Australian Ethical

ASX Announcement

Appendix 4D

For the half-year ended 31 December 2022

Australian Ethical Investment Limited and Controlled Entities
ABN 47 003 188 930

Results for Announcement to the Market

(All comparisons to half-year ended 31 December 2021)

	$'000	Up/Down	% Movement
Revenues from ordinary activities	**36,562**	**up**	**4%**
Net profit after tax	**997**	**down**	**(82%)**
Deduct net profit after tax attributable to The Foundation	(36)		
Net profit attributable to shareholders	**961**	**down**	**(82%)**
Change in fair value of investment	2,600		
SFT transaction costs	1,999		
Tax on adjustments	(600)		
Underlying net profit after tax	**4,960**	**down**	**(9%)**

Dividend information	**Cents per share**	**Franked cents per share**	**Franking level**
Final 2022 dividend per share (paid 15 September 2022)	3.00	3.00	100%
Interim 2023 dividend per share (to be paid 16 March 2023)	2.00	2.00	100%

Final & Special dividend dates	
Ex-dividend date	1 March 2023
Record date	2 March 2023
Payment date	16 March 2023

	31 December 2022	**31 December 2021**
Net tangible assets per security	$0.17	$0.18
Net asset value per security	$0.20	$0.21

This information should be read in conjunction with the 2022 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

This report is based on the Consolidated Interim Financial Report of Australian Ethical Investment Limited for the period ended 31 December 2022 which have been audited by KPMG. The Independent Auditor's Report by KPMG is included in the Interim Financial Report.

Australian Ethical Investment Limited and its Controlled Entities

Interim Financial Report
31 December 2022

ABN 47 003 188 930

Table of contents

Directors' Report

Directors' Report

For the half-year ended 31 December 2022

The directors present their report, together with the consolidated interim financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Australian Ethical Investment Limited (referred to hereafter as 'Australian Ethical', the 'Company' or 'Parent Entity'), Australian Ethical Superannuation Pty Limited ('AES') and Australian Ethical Foundation Limited (the 'Foundation'), being the entities it controlled for the half-year ended 31 December 2022, (the interim period).

DIRECTORS

The following persons were directors of Australian Ethical Investment Limited during or since the end of the interim period:

Steve Gibbs	Chair
John McMurdo	Managing Director and CEO
Mara Bun	Non-Executive Director
Kate Greenhill	Non-Executive Director
Michael Monaghan	Non-Executive Director
Julie Orr	Non-Executive Director

PRINCIPAL ACTIVITIES

The Group's principal activities during the interim period were to act as the responsible entity for a range of public offer ethically managed investment schemes and act as the Trustee of the Australian Ethical Retail Superannuation Fund ('Super Fund'). Other than what is described in this report, there were no significant changes in the nature of the Group's activities during the interim period.

REVIEW OF OPERATIONS

2022 was the year when both Australians and the economy swung back into action, and we started to settle into the "new normal" following several extraordinarily disrupted years of the Covid-19 pandemic. Our borders reopened, and many were reunited with friends and family for the first time in too long.

However, the economic backdrop has been far from normal, with the Russian invasion of Ukraine continuing to cause global supply chain disruptions, pushing up inflation to levels not seen in decades and resulting in a rebound in energy stocks. And the reopening of China later in the year then saw mining stocks also outperform in the market. Pure-play investors like Australian Ethical have been negatively impacted by the exclusion of much of the resources and energy sectors that have driven most of the market performance during this period.

But signs are pointing to a shift, the International Energy Agency has forecast that the security and price stability of domestically produced renewable energy has become so attractive to governments that it will become the world's top source of electricity in the next three years. And of course, there is an ever-more-urgent need for Australia to switch to more renewable forms of energy if we are as a nation going to meet our 2030 targets in line with the Paris Agreement.

Consumer sentiment is also shifting. In May, we elected a new Federal Government that is taking a more consultative approach, while working to push forward a more progressive agenda.

And we see this consumer shift in our industry too. Research from the Responsible Investment Association of Australia (RIAA) shows that 4 out of 5 Australians (83%) expect their bank account and their super to be invested responsibly and ethically[1].

We remain committed to shifting capital away from companies that harm towards companies with a positive impact. And while it makes sense from a political, financial, environmental and ethical standpoint, it's also what Australian consumers want, too.

Because of the volatility in the global markets in this period, our investment strategy has diversified to include a broader array of asset classes, including additional defensive assets. We are actively seeking to capitalise on the longer-term trend towards decarbonisation – not just by excluding mining and energy stocks – but by positioning the portfolio to ensure we are invested in the companies and projects that are at the forefront of this trend.

By investing in companies that have long-term futures, we are in the best possible place to continue to deliver long-term performance. As the climate crisis grows ever more urgent, so too will our voice in calling for others across the industry to listen to what Australians are telling us they want – their money invested in sectors and companies that are good for people, animals, and the planet.

First half overview

The first half of 2023 for Australian Ethical has been challenging, however we have achieved a number of milestones. As reported during our FY 2022 results, we are continuing to implement our high-growth strategy, including executing on inorganic opportunities. This means that, despite the market volatility, we are continuing to invest in our business and capability – this will ensure our business is well positioned to seize the opportunities presented by a growing shift towards responsible investment. As such, we are continuing to see positive net flows even during these challenging market conditions – the impacts of which no investor is immune to – at a time when many in the industry are seeing net outflows.

Whilst net flows have been impacted by the volatile market conditions, we continue to explore new acquisition channels and have expanded our employment platform channel during the first half. We also continue to gain further traction in the adviser channel and have seen our overall adviser brand rank increase by 7 places[2], and over the last 6 months we have won 15 new Approved Product Lists and model portfolio inclusions across national dealer groups, Independent Financial Advisers, and private wealth firms. We have also noted a 53% increase in the number of advisers with net flows of greater than $1 million for the calendar year, compared to same period last year – these are pleasing metrics indicating the continued expansion of our adviser support base.

Part of our growth strategy is to create brand salience to grow our brand awareness and, ultimately, flows, as we build a much larger, more impactful business. To this end, we launched a high-profile and high-impact brand campaign, and are continuing to invest across our paid media channels to increase our brand awareness and consideration. Australian Ethical's corporate vision is to use money as a force for good, and this campaign relates directly to that – helping customers to understand the role their investments can play in doing good.

We continue to attract top talent. We have created a new role of Chief Technology Officer and hired Conrad Tsang, who brings with him an expertise that will greatly benefit our continued digital transformation. In December we were delighted to announce that Ross Piper has joined Australian Ethical as Chief Executive Officer of Superannuation, and in addition, Emmanuel Martinez joined on a fixed term contract as Director of Strategic Projects to oversee the implementation of operating platform synergies, efficiency, and enhancements. We have built up our alternatives and performance analytics capability in the investment team, which further builds on the diversity and strength of our in-house team.

We continue to win awards and receive positive product ratings, including Product Reviews' Best Retail Super Fund Award for 2023. We received a 'Recommended' rating by Lonsec for our SMA and all our domestic active funds,

[1] RIAA: From Values to Riches 2022

[2] Investment Trends 2022 Adviser Product and Marketing Needs Report.

including our High Conviction Fund which has been rated just a year since its inception. We were also proud to have our Balanced Fund rated as 'Superior' by SQM Research.

Importantly, we were again awarded B Corps Best for the World 2022 for both Customer and Governance, an accolade of which we are particularly proud. This accolade recognises B Corps who score on the global top 5% of B Corp organisations in their corresponding size group. Certified B Corporations are leaders in the global movement for an inclusive, equitable, and regenerative economy.

Further, Australian Ethical was again awarded the status of Responsible Investment Leader by the Responsible Investment Association Australasia (RIAA) who champion responsible investing and a sustainable financial system in Australia and New Zealand.

Mergers & acquisitions update

During the period we have made strong progress on our inorganic strategy with the completion of the Christian Super successor fund transfer (SFT). This transaction brings significant financial and other value to the strengthening of Australian Ethical. At the same time, we wrote-down the value of our investment in Sentient Impact Group (Sentient) in which we hold a minority stake.

Through the Christian Super transaction in particular, we have strengthened our mergers and acquisition capability (both through retention of corporate knowledge and a solid dedicated project team which is processing the pipeline of strategic initiatives).

Christian Super

In November, we successfully and smoothly managed the completion of the Christian Super SFT which was completed in a short timeframe. Not only has this grown our funds under management by $1.93 billion, added 28,000 superannuation customers and enhanced our asset allocation to alternative assets, but it has strengthened our merger and acquisition capability, and given us confidence in executing future acquisitions in line with our complementary inorganic strategy.

Following the SFT, we passed on the benefits of the increased scale through fee reductions for all members, thereby increasing the competitiveness of our super options. 12 Christian Super employees were retained, boosting our alternatives investment capability, maintaining high member engagement standards in the contact centre team, underpinning employer channel retention, supporting increased product management and investment administration volumes, and strengthening risk management and governance.

The SFT with Christian Super increases scale, facilitates reinvestment in initiatives to improve our customer experience, and accelerates our growth and impact. Whilst the $1.93 billion increase in FUM will drive higher revenue in the second half, expenses will also increase, reflecting the retained Christian Super employees, variable fund-related expenses, and increased marketing and regulatory expenses. Further synergies are expected to be realised in the medium term as third-party providers are integrated and other operating efficiencies are implemented. On a stand-alone basis the SFT is earnings accretive, excluding integration costs, reflecting the internalisation of the majority of asset management activities.

The estimated FY23 full year integration costs relating to Christian Super are approximately $2.4 million (with $2m incurred in the 6 months ended 31 December 2022), which will be reflected as a UPAT adjustment. Further costs are expected in FY24 as we integrate third party providers.

Sentient Impact Group

On 9 December 2021, we acquired a minority equity stake (10%) in Sentient for $5.2 million. This investment was undertaken to extend our capability in the impact investing arena. As a result of slower than anticipated FUM growth and an ongoing review and refinement of its strategy, a fair value decrement of $2.6 million has been recognised, reflecting 50% of its value.

As a start-up organisation, Sentient is behind in the execution of its ambitious plans. In determining the change we've adopted a similar valuation process as that applied to the assets held in our funds. The Directors will continue to assess the fair value in light of any significant changes in the business and its future growth.

Profit

As reported during our FY 2022 results, we continue to execute our high-growth strategy which means we are continuing to invest in our business and capability to seize the opportunities presented by a growing shift towards responsible investment, and to build a robust business platform capable of supporting a much larger business.

Our underlying profit for the period is in line with our expectations and reflects the investment in strategic growth initiatives, which has increased expenses. This, together with the challenging operating environment which has tempered FUM and revenue growth, has resulted in a lower net profit compared to the prior corresponding period.

The net profit after tax for the Group was $1.0 million, compared with $5.5 million in the prior corresponding period. The net profit attributable to shareholders amounted to $1.0 million, compared with $5.4 million for the 6 months ended 31 December 2021. After excluding SFT integration costs and the Sentient investment fair value adjustment, our underlying profit after tax was $5.0 million, down 9% compared with the prior corresponding period.

Our strategic focus continues to be on growing FUM and revenue and amplifying our impact, and we remain confident that our strategic investment will yield strong results.

Revenue

During the past 6 months we have faced into very challenging conditions particularly for our pure ethical investing style. Markets have been volatile, and Australian Ethical has had a low exposure to sectors that has driven most of the market performance during the period. This has resulted in lower performance, has impacted net flows, and driven lower FUM and revenue growth compared to historic trends.

Operating revenue increased 4% to $36.6 million, up from $35.2 million for the 6 months ended 31 December 2021. This increase was driven primarily by average super FUM growth of 15% (which was boosted by the acquisition of Christian Super in November 2022, which lifted average FUM by 8% for the period) and higher member revenue following the increase in funded super members, which increased 16% organically. These increases were partially offset by the impact of fee reductions during the first half and lower average Managed Funds FUM. In addition, operating revenue was bolstered by higher interest income during the period.

Ongoing fee reductions are a core part of our growth strategy as we aim to make investing in our products more accessible and competitive for current and future customers. In September 2022, we reduced the dollar-based administration fee for super and pension members. Following the Christian Super SFT, the increased scale allowed further fee reductions to be implemented for all members, thereby sharing the benefits of scale and improving the competitiveness of our fees in line with our fee strategy. We will continue to monitor our fees compared to competitors on an annual basis with the aim of sharing the benefits of scale with all stakeholders and accelerating profitable growth of our business. Since 2015 we have seen FUM increase six-fold as our total fee margins have reduced by 80 basis points.

The revenue margin across all products reduced from 1.06% at 31 December 2021 to 1.00% at 31 December 2022 representing the fee reductions and product mix.

We remain confident in the medium-term outlook for headline growth, with investor demand for responsible investing continuing to grow, a supportive regulatory and policy environment and our focus on sustainable, future-building companies.

Expenses

Expenses, excluding $2 million in Christian Super SFT integration costs and the $2.6 million fair value adjustment, increased by 7% compared to the first half FY22. The expense growth is driven predominantly by the continued investment in our high growth strategy, as we enhance our operating platform and build a business capable of operating at a much higher scale – this capability will support growth in key new channels including institutional and mezzanine as well as adviser and high net worth channels.

We have confidence our investment will pay off in the medium term as the demand for responsible investment continues to grow and we gain traction on new products and channels, and operating efficiencies emerge from our upgraded business platform.

However, we continue to actively monitor the challenges presented by the external environment, and if current market conditions prevail, and growth expectations don't eventuate, we will adopt a rigorous approach to expense containment.

Key drivers of the first half cost increase include:

Employee expenses

- Employee expenses increased 12% following several strategic executive hires and talent acquisition as part of the high growth strategy as we continue to build capability in the areas of investment excellence, offering a compelling client experience and building an impactful business.
- FTE increased from 90 at 31 December 2021 to 111 at 31 December 2022. The increase includes the retention of 12 Christian Super employees who were retained post SFT.
- The increase in employee costs reflects both new hires during the period as well as the run rate of hires in FY22.

Fund related expenses

- Fund related expenses increased by 4%, driven by higher FUM and customer numbers, offset by lower spend on strategic and regulatory initiatives vs prior year.

Marketing

- As we continue to drive growth to achieve a much larger, more impactful business, marketing costs have increased to underpin this strategic focus. The higher marketing costs in the first half reflect the acquisition costs in the new employer platform channel, as well as accelerated timing of brand spend to maximise campaign effectiveness. Most of the brand expenditure has been allocated to the first half of the year in FY23 compared to prior year where the majority was incurred in the second half. We continue to see an uptick in our brand awareness as we reach more Australians with our campaigns.

External services

- External services costs have decreased compared to first half last year. Most of our investment during the first half FY23 has been in building out capability (employee expenses) and the successor fund transfer integration costs whereas during the first half of FY22, several new technology platform project costs were incurred.

The Foundation

- Pleasingly, we have provisioned $0.3 million for the Australian Ethical Foundation during the period, which will further support its impact through grant making programs.

Funds Under Management

We were particularly pleased with our growth in FUM during the period, given current market conditions. FUM at 31 December 2022 was $8.37 billion, a 21% increase from 31 December 2021, and a 35% increase from 30 June 2022.

As a result of the successor fund transfer with Christian Super, FUM increased by $1.93 billion reflecting over 28,000 members who transferred across into the Australian Ethical super fund.

Retail and wholesale net flows for the period (excluding institutional channel) were $0.37 billion, down 43% from prior period. This reduction was driven predominantly by the lower managed fund flows following cautious market sentiment as a result of the volatile investment markets.

During the period, there was a $0.18 billion redemption by an institutional client that has internalised the management of its sustainable option following its successor fund transfer into another fund. We still see significant opportunity for long term growth in both the institutional and mezzanine channels and are exploring avenues to succeed in this opportunity space as part of our high growth strategy, commencing with building out a mezzanine pipeline.

Total net flows (including institutional) for the period were $0.19 billion. While this was lower than the prior corresponding period ($0.6 billion), the fact that flows remain positive in such a volatile environment is a pleasing sign of the continuing demand for our ethical products.

Net investment performance during the period was $0.06 billion, which reflects the volatile current market conditions.

$bn	31 December 2022	31 December 2021	% change#
Opening FUM	6.20	6.07	2%
Super net flows	0.30	0.37	(18%)
Managed Funds net flows* (excl Institutional)	0.07	0.28	(76%)
Total net flows (excl Institutional)	**0.37**	**0.65**	**(43%)**
Institutional net flows	(0.18)	(0.05)	(266%)
Total net flows	**0.19**	**0.60**	(69%)
Investment performance (net of fees)	0.06	0.27	(79%)
Christian Super SFT	1.93	-	
Closing FUM	**8.37**	**6.94**	**21%**
Average 1H FUM	6.72	6.53	3%

* including SMA

percentage changes reflect movement in non-rounded, precise figures

Investment performance

Short-term investment performance this financial year has continued to be volatile, primarily as a result of inflation and the resulting impact of higher interest rates on economic growth. This has particularly affected our investment in smaller growth-oriented companies. It has been a challenging environment for our true-to-label ethical approach, which excludes much of the resources and energy sectors that has driven most of the market performance during this period.

Recently however, there have been some positive signs that asset prices are stabilising. Europe has so far received a much needed relatively warm winter, showing promising signs that its gas stocks will last the season and natural gas prices have fallen to levels below where they were when Russia invaded the Ukraine. This, along with signs that wage growth is easing in the US, are reducing inflationary pressures. Despite all of this, global uncertainty remains. The re-opening of China poses a double-edged sword for markets, with the potential to ease supply chain issues and support global growth, but also risking contributing to global demand and putting further pressure on prices.

During this volatile period, we are pleased to report positive investment performance for all of our funds and super options with the exclusion of the Fixed Interest fund. As outlined above, however, the exclusion of the resources and energy sectors from our portfolio has resulted in performance below benchmark for our funds and options for the 6 month period. For our managed fund customers, over the six months our Balanced Fund (Wholesale) returned 2.6% (under performing its benchmark by 2.2%), our Australian Shares Fund (Wholesale) returned 5.5% (under performing its benchmark by 4.1%) and our Emerging Companies Fund (Wholesale) returned 4.0% (under performing its benchmark by 1.5%)[3].

For our super customers, for the 6 months, our MySuper Option returned 2.4% (under performing its benchmark by 0.5%) our High Growth option returned 3.4% (under performing the benchmark by 1.1%), while our Australian Shares option returned 5.1% (under performing its benchmark by 3.4%)[4].

We are long-term investors and our ethical approach to investing has been tested and proven in multiple cycles. Our 10-year return for our Australian Shares Fund (Wholesale) is 11.5% (to end December 2022), and our Diversified Shares Fund (Wholesale) has returned 10.9% over the same period. We believe the long-term performance outlook for our funds continues to be promising and have added significantly to diversifying exposures over the last 6 months to improve their resilience in periods of volatility. With the growing urgency to address climate change and the increasing importance of energy security, our ethical investment philosophy, which focuses on supporting companies that are well-positioned to operate in a low-carbon future, remains pertinent. We remain dedicated to this approach as it aligns with our clients' expectations and values for a sustainable future.

Strategic update

At our full year results to 30 June 2021, we announced an aggressive growth strategy to expand our market share, funds under management and our impact. Our goal remains to build a much bigger, more impactful Australian Ethical.

In our strategy we identified four key pillars that we are investing in and pursuing in tandem to strengthen our business for impact and leadership.

We continue to make strong progress against our strategic deliverables, with a key milestone during the 6 months being the successful completion of the successor fund transfer (SFT) with Christian Super. The increased scale achieved through this transfer will further grow Australian Ethical’s impact, and has facilitated more competitive pricing.

Other progress against our strategy is outlined below:

---

[3] Benchmarks for the managed funds are as follows: Benchmark changed from Morningstar Multi-sector Balanced to SAA Weighted Benchmark from 1 Sep 2012. The historical benchmark returns are calculated by linking two indices.; Australian Shares Fund: S&P/ASX300 Accumulation Index; Emerging Companies Fund: S&P ASX Small Industrials Index.

[4] Super investment performance is stated gross of member fee. Super option benchmarks are as follows: Balanced option benchmark changed from Morningstar Multisector Growth - Superannuation to SuperRatings SR50 Balanced (60-76) Index from 1 Dec 2019. High growth option benchmark changed from Melded Benchmark (ASX 200 Inds & MSCI World ex Australia, Net of tax and admin fees) to Melded Benchmark (ASX 200 Monthly Index (Accum.) & MSCI World ex Australia ,Net of tax and admin fees) on 1 Dec 2019. On 1 October 2021, the Benchmark changed to SR25 High Growth (91-100) Index. Australian Shares option benchmark changed from S&P/ASX Small Industrials (Net of tax and admin fees) to ASX 300 Monthly Index (Accum.) (Net of tax and admin fees) on 1 Dec 2019.

Continued execution against our strategic pillars in the first half FY23

1. Principled investment leadership

- Lonsec 'Recommended' rating for all domestic active funds and SMA; High Conviction Fund (incl. ETF) rated for first time.
- 'Superior' 4 star rating for Balanced Fund by SQM Research
- Enhanced asset allocation through greater alternatives exposure post SFT & increased multi-asset capability
- Alternatives capability enhanced through 2 new senior investment analysts*
- New investment performance analytics capability*

2. Advocates for a better world

- Through Climate Action 100+, engaged as lead investor with Boral about pathway to net zero
- Engaged the Treasurer and Ministers calling for stronger biodiversity goals and targets at COP15
- Escalated engagements with two healthcare companies over concerns over animal research. One has made a commitment to improve.
- 2022 Visionary Grants program completed in Dec 22 with 230+ EOI's, 12 winners and $500k granted

3. Compelling client experience

- Upgraded the customer experience platform to create a central omni-channel view and analyse qualitative customer feedback at scale
- Competitive fee reductions on super and pension offering
- Boosted Contact Centre capability to deliver improved member experience*
- Auscontact NSW Finalist in the Change, Innovation and Improvements category for Contact Centre insourcing

4. Impactful business

- SFT with Christian Super completed growing FUM by $1.93bn
- Customer growth to 110,000+
- Expansion of employer platform channel
- Adviser channel expansion:
  - brand rank climbed 7 places
  - 53% increase in advisers with >$1m netflows^
- Investment in capability: hire of Chief Technology Officer, Director of Strategic Projects and Chief Executive Superannuation
- Capability uplift in Product, Risk, Operations, Distribution, Investment Administration, and Contact Centre*

+

Leadership & innovation

- Continued investment in capability across the business
- Employee engagement score: 79%
- Continuous improvement in learning & development with the roll out of further leadership training

* Roles filled with Christian Super employees
^ Period to November 22 vs PCP

COVID-19 update

Australian Ethical was able to absorb and adapt to the challenges of Covid-19. This is thanks to our business continuity and crisis planning, enabling technology, an agile workplace and of course strong leadership. Having faced disruption on that scale in real-time strengthened our readiness and resilience for the future.

Most of the world has reopened and adjusted to life with Covid-19 and the impacts of the pandemic on our business are now minimal. We have made significant progress on our strategic milestones and other business-as-usual deliverables, including growing customer numbers, maintaining positive net flows and our positive impact for people, planet and animals.

We will continue to monitor Covid-19 risks and respond to changes as they occur.

Material business risks

Australian Ethical's approach to risk management is based on the Risk Appetite Statement set by the board, which sets out the overall appetite and tolerance levels and defines limits for each material risk category.

The board holds the ultimate responsibility for setting strategic direction, the risk management framework (RMF) and determining the risk appetite/tolerance for the activities of the business. The board forms a view of the risk culture of the Group and any desirable changes required and monitors implementation of these changes.

The Board recognises that risk management is an integral part of good management practice and is integrated into the Australian Ethical philosophy, practices and business planning processes. A risk aware culture and operation within the Boards' risk appetite and tolerances is promoted throughout the organisation through regular communications from management and within the provision of training and ongoing support from the Risk and Compliance team.

The Audit Risk and Compliance Committee Oversees the RMF, reviews the RMF, reviews exceptions and breaches, reviews results of control testing, and reviews internal and external audit results.

The RMF is supported by the Three Lines of Defence model with the first line being Senior Leadership Team (SLT) who foster and enhance development of risk culture within the Group, monitor risks, report breaches and review risk register. The SLT have day to day responsibility and accountability for risk management in their area and ensure an appropriate risk culture.

Australian Ethical's second line, the Risk and Compliance team, facilitates the RMF, including review and update of the risk register and RMF, reports on exceptions and control effectiveness. The third line of defence is Internal Audit, (which is outsourced to PWC in accordance with ARC approved annual audit program) who provides assurance over the RMF and independent review of the design and operation of the control environment, as well as External Audit who provides assurance, through the annual audits and reviews as required by SPS 310 and the Corps Act, that internal controls are designed appropriately and operating effectively.

Material Business Risks faced by Australian Ethical are outlined below:

Risk category	Risk description/impact	Risk mitigants
Financial	Risk that Australian Ethical's ("AE's") profitability, capital reserves or liquidity are inadequate to support ongoing business activities. This includes inappropriate accounting, financial reporting and related disclosures (for both the funds and corporate entity), as well as incorrect calculation and payment of tax, and poor financial control and operational processes. Risk arising from low netflows or poor investment performance as a result of exposure to equity markets resulting in potentially volatile earnings (revenue linked to FUM), and poor customer outcomes.	• Annual budgeting, regular forecasting • Regular reconciliation and review processes (including NTA reviews) • Appropriate policies and procedures, quality control, management approval frameworks • Appropriate financial control processes • Internal and external audit, professional reviews • Scenario planning processes • Agile management of resource allocation, prudent cost control • Regular monitoring of key financial metrics • Monitoring of external market drivers and refinement of business activities in response
Environmental, Social and Governance (ESG)	Risk arising from inadequate or inappropriate Ethical and Environmental, Social and Governance (ESG) considerations in business and investment decision-making. Risk may arise due to unclear employee accountabilities, inadequate board reporting, inadequate identification and management of conflicts, non-compliance with ethical charter, inadequate experience levels of staff and board.	• AE's Ethical Charter forms part of AE's constitution and informs all aspects of company operations • All investments are screened through the positive and negative Ethical Charter screens • Embedded governance framework including board and committee charters and key policies and controls, board and committee reporting • Board oversight responsibilities are underpinned by the Ethical Charter, which is embedded in Board Charter. In addition, Ethics is a regular board agenda item • Ongoing compulsory employee training on key policies • BCorp certification status maintained
Investment & ethical screening	Risk arising from inappropriate investment strategies, non-adherence to investment governance, non-adherence to fund governing documents, non-adherence to ethical criteria and screening or inadequate management of market, credit and liquidity risks within the funds.	• Disciplined ethical screening and investment processes • Regular ethical reviews of investments • Embedment of Ethical Charter • Segregation of Ethical Research and Investment Teams • Established investment governance frameworks in place (including independent Investment Committee) • Embedded policies • Investment performance analytics • Stress testing • Reviews, reconciliations and monitoring of key metrics
Customer	Risk arising from inaccurate, misleading or inadequate PR, marketing, brand, sustainability reporting or advocacy activities leading to reputational damage, regulatory penalties and negative stakeholder sentiment. Risk arising from inadequate processes, systems, outsourced suppliers, quality standards, product offering resulting in poor customer experience, reputational damage and financial impacts.	• Regular monitoring of brand awareness • Media monitoring • Policies including ESG policy, Outsourcing policy • Mature ethical stewardship activities embedded • Embedded reviews and quality assurance controls • Vendor & supplier monitoring • Monitoring of key metrics • Employee training • Comprehensive insurance program • Product guidelines, frameworks and policies

Risk category	Risk description/impact	Risk mitigants
Strategic	Risk arising from poor strategic decisions, inadequate development and execution of strategic initiatives, a lack of responsiveness to regulatory change or external market and economic trends that could affect AE's offering or market position.	• Robust and embedded strategy and business planning processes • Dedicated Chief Strategy & Innovation Officer role • Dedicated PMO and program management framework for effective execution of strategic and regulatory initiatives • Senior Leadership variable remuneration linked to strategic metrics • Regular monitoring of progress against strategy through reporting to Senior Leadership Team and Board, incorporating agile reprioritisation of initiatives • Regular review and monitoring of external market trends and metrics
Operations	Risk arising from inadequate processes, systems, quality standards, data management or from external events. This includes (but is not limited to) processing errors, human error, fraud, unauthorised advice or an event which disrupts business continuity. Risk that AE enters into untenable contracts and servicing agreements with vendors and suppliers, or selects an unsuitable vendor or supplier. Risk that services provided by external service providers are not managed in line with contractual obligations and service level agreements.	• Embedded policies, methodologies, procedures, roles and responsibilities • Board subcommittees e.g. PDS committee • Robust documented risk management processes for new product delivery and product management (including regulatory compliance) • New vendor due diligence processes • Embedded outsourcing policy • Controls assurance framework • Effective issues management processes • Embedded reviews, reconciliations and quality assurance controls • Business continuity planning and disaster recovery programs (including by outsourced providers) • Independent assurance program • Comprehensive insurance program • Employee training • Segregation of duties • Robust recruitment screening processes • Monitoring of key metrics, contractual arrangements and service delivery
IT & Cybersecurity	Risk arising from inadequate, failed, breached or corrupted IT systems resulting from poor infrastructure, data management, applications, cloud services, business continuity plans, security controls, IT support or unauthorised access. Includes (but is not limited to) confidentiality or privacy breaches, loss of data integrity, loss of sensitive or critical data as well as business disruption or financial loss resulting from a cyber security event, disaster or failure of technology service provider to meet business needs.	• Embedded IT security policies and procedures • Mandatory IT policy compliance training • Operational technology security in place (including firewalls and antivirus) • IT system penetration testing; Password integrity testing • Cyber security is a key risk focus area which has regular board oversight • Business continuity planning and disaster recovery programs including testing (including service providers), incident response plans • Independent assurance •

Risk category	Risk description/impact	Risk mitigants
People	Risk arising from an inability to hire, engage, develop, empower and retain quality and appropriate capability (including Senior Leadership and Board) to meet performance objectives and execute AE's business strategy. Risk arising from inadequate work health and safety (WH&S) practices Risk arising from unethical conduct by directors or employees, or from behaviors that are not aligned with AE's values, culture and expectations	• Embedded People policies and procedures (including WH&S policies, procedures and training) • Succession planning, talent identification programs, retention strategies, embedded performance review processes, remuneration benchmarking and reporting to the People, Remuneration and Nominations Committee • Mandatory compliance training • Remuneration framework to ensure senior management alignment to medium and longer term strategic goals. • Investment team remuneration structure aligned to performance objectives and retention • Regular employee engagement and turnover monitoring; dedicated employee engagement business representatives • Employee assistance program • Inclusion of risk metrics and thresholds as well as values alignment assessment in performance management framework
Risk Management	Risk that AE breaches its corporate, fund and superannuation regulatory and legal obligations or industry standards (including licence conditions, governing documents) Risk that AE's insurance policies are not appropriate to cover business risk levels	• Annual review of insurance program • Dedicated risk and legal teams • Internal & external reviews of public documents • Mandatory compliance training for all staff • Policies, procedures and clearly defined roles and responsibilities • Embedded controls assurance framework • Compliance obligations are documented and monitored • Independent assurance

Climate change

GOVERNING CLIMATE-RELATED DECISION MAKING

2022 ended with some mixed results from the COP27 United Nations Climate Conference and COP15 United Nations Biodiversity Conference. A Global Biodiversity Framework was adopted with twenty three 2030 targets, including to conserve at least 30% of the world's land, coasts and oceans; to restore 30% of land and marine ecosystems; and to halve food waste. There was agreement to establish a fund to financially support nations most vulnerable to the climate crisis, though with limited details about sources of the funding. Countries signalled support for more renewables and phasing out of coal, though they were less clear about the need to phase out oil and gas. Our ethical investing and stewardship will leverage the growing global consensus on what is needed to limit warming and preserve and restore biodiversity. We will also use our influence to focus on progress in areas like transitioning away from fossil fuels where we see gaps in global consensus and action.

Our approach to ethical investment is governed by our Ethical Charter, and our Investment Team and Head of Ethics Research are responsible for its implementation across our investment activities.

The Charter's principles are applied using our ethical frameworks, policies and measurement systems. These require detailed assessment of the impacts of climate change on people, animals and the environment, which in turn affects the way we invest including through negative and positive screening, engagement and advocacy, and climate performance measurement and reporting.

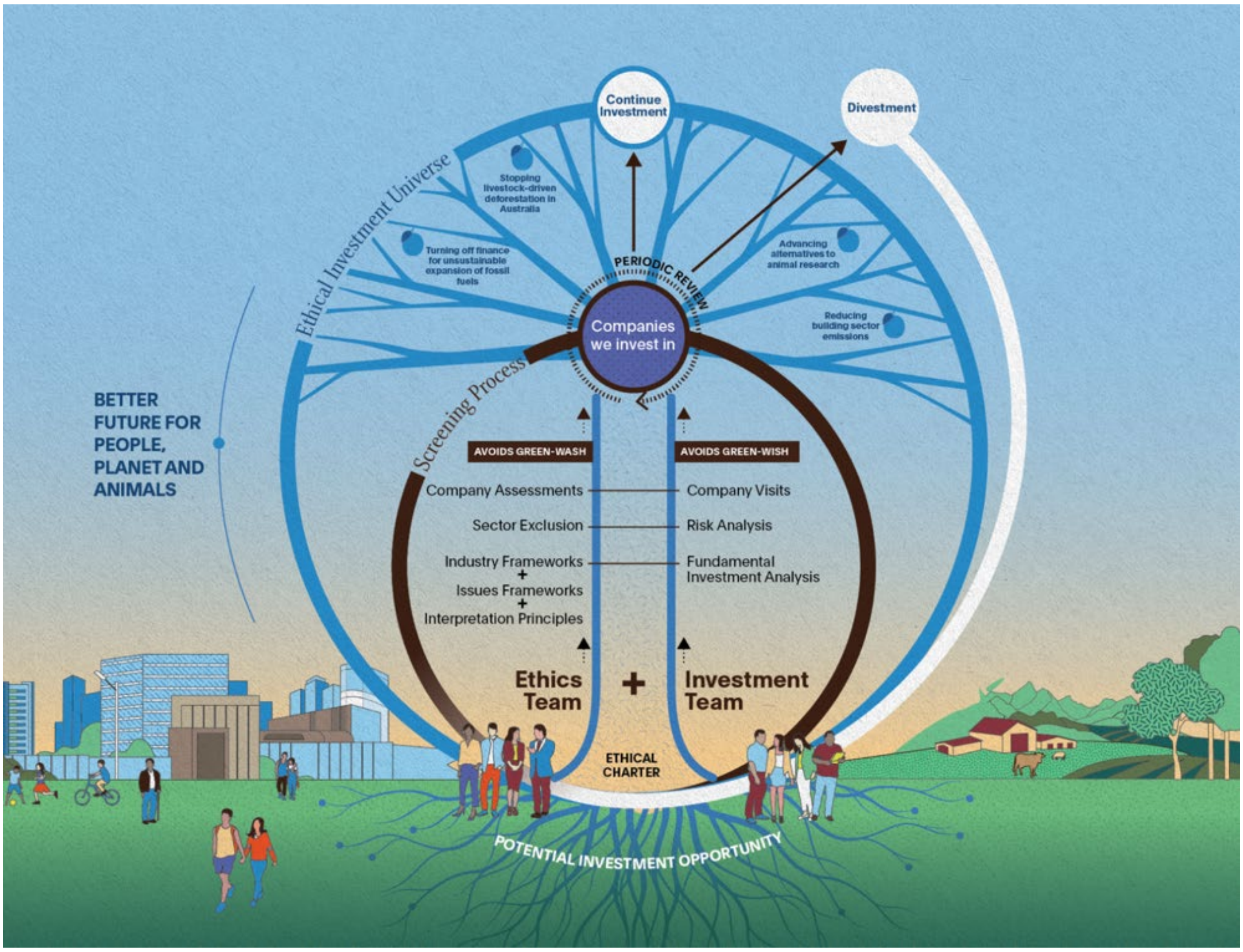
Our Investment Team and Head of Ethics Research are also responsible for approving new and updated ethical frameworks, which include our climate-related ethical screening criteria for emissions intensive sectors. The Board has oversight of our ethical frameworks, with quarterly reporting to the Board of changes to frameworks and critical ethical issues.

Our Ethics Research team applies our Ethical Charter on a day-to-day basis in our investment screening. The team monitors existing and emerging ethical risks (including climate-related risks) using diverse company, industry, government, responsible investment, scientific, civil society and news sources.

The main direct impact of climate change on Australian Ethical's business is its effect on our investment portfolios. The prospects and value of the businesses we invest in are exposed to risks and opportunities flowing from the many effects of climate change. Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5°C. These companies are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all investment portfolios.

Physical impacts like sea level rise and extreme weather are already changing where and how buildings and infrastructure can be safely built. Changes in temperature and rainfall are affecting the productivity and viability of different types of agriculture.

The below diagram outlines our investment approach:



Achieving the Paris goals of limiting the increase in the global average temperature to well below 2°C and then to 1.5°C is essential, but not easy. The 2022 Intergovernmental Panel on Climate Change (IPCC) report provided an update of the scientific assessment of how this can be achieved through urgent action to reduce emissions across the economy. It will require a complete transformation of the way the world produces and consumes energy, as well as radical measures to cut emissions from other key sources such as transport, land use and agriculture. It will also require ambitious climate policies from governments.

Our ethics research team monitors existing and emerging climate-related risks using diverse information sources. The team monitors developments in:

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

Our ethical screening and engagement approach focuses on the need to reduce emissions to limit dangerous climate change, but also recognises it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

Investment portfolio management

Our ethical research defines our sustainable investment universe, guiding us to companies better positioned to manage many risks arising from a transition to net zero emissions. Our ethical assessment of the climate impacts of companies and industry sectors and their products and services can also assist us to identify climate-related financial risks and opportunities and feed into our buy, sell and portfolio management decisions. For example, company prospects and valuations in the energy sector may be affected by our assessment of the future regulatory environment for the sector.

Influencing companies

We encourage better measurement and reporting of direct and indirect greenhouse gas emissions; ambitious emissions reduction targets; and analysis of the resilience of the company's business strategy to different climate scenarios. We aim to reduce companies' contribution to global warming as well as reducing climate-related harm to their business prospects. Through engagement we also build our own understanding of climate-related risk.

We exercise our influence through private engagement, voting at company meetings, public praise or criticism, shareholder resolutions and divestment.

The resilience of our real estate and infrastructure investment

Real estate and infrastructure are exposed to many physical impacts of different levels of global warming. Greater extremes of heat and cold raise operating costs and in some cases will threaten operational viability. Increased frequency and severity of wind, fire, storms and flooding across the globe mean many assets will suffer significant damage more often, increasing repair costs and the need for additional investment to protect them. Some buildings and infrastructure will no longer be capable of fulfilling their original function and will become liabilities rather than assets, with owners required to dismantle or decommission them. We rely heavily on the management of climate-related risks by our external property and infrastructure managers and describe some of their work and challenges in our annual climate reporting.

Targets

Our target of net zero emissions by 2040 for our equities and other private sector investments is aligned with the emissions reduction needed to achieve a 1.5°C warming limit. We keep our climate objectives and actions updated against the growing impacts of climate change as well as growing opportunities to limit that change. This includes work setting interim emissions reduction targets which are evidence based and linked to specific and ambitious concrete action to drive a faster net zero transition.

Measurement, transparency, accountability

We measure and report annually on our climate performance following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Our reporting includes the emissions intensity of our share investments (carbon foot printing) and the level of our share investment in renewable energy. This helps us test the effectiveness of our management of climate transition risk and our progress towards our net zero emissions target. We also report on our operational emissions and the 100% offsetting of those emissions.

For more than 35 years, Australian Ethical has been investing to protect our planet. During these three decades, the scientists with the IPCC have been issuing major reports about the state of the climate, gradually expressing more certainty about what is happening and why and the action needed to limit global warming.

The latest IPCC report on climate change mitigation, released in April 2022, identified over 40 categories of decarbonisation opportunity across energy supply, agriculture, forestry, buildings, transport and efficiency technologies. These include ammonia and hydrogen powered ships, zero emissions steel produced using hydrogen, concrete which absorbs carbon, and direct capture of CO2 from the air.

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

Outlook

Ethical investing can no longer be considered niche. ESG as a term has been around for 20 years, but with recent global events triggered by climate change, ethical investing has now moved into the mainstream. More than two-thirds of Australians have now heard of responsible investing, up from 50% in 2020[5].

We are seeing a shift towards investment for impact, from the principles of values-based capitalism being debated at the highest levels of government to the increase in consumer demand for values aligned and impactful investment.

We are confident we are well placed to take advantage of the huge opportunity that remains ahead of us as the demand for responsible investing continues to grow.

The second half will see careful management of the BAU cost base and continued prudent, disciplined investment in the business given the scale of the opportunity we see ahead of us. As such, expenses in the second half will include implementation costs relating to key milestones within our strategic roadmap, and continued integration of the Christian Super business. Estimated FY23 full year integration costs relating to Christian Super of ~$2.4 million will be reflected as a UPAT adjustment, with further integration costs expected in FY24 relating to integrating third party providers.

Our focus in the second half, in addition to the integration of the Christian Super business, will be on prioritising profitable growth, cost efficiency and risk mitigation through the following initiatives:

- continuing to build out our investment capability and infrastructure
- enhancing our technology and data infrastructure and capability, including continuing to evolve business intelligence, developing targeted marketing content and enhancing impact measurement and reporting.
- growing our new channels and product suite
- continuing to build our brand awareness
- further enhancing our customer experience
- ramping up our inorganic strategy, and
- continuing to manage and implement our regulatory pipeline of projects

[5] RIAA: From Values to Riches 2022

We continue to have high conviction around the medium term growth opportunity, however if current market conditions prevail, and growth expectations don't eventuate, we will adopt a rigorous approach to expense containment.

In terms of markets, the recent quarter has been significant and, although we tend not to focus too much on the short term, there are positive signs that volatility is receding. Fixed income markets imply inflation will be contained, valuations are more attractive, the volatility index is hovering around 2022 lows, and major commodity prices are more consistent with historical norms. Our investment strategy in 2023 remains firm, which is not to shy away from risk, but to position defensively and seek additional opportunities for diversification. With some signs of rebound in the healthcare, technology and software sectors, particularly within the small caps sector, together with the depth and expertise of our research and investment teams, mean we remain cautiously optimistic about the outlook for 2023.

We will continue to monitor the external environment and ensure prudent allocation of resources to the most impactful initiatives, to remain well-positioned to benefit from regulatory, policy, market, and investor tailwinds. Importantly, we retain a strong balance sheet with no debt. And, as ever, we are committed to our purpose of investing for a better world for people, animals and the planet.

FINANCIAL PERFORMANCE – MANAGEMENT ANALYSIS

	31 December 2022 $'000	31 December 2021 $'000	% Decrease
Net profit after tax (NPAT)	997	5,506	
Less: Net profit after tax attributable to The Foundation*	(36)	(82)	
Net profit after tax attributable to shareholders	**961**	**5,424**	**82%**
Adjustments:			
Change in fair value of investment	2,600	-	
SFT integration costs	1,999	-	
Tax on adjustments	(600)	-	
Underlying profit after tax (UPAT)	**4,960**	**5,424**	**9%**
Basic EPS on NPAT (cents per share)	0.89	4.96	
Basic EPS on NPAT attributable to shareholders (cents per share)	0.86	4.89	
Diluted EPS on NPAT attributable to shareholders (cents per share)	0.85	4.83	
Basic EPS on UPAT attributable to shareholders (cents per share)	4.45	4.89	
Diluted EPS on UPAT attributable to shareholders (cents per share)	4.41	4.83	

* Refer to Note 18 for additional details in relation to The Foundation's financial results. All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available to AEI's shareholders.

DIVIDENDS

Dividends paid during the interim period were as follows:

	31 December 2022 $'000	31 December 2021 $'000
Final dividend for year ended 30 June 2022 of 3.00 cents (2021: 4.00 cents) per ordinary share (paid 15 September 2022)	3,372	4,495
Special performance dividend for the year ended 30 June 2022 of nil cents (2021: 1.00 cents) per ordinary share (paid 15 September 2022)	-	1,124
	3,372	5,619

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 2.00 cents per fully paid ordinary share (2021: 3.00 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 16 March 2023 out of profits for the half-year ended 31 December 2022, but not recognised as a liability is $2,256,000 (2021: $3,372,000).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The successor fund transfer (SFT) of Christian Super into Australian Ethical Super announced on 6 April 2022 and 14 July 2022 was successfully completed on 25 November 2022. The SFT resulted in approximately 28,000 new members and $1.93 billion in FUM transferred to the Australian Ethical Superannuation Retail Fund, adding both scale and capability to our business.

There were no other significant changes in the state of affairs of the Group during the interim period.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL HALF-YEAR

Since the 31 December 2022, the Group has committed to a new 5-year lease of the Pitt Street office including an additional half floor, commencing 1 July 2023. The commercial terms of the lease, after taking into account the new lease incentive, are not materially different to the current lease arrangements. A new right-of-use asset and lease liability will be recognised on the Statement of Financial Position as a result of this lease commitment.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

ROUNDING OF AMOUNTS

The Company 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 unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report and forms part of the Director's Report for the half-year ended 31 December 2022.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

John McMurdo
Managing Director and Chief Executive Officer

21 February 2023
Sydney

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

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Ethical Investment Limited for the half-year ended 31 December 2022 there have been:

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

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

KPMG

KPMG

J.Davis

Jessica Davis

Partner

Sydney

21 February 2023

Financial Statements

Financial Statements

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Revenue			
Operating revenue	5	**36,562**	35,225
Total revenue		**36,562**	35,225
Expenses			
Employee benefits	6	**(13,918)**	(12,384)
Fund related expenses	7	**(5,772)**	(5,577)
Marketing	8	**(4,925)**	(3,851)
IT expenses	9	**(1,482)**	(1,524)
External services	10	**(1,155)**	(1,785)
Other operating expenses		**(997)**	(770)
Community grants		**(328)**	(741)
Depreciation		**(649)**	(596)
Occupancy		**(203)**	(147)
Finance charges		**(11)**	(20)
SFT integration costs	11	**(1,999)**	-
Total expenses		**(31,439)**	(27,395)
Change in fair value of investment	17	**(2,600)**	-
Profit before income tax expenses		**2,523**	**7,830**
Income tax expenses	12	**(1,526)**	(2,324)
Net profit for the half-year		**997**	**5,506**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain/(loss) on revaluation or investments		**(1)**	(2)
Other comprehensive income, net of tax		**(1)**	(2)
Total comprehensive income for the half-year [6]		**996**	**5,504**
		Cents	Cents
Basic earnings per share		**0.89**	4.96
Diluted earnings per share		**0.89**	4.90

[6] Comprehensive income includes the results of the Foundation (refer to Note 18)

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	31 Dec 2022 $'000	30 June 2022 $'000
Assets			
Current assets			
Cash and cash equivalents		**26,330**	27,387
Trade and other receivables		**2,942**	1,737
Prepayments		**1,365**	1,346
Right-of-use assets		**347**	626
Income tax refund due		**1,563**	249
Total current assets		**32,547**	31,345
Non-current assets			
Deferred tax		**2,601**	3,338
Property, plant and equipment		**1,138**	1,401
Right-of-use assets		**12**	46
Term deposit		**749**	504
Financial assets through profit or loss	17	**2,600**	5,200
Financial assets through other comprehensive income	17	**105**	106
Total non-current assets		**7,205**	10,595
Total assets		**39,752**	41,940
Liabilities			
Current liabilities			
Trade and other payables		**9,230**	8,568
Employee benefits		**5,043**	5,997
Provisions		**261**	-
Deferred consideration		**1,300**	1,300
Lease liabilities		**417**	787
Total current liabilities		**16,251**	16,652
Non-current liabilities			
Lease liabilities		**23**	47
Employee benefits		**467**	284
Provisions		**-**	258
Deferred tax		**23**	34
Total non-current liabilities		**513**	623
Total liabilities		**16,764**	17,275
Net assets		**22,988**	24,665
Equity			
Issued capital	13	**10,332**	8,969
Reserves		**2,041**	2,706
Retained profits		**10,615**	12,990
Total equity		**22,988**	24,665

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

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2022

	Issued capital $'000	Employee Share Plan reserve $'000	FVOCI reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2021	10,676	1,033	1	12,470	24,180
Profits after income tax expense for the half-year	-	-	-	5,506	5,506
Other comprehensive income for the half-year, net of tax	-	-	-	(2)	(2)
Total comprehensive income for the half-year	-	-	-	5,504	5,504
Transactions with owners in their capacity as owners:					
Shares vested under deferred shares plan during the year	985	(985)	-	-	-
Dividends provided or paid	-	-	-	(5,619)	(5,619)
Employee share plan (ESP) – deferred shares in ESP, Executive LTI and Deferred STI	-	1,399	-	-	1,399
Employee share plan – shares purchased on-market	(1,595)	-	-	-	(1,595)
Revaluation of investments	-	-	(2)	2	-
Balance at 31 December 2021	**10,066**	**1,447**	**(1)**	**12,357**	**23,869**

	Issued capital $'000	Employee Share Plan reserve $'000	FVOCI reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2022	8,969	2,702	4	12,990	24,665
Profits after income tax expense for the half-year	-	-	-	997	997
Other comprehensive income for the half-year, net of tax	-	-	-	(1)	(1)
Total comprehensive income for the half-year	-	-	-	996	996
Transactions with owners in their capacity as owners:					
Shares vested under deferred shares plan during the year	1,712	(1,712)	-	-	-
Dividends provided or paid	-	-	-	(3,372)	(3,372)
Employee share plan (ESP) – deferred shares in ESP, Executive LTI and Deferred STI	-	1,048	-	-	1,048
Employee share plan – shares purchased on-market	(349)	-	-	-	(349)
Revaluation of investments	-	-	(1)	1	-
Balance at 31 December 2022	**10,332**	**2,038**	**3**	**10,615**	**22,988**

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

CONDENSED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		35,067	36,744
Payments to suppliers and employees		(27,041)	(24,593)
Interest received		289	15
Community grants paid		(915)	(1,060)
Income tax paid		(2,940)	(3,396)
Net cash from operating activities		4,460	7,710
Cash flows from investing activities			
Payments relating to Christian Super SFT integration		(1,469)	-
Investment in term deposit		(245)	-
Payments for property, plant and equipment		(71)	(331)
Purchase of investment in Sentient Impact Group		-	(2,600)
Return on investment in Social Ventures Australia (SVA) unit trust		-	12
Net cash used in investing activities		(1,785)	(2,919)
Cash flows from financing activities			
Purchase of employees deferred shares		(349)	(1,595)
Interest on lease liabilities		(11)	(20)
Dividend paid	14	(3,372)	(5,619)
Net cash used in financing activities		(3,732)	(7,234)
Net increase/(decrease) in cash and cash equivalents		(1,057)	(2,443)
Cash and cash equivalents at the beginning of the financial half-year		27,387	27,813
Cash and cash equivalents at the end of financial half-year		26,330	25,370

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

Notes to the Financial Statements

Notes to the Condensed Financial Statements

For the half-year ended 31 December 2022

NOTE 1 – GENERAL INFORMATION

The consolidated interim financial statements are comprised of Australian Ethical Investment Limited (referred to as 'Australian Ethical', the 'Company' or 'Parent Entity'), and its wholly owned subsidiaries (together referred to as the 'Group'). Australian Ethical Investment Limited is a listed company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Group is a for-profit entity for the purposes of preparing financial statements.

The interim financial statements were authorised for issue, in accordance with a resolution of directors, on 21 February 2023.

The directors have the power to amend and reissue the interim financial statements.

NOTE 2 – BASIS OF PREPARATION

Statement of Compliance

The consolidated interim financial statements are general purpose condensed which have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes normally required in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Basis of Measurement

The consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Rounding of Amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2022 reporting period and have not been early adopted by the Group. Management have assessed that none of these are expected to have a material impact on the financial statements of the Group.

NOTE 4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the interim financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements. Our valuation and estimate methodologies have not changed since 30 June 2022. The judgements and estimates used in determining the fair value of the Group's investment in Sentient are described in Note 17.

NOTE 5. REVENUE

	31 December 2022 $'000	31 December 2021 $'000
Operating revenue		
Management fees	28,312	27,690
Administration fees (net of Operational Risk Financial Reserve contributions)	5,574	5,174
Member fees (net of rebates)	2,381	2,339
Interest income	290	19
Other income	5	3
	36,562	35,225

NOTE 6. EMPLOYEE BENEFITS

	31 December 2022 $'000	31 December 2021 $'000
Employee remuneration	13,229	11,621
Directors' fees	406	318
Strategic project contractors	61	286
Other committee member fees	69	-
Other employment related costs	153	159
	13,918	12,384

Strategic project contractors relate to specific projects focused on executing the Company's growth strategy.

NOTE 7. FUND RELATED

	31 December 2022 $'000	31 December 2021 $'000
Administration and custody fees	4,749	3,958
Licence, ratings and platform fees	587	652
Regulatory and industry body fees	215	219
Regulatory compliance initiatives	168	375
Strategic projects	-	346
Ethical research	53	27
	5,772	5,577

The increase in administration and custody fees is driven by increases in new managed funds and superannuation members.

Regulatory compliance initiatives include costs incurred to implement regulatory changes in the superannuation industry. Strategic projects in the prior year related to the redesign of our retirement offering for members and enhanced annual distributions and statements processes.

NOTE 8. MARKETING

	31 December 2022 $'000	31 December 2021 $'000
Distribution costs	1,915	1,580
Brand awareness	2,337	1,404
Other	673	867
	4,925	3,851

NOTE 9. IT EXPENSES

	31 December 2022 $'000	31 December 2021 $'000
Front office IT systems	910	795
Support systems, infrastructure and security	508	526
Strategic IT projects	64	203
	1,482	1,524

Strategic IT projects include investments in technology platforms including the continuous upgrades to the online member experience and data warehouse, and minor enhancements to the Application Programming Interface (API) for the mobile app. Costs relating to building the app are capitalised as an intangible asset.

In the prior year, strategic IT projects included upgrades to the company website and customer engagement strategic projects.

NOTE 10. EXTERNAL SERVICES

	31 December 2022 $'000	31 December 2021 $'000
Internal and external audit and tax services	425	481
Consultants	378	660
Legal services	209	446
Other	143	198
	1,155	1,785

Consultants includes advisory work in relation to product development, and on-going projects including the back-office reporting systems and review of outsourced service providers. In the prior year, these included a holistic review of the remuneration framework, GS007 review, implementation of new general ledger and financial reporting systems, and M&A due diligence costs.

NOTE 11. SFT INTEGRATION COSTS

	31 December 2022 $'000	31 December 2021 $'000
Project management and Project Team employment costs	886	-
Legal and consulting	459	-
Fund related transition costs	484	-
Marketing and member communications	103	-
Other (including insurance, IT, and audit)	67	-
	1,999	-

Successor Funds Transfer (SFT) integration costs includes the project management, business analysts and project team costs, legal services, and consultants engaged in relation to the SFT project with Christian Super. Also included are marketing and communications, IT, business insurance and audit fees arising from the integration project.

NOTE 12. INCOME TAX

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2022 was 60.5% (for the six months ended 31 December 2021: 29.7%). The effective tax rate with respect to profit attributable to shareholders is 61.4% (2021: 30.0%). The movement in the effective tax rate compared to the prior period reflects the impact of the change in fair value of the Sentient investment which is on capital account and not deductible. Excluding the impact of the change in fair value of the Sentient investment, the effective tax rate is 29.6% for the consolidated group, and 30.0% on profit attributable to shareholders. The difference between the effective tax rate for the Group and profit attributable to shareholders is due to the tax-exempt status of the Foundation.

	31 December 2022 $'000	31 December 2021 $'000
Current tax	867	2,124
Deferred tax – origination and reversal of temporary differences	659	200
Aggregate income tax expense	1,526	2,324

NOTE 13. EQUITY - ISSUED CAPITAL

Movements in share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2022	112,387,138		8,969
Vesting of deferred shares in the Employee Share Plan (525,972 shares)	1 September 2022	-	$2.15	1,131
Vesting of deferred STI shares (88,613 shares) – Investment Team	1 September 2022	-	$2.15	191
Vesting of deferred STI shares (24,626 shares) –FY20 Performance fee	1 September 2022	-	$9.80	241
Vesting of FY20 deferred STI shares (5,193 shares) – CEO	1 September 2022	-	$4.53	24
Vesting of FY21 deferred STI shares (7,459 shares) – CEO	1 September 2022	-	$9.80	73
Purchase of deferred shares in the Employee Share Plan – on-market	30 September to 6 October 2022	-	$5.26	(349)
Issue of deferred shares to the Employee Share Plan	13 December 2022	394,914	$5.29	-
Vesting of deferred shares in the Employee Share Plan (5,131 shares)	16 December 2022	-	$4.53	23
Vesting of deferred shares in the Employee Share Plan (2,959 shares)	16 December 2022	-	$9.80	29
		112,782,052		10,332

The following events occurred during the year:

- On 1 September 2022, 525,972 shares that were granted to employees under the employee share plan for 1 September 2019 vested on achieving the performance hurdle.
- A further, 24,626 deferred shares in relation to an FY20 performance fee sharing arrangement for specified investment team members vested.
- 5,193 shares and 7,459 shares which were a deferred component of short-term incentives granted to the CEO on 1 September 2020 and 2021 respectively, also vested.
- In September and October 2022, 66,320 shares were purchased for allocation to employees under the FY23 employee share plan. The remaining shares to be allocated to employees under the employee share plan were issued on 13 December 2022.

NOTE 14. EQUITY - DIVIDENDS

Dividends paid during the financial half-year were as follows:

	31 December 2022 $'000	31 December 2021 $'000
Final dividend for the year ended 30 June 2022 of 3.00 cents (2021: 4.00 cents) per ordinary share (paid 15 September 2022)	3,372	4,495
Special performance dividend for the year ended 30 June 2022 of nil cents (2021: 1.00 cents) per ordinary share (paid 15 September 2022)	-	1,124
	3,372	5,619

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 2.00 cents per fully paid ordinary share (2021: 3.00 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 16 March 2023 out of profits for the half-year ended 31 December 2022, but not recognised as a liability is $2,256,000 (2021: $3,372,000).

NOTE 15. EARNINGS PER SHARE

	31 December 2022 $'000	31 December 2021 $'000
Net Profit after income tax for the half-year	997	5,506

	Cents	Cents
Basic earnings per share	0.89	4.96
Diluted earnings per share	0.89	4.90

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	111,439,917	110,984,115
Adjustments for calculation of diluted earnings per share:		
Deferred shares	1,111,473	1,334,691
Weighted average number of ordinary shares used in calculating diluted earnings per share	112,551,390	112,318,806

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Australian Ethical Investment Limited and its Controlled Entities, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration, which relate to deferred shares issued as part of the Company’s long term employee benefits.

NOTE 16. SHARE-BASED PAYMENTS

During the interim period, $349,123 (2021: $1,595,475) was paid to purchase shares on-market, to be granted to the CEO under both the Deferred Shares – ESP and Deferred Shares – STI share grants. The Board has discretion to decide whether to issue new shares or purchase shares.

The following share-based payment arrangements existed at 31 December 2022.

Deferred shares – ESP

Under the Group's long-term incentive employee share plan (ESP), participants are granted shares annually based on a fixed percentage of their fixed remuneration. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration with the shares having voting rights and employees receive dividends over the vesting period. The deferred shares are subject to 3-year vesting periods after which time, the shares vest to the employee as ordinary shares. Vesting is subject to meeting specified performance criteria over the performance period, service hurdles and Board approval.

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $694,000 (2021: $749,000) relating to the deferred shares granted under the long-term employee share plan.

Deferred Shares – STI

For certain employees a portion of their short-term incentive is also paid in deferred shares which vest subject to meeting service conditions. Depending on the grant, deferred STI shares have a 3-year vesting period and no further performance hurdles. Other deferred shares granted to the CEO and for performance fee sharing vest 1/3 per year over 3 years. All share vesting is subject to Board approval.

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $505,000 (2021: $422,000) relating to the deferred portion of the short-term incentive plans.

Executive long-term incentives (ELTI)

The ELTI was introduced to retain key senior talent and provide reward for future outstanding performance to the periods ending 30 June 2025 and 2026. Under the plan, the CEO and select senior executives invited to participate are issued with Hurdled Performance Share Rights that represent the number of AEI shares that will vest subject to the achievement of certain performance hurdles. If all minimum company performance hurdles are met at vesting date, then the base level award will vest.

The hurdles are measured in the years ending and as at 30 June 2025 and 2026, with vesting after the release of the FY25 and FY26 annual results respectively. The FUM target for the tranche vesting at the end of FY25 includes a multiplier mechanism that provides a stretch target for AEI’s leadership team. The multiplier mechanism does not apply to the tranche vesting at the end of FY26. Refer to the 2022 Annual Report for further details of the tranche vesting at the end of FY25.

The FY26 tranche comprises 245,495 hurdled performance share rights issued, which were issued on 1 December 2022. The ELTI expense is based on the grant date of 1 December 2022. Each share right was fair valued at $4.54, being the share price on 1 December 2022 discounted for forecast dividend yield. These share rights will be equity settled at the end of the vesting period.

The performance hurdles require the following performance conditions to be achieved:

- Net flows, including no more than 50% from M&A activity, over the 4-year vesting period of $6.05bn
- Cost to income ratio of no more than 75%
- Median NPS (Net Promoter Score) for Financial Services companies in Australia
- Median employee engagement score for financial services companies in Australia; and
- Continued compliance with our Ethical Charter.

During the vesting period, employees are not entitled to receive dividends nor hold voting rights. Vesting is subject to meeting specified performance criteria over the performance period, service hurdles and Board approval.

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $259,000 (2021: $142,000) for the executive long-term incentives plans.

Employee unvested shares

As at 31 December 2022, the Employee Share Trust holds 1,149,345 shares (30 June 2022: 1,348,064 shares) on behalf of employees until vesting conditions are met.

NOTE 17. FAIR VALUE MEASUREMENT

Fair value hierarchy

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

The following tables detail the Group's assets and liabilities, measured at fair value, using a three level hierarchy, based on observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as below:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Relate to the Company’s nominal holdings of shares in listed entities held for advocacy purposes.
Level 2:	Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm’s length market transactions, referenced to the current fair value of a substantially similar other instrument or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.	Relate to the Foundation’s investment in the Social Ventures Australia (SVA) Diversified Impact Fund (DIF) unlisted unit trusts.
Level 3:	Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).	Relate to the Company’s investment in Sentient Impact Group.

Consolidated – 31 December 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	1	104	2,600	2,705
Total assets	1	104	2,600	2,705

Consolidated – 30 June 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	1	105	5,200	5,306
Total assets	1	105	5,200	5,306

Reconciliation	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Reconciliation of the fair values at the beginning and end of the interim period:				
Opening fair value at 30 June 2022	1	105	5,200	5,306
Revaluation decrements	-	(1)	(2,600)	(2,601)
Closing fair value at 31 December 2022	1	104	2,600	2,705

Assets and liabilities held for sale are measured at fair value on a recurring basis.

There were no transfers between levels during the interim period.

Sentient Impact Group

Australian Ethical continues to hold its 10% minority interest in Sentient Impact Group Pty Limited (Sentient), paying fair value at acquisition of $5.2 million. In addition, Australian Ethical has three future dated call options equating to an additional 30% of the equity. The stake is part of Australian Ethical's high growth strategy to extend capability in the impact investing arena.

In the period to 31 December 2022, Sentient has commenced a review and refinement of its strategy, business model and plans. Based on discussions and information received to date, the Directors have estimated that it is appropriate to write down its investment by $2.6 million. This represents a decrease of 50% to the 30 June 2022 fair value. The Directors will continue to assess the fair value in light of any significant changes in the business and its future growth.

The investment has been recognised as a Financial Asset at Fair Value through Profit & Loss.

NOTE 18. RESULTS OF THE FOUNDATION

All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available for distribution to AEI's shareholders or to settle liabilities of other Group entities.

As at and for the period ended 31 December 2022, the impact of The Foundation before intercompany eliminations is noted below:

	31 December 2022 $'000	31 December 2021 $'000
Statement of comprehensive income		
Revenue from parent entity	357	831
Interest income	13	1
Community grants expense	(328)	(741)
Audit fees	(6)	(8)
Other	-	(1)
Profit for the period	36	82
Other comprehensive income:		
Gain/(Loss) on revaluation of investments	(1)	(1)
Total comprehensive income	35	81

	31 December 2022 $'000	30 June 2022 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	1,314	652
Receivables from parent entity	357	1,509
Other receivables	6	1
Financial assets at fair value through profit or loss	104	105
Liabilities:		
Community grants payables	(1,228)	(1,815)
Trade payables	(82)	(17)
Net assets	471	435
Equity:		
Retained earnings	471	434
FVOCI reserve	-	1
Total equity	471	435

NOTE 19. EVENTS AFTER THE REPORTING PERIOD

Since the 31 December 2022, the Group has committed to a new 5-year lease of the Pitt Street office including an additional half floor, commencing 1 July 2023. The commercial terms of the lease, after taking into account the new lease incentive, are not materially different to the current lease arrangements. A new right-of-use asset and lease liability will be recognised on the Statement of Financial Position as a result of this lease commitment.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

Directors' Declaration

In the directors’ opinion:

a) The interim financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 ‘Interim Financial Reporting’, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

b) The attached financial statements and notes give a true and fair view of the Group’s financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

John McMurdo
Managing Director and Chief Executive Officer
Australian Ethical Investment Limited
21 February 2023

Independent Auditor's Report

Independent Auditor's Review Report

To the shareholders of Australian Ethical Investment Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Australian Ethical Investment Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Australian Ethical Investment Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2022 and of its performance for the six months ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed statement of financial position as at 31 December 2022;
- Condensed statement of profit or loss and other comprehensive income, Condensed statement of changes in equity and Consolidated statement of cash flows for the six months ended on that date;
- Notes 1 to 19 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Australian Ethical Investment Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

J Davis

Jessica Davis

Partner

Sydney

21 February 2023