian Ethical International Shares Fund	**160,229,970**	70,169,299	**7.76**	5.57
Australian Ethical Unlisted Property Fund	**11,370,949**	-	**8.36**	0.00
Property trusts				
Australian Unity Specialist Disability Accommodation Fund	**521,761**	-	**0.58**	-
Dexus Healthcare Property Trust	**8,805,005**	8,900,728	**0.60**	0.84
Investa Property Group	**8,107,165**	8,157,411	**0.17**	0.16

Each of the above structured entities is incorporated in Australia.

The maximum exposure or loss is limited to the total fair value of the investment as at the reporting date. The fair value of the exposure will change daily throughout the period and in the subsequent periods will cease once the investments are disposed.

The unconsolidated structured entities are managed in accordance with the investment strategy of the respective underlying investment managers. The investment decisions of the structured entities are based on the analysis conducted by the investment manager. The return of the structured entities is exposed to the variability of the performance of the underlying investment strategies. The investment managers receive a management fee for undertaking the management of these investments. Income is received from non-related structured entities in accordance with Constitutions.

The Scheme does not have current commitments or intentions or a contractual obligation to provide financial or other support to the unconsolidated structured entities and has no intention of providing financial or other support.

NOTE 17 - CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2023 (2022: Nil).

NOTE 18 - EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2023 fair values in the financial report, any volatility in values after 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 significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial periods.

Directors' Declaration

Directors' Declaration

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

a) The financial statements and notes to the financial statements that are set out in this report 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 2023 and of its performance for the financial year ended on that date; and
   ii. Complying with Australian Accounting Standards and Corporations Regulations 2001;

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

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
20 September 2023

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the unitholders of Australian Ethical High Growth Fund

Opinion

We have audited the ***Financial Report*** of the Australian Ethical High Growth 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 2023, and of its financial performance and its cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises the:

- Statement of financial position as at 30 June 2023;
- 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 relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). We have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Scheme, would be in the same terms if given to the Directors as at the time of this Auditor's Report.

Other Information

Other Information is financial and non-financial information in the Australian Ethical High Growth 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 Director's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express 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 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 this 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.

KPMG

KPMG

Andrew Reeves
Partner
Sydney
20 September 2023