Australian Ethical

2023 Annual Report

About the report

Welcome to the Australian Ethical Investment Limited (Australian Ethical) Annual Report for 2023.

We have included the performance for Australian Ethical and its wholly owned subsidiaries: Australian Ethical Superannuation Pty Ltd ('Australian Ethical Super') and Australian Ethical Foundation Limited ('The Foundation'), for the period 1 July 2022 to 30 June 2023 ('FY23') in this report.

Together, our annual report and sustainability reporting suite will meet the requirements of the Global Reporting Initiative's (GRI) Sustainability Reporting Standards and continue our long history of providing best practice reporting on how we make money matter.

KPMG has audited the financial statements within our Annual Report and will assure a number of key sustainability disclosures in our sustainability reporting.

We welcome your feedback on our reports. Please contact Karen Hughes, Chief Risk Officer & Company Secretary, Australian Ethical Investment Limited on 0406 753 535 or at khughes@australianethical.com.au.

Australian Ethical acknowledges the Traditional Owners of the country on which we work, the Gadigal people of the Eora Nation, and recognise and celebrate their continuing connection to land, waters and culture. We pay our respects to Elders past and present and thank them for protecting Country since time immemorial.

Our Corporate Governance Statement is available at australianethical.com.au/shareholder/corporate-governance/

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Message from the CEO

John McMurdo, Chief Executive Officer & Managing Director

This year marks the twentieth since scientists linked extreme weather to climate change, and we're seeing this play out with devastating heat waves and forest fires in the Northern Hemisphere, as well as severe floods which have left thousands of people homeless.

World leaders agree that emissions must be reduced, and that by 2030, annual investment for clean energy alone will need to be running at around three times the current pace. The International Energy Agency (IEA) also said this pace would need to be maintained through to 2050 to meet the net-zero commitment.[1]

This energy transition presents both risks and opportunities from an investment perspective, and we believe that we have a place to create a virtuous cycle of investment. Good investment returns are dependent on the continuing good health of the planet and society. By investing in companies and assets that we believe are part of the solution for a sustainable economy, and restricting investments in companies that aren't, we see opportunities for growth and lower risk in the medium to long term. And the more we invest with heart and conviction, the earlier we believe we'll set in motion a cycle that continuously reinforces and amplifies positive results, for investors and planet, creating long-term prosperity and sustainable outcomes.

So, while the macroeconomic conditions over the past year weren't kind to any investors, in particular responsible ones, I'm proud that not only have we stayed the course we've held for 37 years during volatile market conditions but, with the cycle beginning to turn in more recent months, we have continued to deliver positive investment returns for our customers.

Australian Ethical has grown significantly over the past year through continued new customer growth and positive net-flows, augmented by the successful integration of the Christian Super fund. To achieve 48% growth to reach $9.2 billion in funds under management, is a clear demonstration of the resilience of our business and the sound execution of our growth strategy.

But it hasn't just been about growth. We were honoured, as the first public company in Australia to achieve B Corp certification many years ago, to be recertified on 13 July 2023 as the highest scoring Certified B Corporation in Australia and Aetoroea New Zealand. We've also won multiple industry accolades and awards, and finished the year with a strong balance sheet. And we're delighted to have allocated a further $1 million to the Australian Ethical Foundation to continue to support our strategic grants, as well as innovative early-stage projects that are all directly working to combat climate change.

So, while the past year has presented an array of challenges it has also reaffirmed our purpose. Our commitment to doing good by people, animals, and the planet has never been stronger, and we have invested in our own business over recent years to ensure we can scale and grow as we help lead the charge toward a more sustainable future. We stand at the forefront of ethical investing, driving change through responsible allocation of capital. And, as we look ahead, we remain resolute in our pursuit of a more sustainable and ethical future, one where our investments not only yield financial returns but also contribute to a world that thrives for generations to come.

I extend my heartfelt gratitude to our shareholders, investors, super fund members, stakeholders, and the entire team for their unwavering support and dedication. Together, we shall continue to shape a tomorrow that aligns with our values and paves the way for a brighter future.

[1] iea.org/reports/energy-efficiency-the-decade-for-action

“And the more we invest with heart and conviction, the earlier we believe we’ll set in motion a cycle that continuously reinforces and amplifies positive results …

Message from the Chair

Steve Gibbs, Chair

This year marked a significant period of growth and expansion for Australian Ethical, including the successful super fund transfer of Christian Super into our superannuation business, assisting us to reach record levels of both funds under management and customer numbers. This, combined with our strategic investments in technology, research and talent have allowed us to scale our operations efficiently. We have successfully broadened our investment offerings, while maintaining our rigorous ethical standards in line with our Ethical Charter.

As an ethical investor, it was disappointing to see some investment managers walk back their ESG commitments following the short-term energy and resources rally in the aftermath of the Russian invasion of Ukraine. In the face of this same market volatility, we steadfastly kept focus on our core strategy of investing for a better world. It is true that our alignment with positive, future-building companies does not provide immunity from short-term volatility, but for more than 37 years our approach has demonstrated resilient performance over the longer term. Indeed, the investment performance of many of our funds and super options showed considerable improvement in the second half of last financial year.

It is pleasing to see some governments taking concrete action to transition away from fossil fuels. The US 'Inflation Reduction Act' provisions US$783 billion to energy security and climate change. Europe is undergoing an unprecedented shift in the scale and ambition of its climate policy following the announcement of the European Green Deal and the passage of the European Climate Law.

In Australia, our new Federal Government has also taken some positive steps with emissions' reduction legislation; tightening the emissions' safeguard mechanism on our 214 largest-polluting companies; the establishment of a new Net Zero Authority and changes to the Petroleum Resource Rent Tax. But I have to say that overall the actions of the new Federal Government around climate change has, in my view been disappointing.

I have written and spoken about greenwashing for many years. It is encouraging to see the increased focus of regulators and some sections of the media on the practice of some investment managers and super funds claiming to invest in, or more usually not invest in, companies and/or industries when the truth is actually the opposite.

We continue to take our obligations to be transparent about our ethical investment process very seriously and strive to ensure that our disclosures remain fit for purpose.

Our credentials as one of the leading ethical investment management companies were recently endorsed when Morningstar released their latest assessment of asset managers' ESG commitment levels. Morningstar evaluated 108 firms globally and only eight were crowned as 'Leaders' in the field. Not only was Australian Ethical named as one of the eight, and though others in the top eight have operations in Australia, we were the only Australian company rated as a global 'Leader' for ESG commitment.

Looking ahead, our purpose-driven model, the global emphasis on sustainability and the increasing awareness of responsible investing, provides us with a fertile ground to cultivate positive change. As we continue to expand our investment strategies, embrace innovation, and collaborate with partners who share our vision, we are confident in our ability to navigate the evolving landscape and generate meaningful, lasting value for all our stakeholders.

Whilst climate change is a major issue and one which does have the potential to drastically affect human and non-human life on the planet, as an ethical investment manager and superannuation provider we will continue to focus our investment activities across a range of issues impacting people, animals and the planet.

Thanks to our shareholders, our investors, our super fund members, our Board of directors, our CEO and his senior leadership team, all employees and our service providers. Everyone should be proud to be associated with Australian Ethical.

“Looking ahead, our purpose-driven model, the global emphasis on sustainability and the increasing awareness of responsible investing, provides us with a fertile ground to cultivate positive change.

Financial year 2023 highlights

$0.65bn
Positive net flows (excluding institutional)[1]

$0.47bn
Positive net flows (including institutional)[1]

$0.60bn
Positive super net flows[1]

+48% growth in FUM

to reach a record of **$9.2bn** funds under management

+15% growth

$11.8 million in underlying profit[2]

+54% growth

in customers to **>127,000**[3]

The Christian Super SFT delivered

+28,000 members
+$1.93bn in FUM

Accolades

Financial Newswire Fund Manager of the Year 2022 – Responsible Investments (ESG) for International Shares Fund

Finder – Green Superannuation Fund of the Year 2020-2023

Morningstar – 1 of only 8 asset managers globally to achieve 'ESG Commitment Level: Leader'[4]

RIAA – Responsible Investment Leader (2019-2022)

B Corp – Highest scoring Certified B Corporation in Australia & Aotearoa NZ as at 13 July 2023[5]

Top 10

NPS for super[6]

#4

for customer advocacy[6]

70%

employee engagement

1 Represents organic net flows. Excludes Christian Super uplift of $1.93bn
2 Attributable to shareholders
3 Includes funded super members and managed fund customers
4 The Morningstar ESG Commitment Level: Our assessment of 108 asset managers' white paper. © 2023 Morningstar, Inc. All rights reserved.
5 We achieved a record score of 168.5 in our reassessment making us the highest scoring of the 560+ Certified B Corps in Australia and Aotearoa New Zealand as at 13 July 2023.
6 Investment Trends Super Member Engagement Report 2023. Independent research with 25 major super funds

Our listed share portfolio

-78%

78% lower CO_2 intensity compared to benchmark[7,8]

2.4x

2.4x revenue from sustainable impact solutions than benchmark[7,9]

4.3x

4.3x revenue from sustainable water & agriculture and pollution prevention than benchmark[7,9]

4.1x

4.1x investment in renewables and energy solutions than benchmark[7,9]

In pursuit of positive change for planet, people & animals

250+

companies engaged for change[10]

4 engagements resulted in divestment[11]

Our Foundation

$9m+

allocated to not-for-profits in total[12]

$1.1m

provisioned to the Australian Ethical Foundation in FY23

7 Compared to a blended sharemarket benchmark of S&P ASX200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Based on shareholdings at 30 June 2023 and analysis tools provided by external sources which cover 92% of the listed companies we hold shares in by value.

8 Carbon/CO2e intensity of listed companies whose shares we invest in across our funds and options, measured as tonnes CO2e per $ revenue. This should not be considered representative of individual funds or options which will have their own mix of share and other investments.

9 Based on the revenue from sustainable impact solutions earned by listed companies whose shares we invest in across our funds and options, and the proportion of those listed share investments in renewables and energy solutions. This should not be considered representative of individual funds or options which will have their own mix of share and other investments. Sustainable impact data is provided by external sources and aims to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the U.N. Sustainable Development Goals (SDGs), EU Taxonomy of Sustainable Activities, and other sustainability related frameworks. More information available at https://www.msci.com/documents/1296102/16472518/ESG_ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b See pages 38 and 122 for more information.

10 We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with Westpac is counted as one engagement which included meetings, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with CBA in relation to its fossil fuel exposure and a separate meeting with CBA to discuss its exposure to deforestation in Australia. See page 25.

11 Not including companies excluded from initial investment

12 Before deducting bonus and grant expense

CIO report

Ludovic Theau, Chief Investment Officer

I am delighted to present the Chief Investment Officer's (CIO) report to you for the first time on behalf of Australian Ethical Investment. This report provides insights into our investment strategies, portfolio performance, and vision for the future. I feel privileged to have joined during this period of robust growth and looking forward to building upon the strong foundation laid by my predecessor, David Macri, and Australian Ethical's experienced and talented investment team.

Prior to my current role, I served as the Chief Investment Officer of the Clean Energy Finance Corporation (CEFC), the Australian Government-owned 'Green Bank', for 10 years. In this role, I focused on developing a diversified suite of investments across various asset classes, particularly in private markets, with a strong emphasis on transitioning toward a more sustainable economy. The strong alignment with Australian Ethical's purpose of investing for a better world meant joining Australian Ethical as CIO was a logical and simple decision for me.

2022-23 FY Investment Performance

Looking back at the financial year ending 30 June 2023, I am proud to report that Australian Ethical's suite of investment funds performed broadly in line with expectations, and performed particularly strongly in the latter half of the fiscal year that saw attractive annual returns across the large- and small-cap domestic equities, international shares, and fixed income categories. This achievement was attained despite market volatility and significant challenges driven by high inflation and rising interest rates.

The financial year can best be described as comprising two distinct investment environments over two halves, underscoring the importance of remaining composed under pressure and adhering to our long-term investment objectives through established principles and processes.

The first half was marked by increasing anxiety over inflation, higher interest rates, and geopolitical uncertainties, including the ramifications of the continuing war in Ukraine on European economies. This generated a perfect storm for responsible investment firms due to three key factors:

- Resources and materials, where our investments are underweight, saw stand-out performance.
- Bond prices dropped significantly as central banks aggressively tightened policy.
- Valuation of growth stocks, particularly small-cap stocks in the technology and healthcare sectors faced pressure.

As the year progressed however, the market responded positively to improvements in inflation data, leading to the US Federal Reserve and Reserve Bank of Australia (RBA) pausing their hiking cycles to assess the impacts of their monetary policy decisions to date. Market expectations of near-peak rates coincided with a renewed demand for risk assets, particularly in the US large-cap technology and artificial intelligence sectors. A broadening of market performance in the final quarter of the fiscal year included smaller capitalised equities – where we tend to be overweight – began to take hold resulting in very favourable returns for our investors.

Fixed income markets also began to moderate during this period. For example, the 10-Year US Bond Yield peaked in late October 2022 at 4.25% and ended the fiscal year at 3.88%. Similarly, Australian 10-year bonds reached peak yields in October 2022 and remained relatively stable for the rest of the year.

Resources and Material sectors enjoyed a reprieve over the second half of the financial year as many commodity markets experienced mean reversion. For example, Crude Oil had fallen from US$81 to $71 or -12% over the 12 months to June 30, 2023. This represented a significant retracement from prices over US$110 during May 2022, following the impacts from the war in Ukraine.

Other commodities, including Wheat (-23.5%) and Natural Gas (-51%), saw significant corrections over the year as supply chain worst-case concerns did not materialise and markets saw demand destruction.

We see the stronger performance in the latter part of the year as an endorsement of our responsible investment strategy and ethical approach, with this rebound in performance a testament to the resilience of our funds through investment cycles.

The Australian economy continues to slow, although the probability of a recession remains lower than in the Northern Hemisphere. The high levels of immigration continue to support economic activity, and we will continue to closely monitor the impact of interest rates on consumer spending and overall economic performance, particularly as many on fixed mortgages come off historically low rates.

Portfolio Resilience

We have continued to bolster the resilience of our investment portfolios over the last financial year to maximise returns across market cycles and absorb short-term shocks. We also embedded a new asset allocation model for our multi-asset funds, and have continued to follow a systemised and evidence-led approach to understanding the opportunities and risks across different asset classes with a focus on reducing the magnitude of negative outcomes. By identifying diversifying exposures and managing meaningful risks, we have already reduced our portfolio risk and improved our ability to take advantage of our long-term investment horizon and liquidity.

Allocations that have been introduced or increased to diversify risk include:

- Insurance Linked Securities (ILS) – as an uncorrelated asset class that provides defensive income.
- Short-dated credit – to enhance risk adjusted returns from our shorter dated fixed income holdings.
- Global sovereign bonds – as higher interest rates have increased the defensive features of bonds.

Although our base case remains a slowdown rather than a recession for Australia, we believe that these added levers will stand us in good stead if we do slip into a recessionary environment.

Impact Investments

The Christian Super Successor Fund Transfer has enriched our investment team with experienced personnel and granted increased access to diverse asset classes, including both growth and defensive alternatives, and an increased portfolio of impact-focused investments including:

- Triodos Microfinance Fund – a strategy investing in companies or projects dedicated to creating concrete and measurable positive social or environmental impact through their products or service in the developing world.
- Circularity Capital LLP – a strategy that seeks to capitalise on an opportunity for value enhancement in European small and medium enterprises (SME's) that are adopting or enabling the shift to a circular economy focused on efficiency, and climate impact through renewable energy and materials.
- Leapfrog Emerging Consumer III – a growth strategy that invests in companies of SE Asia and Africa providing relevant, affordable and high-quality financial and healthcare products and services to emerging consumers.

Opportunities

Looking forward, we continue to see demand both locally and internationally for impact and sustainable investment solutions. For example, RIAA's Responsible Investment Benchmark Report Australia 2022 showed that the amount of Australian assets managed using a leading rigorous approach to responsible investment had risen to a record high of $1.54 Trillion. An increasing number of investors are interested in generating measurable positive social and environmental impacts alongside financial returns.

Government regulations are also driving meaningful change within corporate actions and investments. Governments worldwide have been implementing policies and regulations to encourage sustainable practices. These measures often include incentives for green initiatives, carbon pricing, and reporting requirements on environmental and social impacts, creating a favourable environment for sustainable investments. For example, in June 2023, the Australian Government released the Australian Carbon Credit Unit (ACCU) implementation plan to ensure the scheme continues to help Australia reach net-zero by 2050. Other jurisdictions have developed regulated carbon markets to address emissions. These developments represent both continued global actions to address climate risk and potential investment opportunities, which we are actively evaluating.

We believe that Australian Ethical is uniquely positioned to provide our investors with attractive and innovative investment solutions within the growing areas of impact investing, carbon transition, renewable energy infrastructure, and sustainable investments.

As a leader in ethical investing since 1986, we have long been focused on supporting outcomes that are beneficial to society. Furthermore, the overall track record of our funds against their objectives underscores our belief that investing ethically can provide attractive risk-adjusted returns.

As we navigate these dynamic market conditions, I assure you that our investment decisions will remain firmly grounded in our ethical principles and focused on achieving sustainable growth.

Thank you for your unwavering support and trust in Australian Ethical. Together, we can continue to help drive the positive change the world needs through responsible investing.

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Investment performance

Managed Funds returns to 30 June 2023[#]

Our Australian Shares Fund was above benchmark[6] for all periods of five years or greater and our Emerging Companies fund was above benchmark[7] for all periods of two years or greater.

	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Fund performance								
Income	**3.1**	**1.4**	**1.1**	**1.2**	**1.3**	**1.6**	**2.6**	**3.2**
Benchmark[1]	2.9	1.5	1.0	1.1	1.3	1.7	2.6	3.5
Income (Wholesale)	**3.1**	**1.4**	**1.1**	**1.3**	**1.5**	**n/a**	**n/a**	**n/a**
Benchmark[1]	2.9	1.5	1.0	1.1	1.3	n/a	n/a	n/a
Fixed Interest	**0.8**	**(5.3)**	**(4.1)**	**(0.3)**	**(0.2)**	**1.4**	**n/a**	**n/a**
Benchmark[2]	1.2	(4.8)	(3.5)	0.5	0.8	2.4	n/a	n/a
Fixed Interest (Wholesale)	**1.0**	**(5.1)**	**(3.8)**	**0.1**	**0.4**	**n/a**	**n/a**	**n/a**
Benchmark[2]	1.2	(4.8)	(3.5)	0.5	0.8	n/a	n/a	n/a
Balanced	**9.6**	**0.6**	**6.2**	**6.0**	**6.1**	**7.0**	**5.7**	**6.1**
Benchmark[3]	11.1	2.7	7.1	6.3	7.2	7.7	6.9	7.1
Balanced (Wholesale)	**10.4**	**1.3**	**7.0**	**6.9**	**n/a**	**n/a**	**n/a**	**n/a**
Benchmark[3]	11.1	2.7	7.1	6.3	n/a	n/a	n/a	n/a
High Growth	**14.7**	**1.9**	**10.6**	**7.8**	**8.1**	**9.6**	**n/a**	**n/a**
Benchmark[3]	15.5	4.6	11.8	8.4	9.3	9.9	n/a	n/a
High Growth (Wholesale)	**15.3**	**2.4**	**11.3**	**8.7**	**9.1**	**10.8**	**n/a**	**n/a**
Benchmark[3]	15.5	4.6	11.8	8.4	9.3	9.9	n/a	n/a
Diversified Shares	**15.9**	**1.3**	**10.2**	**7.6**	**7.9**	**9.4**	**7.1**	**7.9**
Benchmark[4]	16.8	4.6	11.8	8.4	9.3	9.8	8.9	8.7
Diversified Shares (Wholesale)	**16.4**	**1.7**	**10.8**	**8.4**	**8.9**	**10.5**	**n/a**	**n/a**
Benchmark[4]	16.8	4.6	11.8	8.4	9.3	9.8	n/a	n/a
International Shares	**19.3**	**4.6**	**11.6**	**9.7**	**10.2**	**10.9**	**6.1**	**n/a**
Benchmark[5]	22.6	7.1	13.5	11.5	12.5	12.4	10.0	n/a
International Shares (Wholesale)	**19.8**	**5.0**	**12.2**	**10.5**	**11.1**	**n/a**	**n/a**	**n/a**
Benchmark[5]	22.6	7.1	13.5	11.5	12.5	n/a	n/a	n/a
Australian Shares	**12.8**	**(3.7)**	**9.6**	**7.8**	**8.4**	**10.4**	**8.9**	**9.9**
Benchmark[6]	14.4	3.3	11.1	6.1	8.0	8.9	6.8	7.6
Australian Shares (Wholesale)	**13.4**	**(3.1)**	**10.3**	**8.7**	**9.4**	**11.7**	**n/a**	**n/a**
Benchmark[6]	14.4	3.3	11.1	6.1	8.0	8.9	n/a	n/a
Emerging Companies	**8.6**	**(8.6)**	**7.9**	**10.4**	**11.0**	**n/a**	**n/a**	**n/a**
Benchmark[7]	9.5	(8.8)	3.4	1.7	4.8	n/a	n/a	n/a
Emerging Companies (Wholesale)	**9.2**	**(8.2)**	**8.4**	**11.0**	**11.7**	**n/a**	**n/a**	**n/a**
Benchmark[7]	9.5	(8.8)	3.4	1.7	4.8	n/a	n/a	n/a
High Conviction (Wholesale)	**9.8**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Benchmark[6]	14.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Past performance is not a reliable indicator of future performance.
References to 'wholesale' funds indicate the class of pricing above a minimum investment threshold, which varies by fund

After fees performance
1 Bloomberg AusBond Bank Bills Index
2 Bloomberg AusBond Composite
3 Indices of underlying asset classes weighted by the Fund's Strategic Asset Allocation
4 75% S&P/ASX 200 Accumulation / 25% MSCI World ex Australia (NET)
5 MSCI World ex Australia (NET)
6 S&P/ASX 300 Accumulation
7 S&P/ASX Small Industrials Accumulation

Note: Where benchmarks have changed, we have melded them together.

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Super and pension returns to 30 June 2023[#]

Our MySuper option (Balanced accumulation) outperformed its benchmark[9] over 1, 5, 7 and 10 years, while our Australian Shares accumulation option met or exceeded benchmark[6] for all periods of three years or greater.

	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Accumulation options performance								
Defensive	**2.4**	**0.8**	**0.5**	**0.6**	**0.8**	**1.0**	**1.8**	**2.5**
Benchmark[1~]	2.3	1.1	0.6	0.7	0.8	1.2	2.2	3.2
Conservative	**4.0**	**(1.8)**	**0.2**	**2.1**	**2.4**	**2.9**	**n/a**	**n/a**
Benchmark[8]	5.0	1.2	3.3	3.0	3.1	3.6	n/a	n/a
Balanced (accumulation)	**9.2**	**1.1**	**6.3**	**6.3**	**6.9**	**7.0**	**5.6**	**5.9**
Benchmark[9]	9.0	2.6	7.5	5.6	6.3	6.1	5.3	5.7
Growth	**11.0**	**2.2**	**8.0**	**7.0**	**7.7**	**7.8**	**5.8**	**6.8**
Benchmark[10]	10.6	2.8	8.9	6.3	7.6	7.3	6.0	6.5
Australian Shares	**12.5**	**(2.4)**	**9.8**	**8.3**	**9.3**	**10.4**	**9.0**	**9.8**
Benchmark[6~]	12.6	2.8	9.8	5.5	7.2	6.5	1.5	n/a
International Shares	**17.2**	**4.0**	**10.7**	**9.1**	**10.1**	**9.5**	**5.4**	**n/a**
Benchmark[5~]	19.7	6.1	11.8	9.9	10.7	11.0	9.1	n/a
High Growth	**13.5**	**2.2**	**10.3**	**7.9**	**8.5**	**9.2**	**n/a**	**n/a**
Benchmark[11]	13.2	3.1	9.8	7.0	7.9	8.8	n/a	n/a

	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Pension options performance								
Defensive	**2.7**	**0.9**	**0.6**	**0.7**	**0.9**	**1.1**	**2.2**	**2.9**
Benchmark[1<]	2.6	1.2	0.7	0.8	1.0	1.3	2.3	3.3
Conservative	**4.3**	**(2.1)**	**0.2**	**2.2**	**2.6**	**3.1**	**n/a**	**n/a**
Benchmark[12]	5.1	0.8	3.3	3.1	3.3	3.9	n/a	n/a
Balanced	**8.5**	**0.2**	**4.9**	**5.4**	**6.0**	**6.5**	**5.5**	**6.0**
Benchmark[13]	7.8	1.8	5.6	4.5	5.0	5.5	5.0	5.6
Growth	**12.7**	**1.9**	**8.6**	**7.5**	**8.4**	**8.4**	**6.6**	**7.5**
Benchmark[14]	12.2	3.1	9.6	6.9	8.2	7.9	6.5	7.0
Australian Shares	**13.8**	**(2.7)**	**10.5**	**9.0**	**10.1**	**10.9**	**9.8**	**10.7**
Benchmark[6<]	14.1	3.0	10.8	6.0	7.8	7.2	2.1	n/a
International Shares	**19.1**	**4.1**	**11.3**	**9.6**	**10.8**	**9.6**	**4.9**	**n/a**
Benchmark[5<]	22.3	6.8	13.2	11.1	12.1	12.0	9.8	n/a

** Super and Pension returns are calculated in compliance with APRA SRS702. It is the return that would have been achieved for a representative member with a $50,000 balance and no contributions, after all administration and investment fees, taxes and other costs.

8 SuperRatings SR50 Capital Stable (20-40) Index

9 SuperRatings SR50 Balanced (60-76) Index

10 SuperRatings SR50 Growth (77-90) Index

11 SuperRatings SR25 High Growth (91-100) Index

12 SuperRatings SRP50 Capital Stable (20-40) Index

13 SuperRatings SRP25 Conservative Balanced (41-59) Index

14 SuperRatings SRP50 Growth (77-90) Index

~ Net of tax and % administration fees

< Net of % administration fees

Key Management Personnel

John McMurdo

Chief Executive Officer and Managing Director

MBA, GAICD

John brings more than 30 years' experience in investment management, private client advisory and wealth management across Australia and New Zealand, including 20 years in CEO roles at several leading investment and wealth management businesses. He has significant Board and Directorship experience within and outside financial services.

John has an MBA from Henley Business School (U.K.), is a graduate of the Australian Institute of Company Directors and a member of the Fund Management Board Committee of the Financial Services Council.

Karen Hughes

Chief Risk Officer and Company Secretary

BSc (Hons), ACA (ICAEW), GAICD, FGIA

Karen is Company Secretary and is also responsible for the Risk Management Framework at Australian Ethical. Karen has over 25 years' experience in risk and compliance in Australia and the UK.

Ludovic Theau

Chief Investment Officer

MEng, GAICD

Ludovic joined Australian Ethical in April 2023 as Chief Investment Officer. He has over 30 years of experience in ESG investing, funds management, commercial and investment banking and financial advisory.

Prior to joining, Ludovic was the Chief Investment Officer for the Clean Energy Finance Corporation, Australia's Green Bank. He also had previous roles at Hastings Funds Management, Westpac, ABN AMRO, Macquarie Bank, UBS and BNP Paribas.

Ludovic holds a Master of Engineering from Ecole Centrale de Paris, France, and is a graduate of the Australian Institute of Company Directors.

Maria Loyez

Chief Customer Officer

MEng

Maria is responsible for sales, marketing and customer experience to help drive business growth, which in turn increases positive impact on society. Maria has more than 20 years' strategic marketing, CX and leadership experience having previously held senior roles at neo-bank Volt, SocietyOne, OFX, AMP, Optus and Virgin.

Mark Simons

Chief Financial Officer

B Bus, CA, GAICD

Mark is responsible for business performance, financial control and fund accounting. In addition, he currently manages the Product and Operations functions. Mark has more than 30 years' experience in financial services, having previously held senior roles within Australian Ethical, Challenger, Perpetual, Tyndall and KPMG.

Marion Enander

Chief Strategy & Innovation Officer

BCom, MBA

Marion is driving and championing Australian Ethical's strategic direction and innovation agenda. She has extensive experience in strategic leadership and consulting roles at companies such as Credit Suisse, Perpetual and Booz Allen Hamilton. She has a MBA from London Business School (UK).

Ross Piper

Chief Executive, Superannuation

GradDipEd, MBA

Ross has end-to-end responsibility for Australian Ethical's superannuation offering, with a focus on growth and profitability; and building the operational backbone for the broader business. Ross has more than 25 years' executive leadership experience, including in investment management, having previously held senior roles within Macquarie Bank, World Vision, Christian Super and AgroInvest.

He currently sits on various other boards for organisations focused on social enterprise and technology and is the Chair of the Responsible Investment Association of Australasia (RIAA).

Extended leadership team

Alison George

Head of Impact and Ethics

CA (Fellow), M (Env), BA (Juris)

Alison joined Australian Ethical in May 2023 to ensure our investments continue to meet our Ethical Charter and grow our positive outcomes for animals, people, and planet.

Alison has more than 20 years' experience in responsible investment and stewardship, working with numerous industry leaders in her prior roles with Pendal and Regnan. A Chartered Accountant, Alison also completed a Master of Environment and was previously a corporate sustainability advisor with EY.

Conrad Tsang

Chief Technology Officer

BEng (Hons)

Conrad is responsible for developing Australian Ethical's technology and data capabilities, and aligning them to deliver positive impact and client outcomes. He has extensive experience in Investment Management, OTC Markets, Securities Services and Retail Banking having previously held roles in HSBC, Credit Suisse and UBS.

Eveline Moos

Chief People & Culture Officer

BCom

Eveline is responsible for people and culture strategy and execution at Australian Ethical, aligning our people to AE's purpose, business strategy and client outcomes. Eveline has extensive experience encompassing strategic and operational leadership with previous roles at First Sentier Investors, AMP Capital and Perpetual.

Australian Ethical Investment Limited and
its Controlled Entities

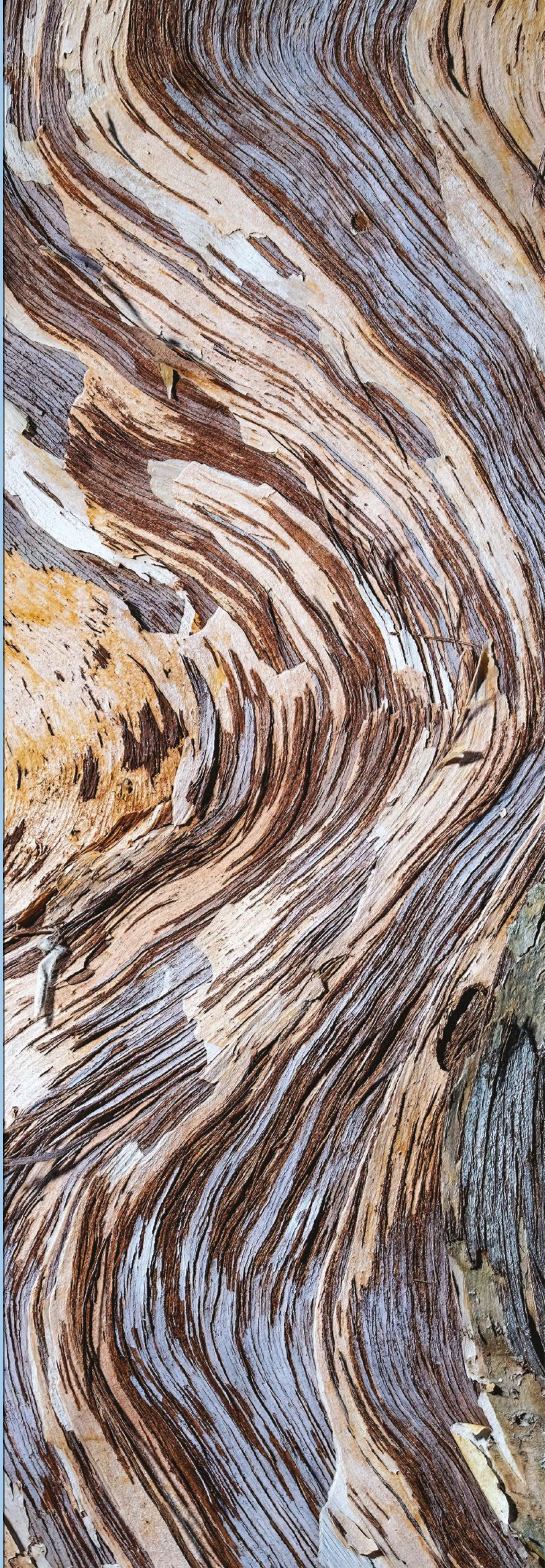
Financial Report

30 JUNE 2023

ABN 47 003 188 930

Directors' Report

The directors present their report, together with the 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 at the end of, or during, the year ended 30 June 2023.



Directors

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 stated:

Steve Gibbs

Non-Executive Director since 2012 and Chair since 2013

BEcon, MBA

Steve chairs the People, Remuneration and Nominations Committee, is a member of the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. He is Chair of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Steve is also the Non-Executive Chair of Netlinkz Limited. Steve has extensive experience at both an executive and non-executive level in the investment and superannuation industries, including being a former CEO of the Australian Institute of Superannuation Trustees, a former CEO of what is now Commonwealth Superannuation Corporation and a non-executive director of Hastings Funds Management and Westpac Funds Management. Steve has been recognised for his commitment to, and expertise in, ethical and responsible investing.

Mara Bûn

Non-Executive Director since 2013

BA (Political Economy), GAICD

Mara is a Member of the People, Remuneration and Nominations Committee, the Investment Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. She is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar. She is a Founder of The Salmon Project, specialist advisors to Climatetech and Agritech scale-ups advancing Series B venture funding through deep tech R&D. She is the Non-Executive Chair of two organisations: Bowerbird Collective, a chamber music ensemble dedicated to nature conservation through performance and asset consultants Australian Impact Investments. She is a Non-Executive Director of the Boards of GreenCollar and The Conversation Brazil.

Kate Greenhill

Non-Executive Director since 2013

BEc, FCA, GAICD

Kate is Chair of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees and is a Member of the People, Remuneration and Nominations Committee and the Product Disclosure Committee. Kate is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited, and a Member of the Australian Ethical Superannuation Pty Limited Insurance Benefits Committee.

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 25 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients. Kate is also the Treasurer of a not-for-profit organisation in the education sector and a Director and Chair of the Audit and Risk Management Group of Intersect Australia Ltd.

Sandra McCullagh

Non-Executive Director since 2023

BA, BSc, GAICD, MBA

Sandra is Chair of the Investment Committee and a Member of the People, Remuneration and Nominations Committee. Sandra is a director of Workcover Queensland and is on the New Zealand Stock Exchange Corporate Governance Institute.

She has a strong background in ESG and experience on both the buy-side and sell-side. She was the former top-rated head of ESG and utilities equities research at Credit Suisse Australia. Sandra was a former trustee and Chair of the Investment Committee of QSuper, leading up to its merger with SunSuper.

Sandra is a former director of the Board of the Investor Group on Climate Change, whose scope includes Australia, New Zealand and Asia. Sandra is a Graduate of the Australian Institute of Company Directors and a member of Chief Executive Women.

Julie Orr

Non-Executive Director since 2018

BEc, MCom, MCom(Hons), CA, GAICD, FGIA

Julie is a Member of the People, Remuneration and Nominations Committee, the Audit, Risk & Compliance Committee and the Investment Committee. She is also a director of Australian Ethical Foundation Limited and AvSuper and a member of the NSW Biodiversity Conservation Trust and SAAFE Audit and Risk Committees.

She has over 20 years of experience in executive and board roles including experience with superannuation, investments, financial planning, stockbroking, research, insurance, audit, finance, acquisitions and business integration.

Julie's most recent executive experience was as Group General Manager Corporate Development and General Manager Operations for IOOF. She was previously Director of Finance India and Asia Pacific for Standard and Poor's, Head of Research for Morningstar, Chief Operating Officer at Intech, and Senior Audit Manager with EY. Julie's prior board experience includes Perennial Value Management, Ord Minnett, Tax Payers Association (NSW Division), Masters Swimming NSW and Tax Payers Research Foundation.

John McMurdo

Chief Executive Officer and Managing Director, appointed February 2020

MBA, GAICD

John joined the Australian Ethical Board in February 2020 as Chief Executive Officer and Managing Director. He brings more than 30 years' experience in investment management, private client advisory and wealth management across Australia and New Zealand, including 20 years in CEO roles at several leading investment and wealth management businesses. He also brings significant previous Board and Directorship experience within and outside financial services.

John has an MBA from Henley Business School (U.K.), is a graduate of the Australian Institute of Company Directors and a member of the Fund Management Board Committee of the Financial Services Council.

Company secretary

Karen Hughes

BSc (Hons), ACA (ICAEW), GAICD

Karen is the Company Secretary and is also responsible for the Risk Management Framework at Australian Ethical. Karen has over 25 years' experience in risk and compliance in Australia and the UK.

Principal Activities

The Group's principal activities during the financial year were to act as the responsible entity for a range of public offer ethically managed investment schemes and to 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 Company's activities during the year.

Year in review

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.[1]

Significantly higher food and energy prices, along with the ratcheting up of mortgage and rent payments, placed great stress on households and communities in Australia and internationally. To add insult to injury, many of these citizens were also dealing with the destruction of their homes and communities through the impact of war, floods or wildfires.

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 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.[2]

Even more than Covid or the war in Ukraine, climate change has the potential to destabilise the normal functioning of the financial markets for decades to come. We continue to see more frequent and severe weather events, rising ocean temperatures and environmental changes leading to significant losses for citizens, insurance companies, banks and other finance organisations and the planet's ecosystem. Many of the most populated areas of the world are low-lying and according to the Intergovernmental Panel for Climate Change (IPCC)[3], there is no question that sea levels will rise by more than 0.8 metres, the only question is whether this will happen before or after 2100. As we enter a year of predicted El Nino climate conditions and the potential of the globe being temporarily pushed above 1.5-degree warming,[4] we must keep our eyes firmly on the big picture.

In the face of the market volatility we have further diversified our portfolio to include a broader array of asset classes, including additional defensive assets aligned to our Ethical Charter. We maintain our

1 macrotrends.net/2015/fed-funds-rate-historical-chart
2 iea.org/news/clean-energy-investment-is-extending-its-lead-over-fossil-fuels-boosted-by-energy-security-strengths
3 Summary for Policymakers. In: IPCC Special Report on the Ocean and Cryosphere in a Changing Climate [H.-O. Pörtner, et al (eds.)]. (2019).
4 public.wmo.int/en/media/press-release/global-temperatures-set-reach-new-records-next-five-years

steadfast focus on the longer-term trend towards decarbonisation – not just by restricting investment in mining and energy stocks, and our advocacy activities with banks who lend to the energy sector – but by positioning the portfolio to capitalise on the companies and projects that are at the forefront of this trend.

In the second half of the year – and in particular the last three months – market sentiment demonstrated an increased appetite for risk assets, especially the Artificial Intelligence (AI) and specialist technology sector. This positive sentiment flowed on to other industries aligned with our Ethical Charter and as a result, we were able to deliver positive performance for all our investments over the full year.

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,[5] but it means money is supporting investments with less beneficial outcomes for people, the planet and animals.

We were therefore encouraged to see the Australian Securities and Investments Commission ('ASIC'), the Australian Competition and Consumer Commission ('ACCC') and the Australian Prudential Regulation Authority ('APRA') make greenwashing an area of focus for their 2023 enforcement and compliance priorities.

ASIC in particular, 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.

Review of operations

Through these challenging times we, as always, remain firmly focused on our key principles. Ethical investing is all we do, and we've been investing this way since 1986, through all market cycles. Our long-term performance helps demonstrate the power of this conviction. Our flagship wholesale Australian Shares Fund ('ASF') remains above the Benchmark[6] for all periods of five years or greater and our wholesale Emerging Companies Fund continues to outperform its Benchmark[7] for all periods of two years and above, whilst ranking in the third quartile compared to peers for one year and three years.[8] For our super members the Balanced option performed on or above Benchmark[9] for the full year and for every time period of five years and above.

Australian Ethical continued to experience strong growth, more than doubling our funds under management ('FUM') in just over two and a half years since November 2020. In FY23 we reached the significant milestones of more than $9 billion in FUM across all product types, with more than $7 billion of that in super alone. This was the largest absolute one-year growth in FUM in Australian Ethical's long history.

Though the volatility of the last 12 months presented challenges for investment teams everywhere, it also provided an opportunity for us to seek out value in the future-building sectors that we support. The Christian Super Successor Fund Transfer ('SFT') and subsequent expansion of diversified asset classes for super members during FY23 also contributed to positive returns.

5 Banhalmi-Zakar, Z & Parker, E. 2022. From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, RIAA, Melbourne
6 S&P/ASX 300 Accumulation index. References to 'wholesale' funds indicate the class of pricing above a minimum investment threshold, which varies by fund
7 S&P/ASX Small Industrials index. References to 'wholesale' funds indicate the class of pricing above a minimum investment threshold, which varies by fund
8 Mercer quarterly performance survey – June 2023
9 SuperRatings SR50 Balanced (60-76) Index as at 30 June 2023

Christian Super SFT

The Christian Super SFT completed in November 2022 was our major strategic deliverable for the financial year. The transaction grew our FUM by $1.93 billion, added 28,000 superannuation customers and enhanced our asset allocation to alternative assets.

Pleasingly, more than six months in, member and FUM retention remains above our original expectations. We have been able to quickly pass on the benefits of our greater scale through fee reductions to all our 110,000+ members, further increasing our competitiveness. Our larger scale has also enabled reinvestment in initiatives to improve our customer experience and accelerate our ongoing growth and impact.

The retained Christian Super capability has boosted our alternatives investment capability, supported high member engagement standards in the contact centre team, underpinned employer channel retention, enhanced product management capability and investment administration to support increased transaction volumes, and strengthened risk management and governance.

In addition, the transaction has enhanced our merger and acquisition capability, giving us further confidence in executing future acquisitions in line with our inorganic growth strategy.

With the initial integration program delivered according to plan, we have now consolidated into a single investment management platform, operating under Australian Ethical's brand with all investments guided by the Australian Ethical Charter.

Our focus now turns to leveraging middle and back-office synergies, initially through the transition of the two incumbent superannuation administrators to a single provider. As we announced in June 2023, GROW Technology Services Ltd ('GROW') has been selected as our new superannuation administrator. This decision was based on the strong alignment of the two companies' innovative cultures and GROW's modern technology stack. This solution is expected to deliver an enhanced member experience, compelling commercial rate-card and the flexibility to support Australian Ethical's ongoing growth. The multi-year project is underway, with all members expected to transition to GROW's platform by FY25.

Strategic highlights in FY23

The growth strategy we highlighted in FY21 is now reaping genuine benefits and presents a much brighter future. This strategy identifies four key pillars and one foundation that we are investing in and pursuing in tandem, to strengthen our business for impact and leadership. While our major strategic milestone in FY23 was the successful completion of the Christian Super SFT, we continue to make significant progress against our many strategic deliverables.

The capability of our business has lifted materially during the year and continues to improve, as we invest in and embed new talent, systems and processes, and drive the cultural shifts required to deliver our aspirational growth targets. This year we have created a stronger executive leadership team and enhanced governance at the Board level with the addition of a new Australian Ethical Super board member and changes to our Investment Committee.

Our key strategic highlights are outlined below:

Principled investment leadership

We have brought strong new leadership to the investment team with the appointment of Ludovic Theau as Chief Investment Officer in April 2023. Ludovic brings more than 30 years' experience in ESG investing, including private markets, funds management, commercial and investment banking and financial advisory. Prior to joining, Ludovic was the Chief Investment Officer for the Clean Energy Finance Corporation, Australia's Green Bank.

We have also refreshed our ethics capability with the appointment of Alison George as Head of Impact and Ethics. Alison's role is key to ensuring our investments continue to meet our Ethical Charter and grow our positive outcomes for animals, people, and planet. Alison has more than 20 years' experience in responsible investment and stewardship, working with numerous industry leaders in her prior roles with Pendal and Regnan. Dr Stuart Palmer has taken on the role of Ethical Futures Lead, continuing to be a strong voice for more sustainable business and investment models and practices.

This new capability, together with an expanded investment committee, positions us to even more strongly adapt to and present investment opportunities in asset classes, and solutions that are part of what we expect to be a vastly changing investment landscape as the world responds to climate change and other existential threats.

Meanwhile our Head of Asset Allocation, John Woods, was promoted to Deputy Chief Investment Officer and Head of Multi-Assets and we further bolstered our alternatives capability through the appointment of two new senior investment analysts.

During the period, we also undertook a significant project to in-house and uplift our asset allocation methodology and capability. Further, we enhanced our asset allocation through greater exposure to alternatives post the SFT. This provides greater diversification and enables flexibility for future product design.

We continued to work on our product pipeline, with our new Moderate Fund due to launch in early FY24. This new product will enhance our current multi-asset product suite, by offering a compelling lower-growth asset allocation fund to address the requirements of advised, direct, high net worth and mezzanine investors with a medium risk profile.

In November 2022, our custodian NAB Asset Servicing ('NAS') announced its intention to wind down operations by end of 2025. In response, we mobilised a custody migration project to seek a scalable long-term partner to provide ongoing support to our Investment Management platform.

And, as already mentioned, we are particularly pleased with the solid investment performance we achieved for the year in one of the most tumultuous periods for a true-to-label responsible investment manager.

Advocates for a better world

In FY23 we made a deliberate choice to be more focused with our stewardship, delivering more than 250 engagements for people, animals and the planet. To provide a detailed account of our stewardship activities we extended the content of our sustainability reporting with our first dedicated Stewardship Report.

Our ongoing Stewardship engagement with Lendlease regarding its housing development at Mt Gilead and the impact on one of the last healthy koala colonies in NSW, has been a key focus area for our Ethics Research team. Despite multiple engagements with the company, encouraging them to improve their plans for koala corridors, which did lead to some improved outcomes for the koalas, we were ultimately dissatisfied with the level of engagement and therefore announced our divestment from Lendlease in March 2023. This announcement reached a potential audience of 8.5 million Australians through 110 unique pieces of earned media coverage, including the ABC, Channel 9 News, the Guardian, The Australian and Bloomberg. Following our request for support, 1,795 people copied us in on their letters to the NSW Minister for Environment and Heritage, James Griffin, requesting a public consultation regarding the proposed koala corridors at Mt Gilead. We have continued to engage on the issue post divestment, including with the incoming NSW Government.

We commissioned the research 'A little goes a long way' with the UTS Business School and Lonergan Research to uncover Australians' perceptions of the carbon challenge and to help identify effective ways to contribute to a reduction of an individual's carbon footprint. Coverage generated by the research reached a potential audience of four million Australians through 153 articles and mentions including the front page of the Money section of the Sydney Morning Herald / The Age. The associated marketing campaign reached a total of two million people, across YouTube and social media.

The first Australian Ethical Reconciliation Action Plan ('RAP') was submitted to and approved by Reconciliation Australia in the financial year. This largely wraps form and structure around a number of activities that we have been carrying out for many years.

During the period, we were also able to provision $1.1 million for the Australian Ethical Foundation, to enable its future work supporting innovative and effective charities combatting climate change in Australia and overseas. Utilising funding provisioned in FY22, the Foundation made 20 strategic grants totalling over $1 million and 12 Visionary Grants totalling $500,000 during the period. These grants were made to a variety of projects across the Foundation's focus areas: Stopping Sources of Carbon, Supporting Carbon Sinks and Empowering Women and Girls.

Compelling client experience

Delivering a compelling client experience that consistently lives up to customers' expectations is a critical component of our growth strategy. We continue to build our internal and external capabilities and develop our systems so we can deliver on this promise every time.

In December 2022 we welcomed Ross Piper as the new Chief Executive, Superannuation. Ross brings to the role more than 25 years of executive leadership experience, having previously held senior roles within Macquarie Bank, World Vision, and Christian Super. Ross has end-to-end responsibility for Australian Ethical's superannuation business, along with oversight of the ongoing transformation of the operational backbone of the broader business.

As testament to his sustainable investing credentials, Ross was appointed Chair of the Responsible Investment Association of Australasia ('RIAA') in November 2022.

There has been a significant emphasis this year on enhancing our Contact Centre leadership, resourcing, process automation and telephony. We have listened deeply to customer feedback and are measuring outcomes more tightly. Pleasingly, in recent months, post integration of the Christian Super business and despite record levels of interaction, our grade of service, quality measures and abandonment rates are back at high-quality pre-SFT levels.

Our most recent sustainability report is a detailed and thoughtful representation of our brand and purpose. When combined with recent improvements to member statements, investment commentary and other communications to our customers, we continue to lift and enhance the quality of our customer engagement.

In recognition, our Net Promoter Score ('NPS') and customer advocacy rankings remain in the Top 10 in Australia for super members.[10]

Uplifting our digital experience

Our technology backbone is a critical part of our investment roadmap to support our growing scale. Our aspiration is to provide direct customers with a best-in-class digital experience to manage their super and investments.

Conrad Tsang joined us in the new role of Chief Technology Officer in October 2022 and is responsible for developing and overseeing a sustainable technology strategy across the business. With more than 20 years' IT experience across a variety of financial sectors, including banking, markets and funds management, Conrad is well-placed to drive these enhancements across our technology stack to enable our five-year growth strategy.

Our transformational transition to GROW super administration will deliver an improved member experience and deliver further synergies following the Christian Super SFT.

[10] Investment Trends Super Member Engagement Report 2022. Independent research with 25 major super funds

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Building a larger and more impactful business

Our growth remains strong. In FY23 we achieved a significant 48% uplift in FUM from both organic and inorganic growth. This was a remarkable achievement considering our lack of exposure to the strongly performing sectors of the period – mining and energy.

As we operate in an increasingly competitive direct acquisition space, we continue to optimise our existing channels whilst building greater channel diversity for future growth. As such, we continue to explore new channels to reach prospective customers. During the year we partnered with a number of employment platforms as a channel diversification opportunity for super growth. These platforms enable us to engage with prospective customers as they change employer, a common trigger point for switching, mitigating the potential impact of super 'stapling' laws in reducing member choice. We have decided to narrow our focus to a single provider, to maximise ongoing financial viability.

We are also increasing our sales focus on 'values-aligned' organisations, not-for profits including charities and foundations as well as values-aligned businesses and have created a new role to lead this channel. They will be managing a panel of values aligned organisations as well as ultra-high net worth individuals and will be prospecting for new opportunities. We believe our new Moderate Fund, described above, will assist the growth of this channel and we are exploring other new product offerings which will be attractive to this segment.

The adviser channel achieved positive, but modest flows this year, reflective of challenging market conditions. Net flows of $87 million have contributed to growth in the adviser channel FUM to exceed $1.5 billion. We have a capable team, clear strategy and strong execution in the adviser channel. The team has achieved more than 50 significant additions to the Approved Product Listings and model portfolios of national dealer groups, boutique dealer groups and large IFA practices during FY23, a great outcome.

In support of the adviser channel, we delivered a number of initiatives including an online CPD-accredited Ethical Investing Masterclass, which brought together leading industry professionals to share insights, analyse the significant opportunities in responsible investing and discuss the implications for advice. We launched a new 'Advisers' Voice' series on LinkedIn which was supported by paid, organic and in-trade press, and saw a pleasing number of views and click-throughs. We also continued to sponsor or present at a number of important adviser events throughout the year.

These efforts have been paying off and we have seen significant improvements in the latest adviser research results from Investment Trends[11], with our overall brand profile rank climbing 23 places from two years ago, a continued increase in advertising recall and solid improvements in key attributes such as investment excellence, communication and innovation.

Our growth strategy recognises brand as critical building block to scale our business. We continue to build our brand through high impact campaigns that communicate our unique value proposition and as a result we have seen further uplifts in awareness and consideration.

Overall, we believe we have taken a big step forward in how we present ourselves to market across a number of dimensions including brand identity, website, collateral, advertising, adviser material and member communication.

[11] 2022 Investment Trends Adviser Product and Marketing Needs Report

Awards and accolades

Australian Ethical continues to receive awards and accolades recognising our leadership in the responsible investment space. RIAA identified us in their elite list of Responsible Investment Leaders 2022. Further awards included Winner Responsible Investments (ESG) for the International Shares Fund in the Financial Newswire Fund Manager of the Year 2022 - awards; Finder Awards Green Superannuation Fund of the Year 2023 (for the fourth year in a row); productreview.com.au's Best Retail Super Fund 2023 and one of the Financial Review Sustainability Leaders 2022. In addition, SQM Research provided our Balanced Fund with a 'Superior' Four-Star rating.

We were honoured to again receive one of the highest accolades for a responsible investor: the 'Leader - ESG Commitment' by Morningstar. We were one of only eight chosen from the long list of 94 global asset managers that were assessed.[12]

As a founding B Corporation ('B Corp') member and the first listed B Corp in Australia in 2014, we were delighted to achieve a record score of 168.5 in our reassessment in 2023. This made AEI the highest scoring Certified B Corp in Australia and Aotearoa New Zealand as at 13 July 2023.

Leadership and innovation

Our purpose is investing for a better world – helping to support a sustainable future where people and nature thrive, by investing in companies and assets that we believe are part of the solution for a sustainable economy, and restricting investments in companies that aren't.

For many, it stands to reason that there is a compelling investment thesis for companies that are well positioned for this transition. By creating as well as meeting increased demand for responsible investing, we believe we can help set in motion a cycle that continuously reinforces and amplifies positive results for investors and planet, driving long-term prosperity and sustainable outcomes.

As temperature records are broken all over the world, and thousands of people have been affected by fires and floods globally, this shift can't come soon enough. We therefore continue to build our capability and scalability to continue to take a leadership position in term of our investment approach including the influence we can create outside our FUM through our advocacy with markets, companies, governments and general public.

To that end, we made a number of significant strategic hires during the period. Along with those already mentioned, we have made several additions to our expert inhouse investment team to manage a larger and more diversified portfolio, including expansion of our unlisted and impact investing capability.

Our people

Our purpose-driven, high-performance culture allows us to attract and retain top talent and is led from the top. As set out in our Corporate Governance Statement, our Board plays a critical role overseeing all aspects of our human capital. The Board's People, Remuneration and Nominations Committee (PRN Committee) has been tasked by the Board to fulfil its responsibilities to shareholders and regulators in relation to our key people governance activities.[13]

The PRN Committee therefore oversees the people and culture policies and practices designed to attract, retain, develop and motivate employees. It reviews and oversees the effectiveness of initiatives designed to achieve our desired organisational culture. From a diversity and inclusion perspective, the PRN Committee sets the targets, monitors our ongoing progress and assesses the effectiveness of our diversity and inclusion policy and initiatives.[13]

In FY23 we continued to nurture our culture by embedding a flexible hybrid working structure. Demonstrating our commitment to diversity, equity and inclusion, we introduced Flexible Public Holiday Leave. This allows employees to apply to work on a gazetted public holiday and swap it for another day that better reflects their beliefs or observations. This has been very well received by our staff and places us at the forefront of this work-place evolution.

[12] *Morningstar Manager Research and Morningstar Direct. At 30 November 2022*
[13] The full PRN charter is available at: australianethical.com.au/shareholder/corporate-governance/

We continue to invest in our people and high-performance culture with the rollout of further leadership training across the business. Our Leadership residential programs have been incredibly powerful in teaching skills and conveying mindset learning. Approximately 80% of our employees have participated in this program.

Board changes

In March 2023, Michael Monaghan retired from the Boards of Australian Ethical Investment Ltd and Australian Ethical Superannuation Pty Ltd. Sandra McCullagh, already an independent member of the Australian Ethical Investment Committee was appointed as an independent and non-executive director of Australian Ethical Investment Ltd on 1 March 2023 and succeeded Michael as the Chair of the Investment Committee on 1 April 2023.

Sandra brings 15 years of financial services experience. She is presently a board member of WorkCover Queensland and the New Zealand Stock Exchange Corporate Governance Institute.

Michael Anderson joined the Australian Ethical Investment Committee in March 2023 and is also an independent non-executive director of Australian Ethical Superannuation Pty Ltd. Michael brings 37 years of investment management experience and significant board and governance experience.

A stronger Investment Committee, our new Valuation Committee and our relatively new Unit Pricing Committee are all indicators of an organisation seeking to continuously improve their risk environment and culture.

Australian Ethical strives for diversity at all levels of our business. The Australian Ethical Investment Board has 67% female membership and the Executive Leadership team is comprised of 50% female team members.

Overall, FY23 has seen us build a much stronger and more capable business, with a much stronger performance orientation culture.

Profit

After excluding SFT integration costs and the Sentient investment fair value adjustment, underlying profit after tax was $11.8 million, up 15% compared to the prior corresponding period, and up 17% on prior period excluding the impact of performance fees.

The net profit attributable to shareholders was $6.6 million, compared with $9.6 million for the 12 months to 30 June 2022. The net profit for the Group amounted to $6.6 million.

To execute our growth strategy, we continue 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.

Despite these increased expenses and the challenging operating environment which tempered FUM and revenue growth in the first half, subsequent stronger revenue and FUM growth along with disciplined cost management have contributed to the emergence of operating leverage and underlying profit increase in the second half. Second half UPAT was 38% higher than the first half FY23.

In FY23, though down on FY22, we were able to donate $1.1 million to the Australian Ethical Foundation, which will allow the Foundation to continue its impactful philanthropic work delivering positive impact via its Visionary Grant programme and other initiatives.

Sentient Impact Group

On 9 December 2021, we acquired a minority equity stake (10%) in the start-up Sentient Impact Group 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 refinement of its strategy, a fair value decrement of $2.6 million was recognised in the first half.

In determining the change, we adopted a similar valuation process as that applied to the assets held in our funds supported by an external expert valuer’s assessment. We continue to monitor the asset's fair value and remain informed on Sentient's updated strategy.

Revenue

Operating revenue increased by 15% over the period to $81.1 million driven by higher average FUM following the SFT, and continued positive net flows and solid investment performance. Second half revenue at $44.5 million, was up 22% compared to the first half of FY23, primarily driven by the full impact of the Christian Super SFT, which was completed towards the end of the first half, as well as significantly higher investment performance in the second half, and continued growth in positive net flows.

Revenue growth was partially offset by fee reductions that were delivered to members to improve member experience and increase the competitiveness of Australian Ethical's offering in line with our fee strategy.

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. 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 almost eight-fold as our total fee margins have reduced by 99 basis points.

The revenue margin across all products reduced from 1.05% at 30 June 2022 to 1.00% at 30 June 2023 reflecting the fee reductions and product mix.

Expenses

Expenses, excluding Christian Super SFT integration costs and the Sentient fair value adjustment, increased by 15% reflecting the retained Christian Super employees, additional capability costs, variable fund-related expenses, increased customer acquisition costs relating to the new employment platform channel and inflationary increases.

As market volatility continued, we conducted a prudent assessment of our cost base to enable disciplined cost management, while continuing to focus discretionary investment in areas that will generate medium term growth.

In terms of the SFT, further synergies are expected to be realised in the medium term as third-party providers are integrated and other operating efficiencies are implemented.

Key drivers of our cost base in FY23 were:

Employee expenses

Employee expenses increased 9% following several strategic executive hires and talent acquisition as part of the 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 99 at 30 June 2022 to 118 at 30 June 2023.

The employee expense increase reflects both new hires during the period, retained Christian Super employees as well as the run rate of hires in FY22. In addition, employee remuneration increases contributed to the overall increase.

Fund-related expenses

Fund-related expenses increased by 38%, representing half of the 15% growth in overall expenses. This was driven by higher customer numbers and FUM, offset by savings achieved through reaching scale thresholds.

Marketing

As we continue to drive growth to achieve a much larger, more impactful business, marketing costs have increased to support this strategic focus. Marketing costs have increased 29% year on year (which accounts for approximately a third of the uplift in overall expenses). The increase is driven by:

- acquisition costs in the new employer platform channel
- higher spend on brand to continue to drive greater brand awareness
- offset by lower marketing spend on direct acquisition as we rationalised spend during challenging market conditions

Funds under management

We were very pleased to see FUM grow 48% over the year to finish the year at $9.20 billion – an increase of $3 billion since 30 June 2022. We also achieved a new milestone in super with FUM exceeding $7 billion for the first time. The key drivers of this growth were the successful completion of the Christian Super SFT, ongoing positive net flows and solid investment performance.

Despite very challenging market conditions we achieved organic net flows of $467 million for the year – this included a $183 million redemption by an institutional client early in the year, that internalised the management of its sustainable option following its successor fund transfer into another fund – the loss of this client was reported in FY22, however the redemptions were phased, with the final redemption occurring in early FY23. Excluding this redemption, net flows were $650 million.

Whilst super net flows remained strong, managed funds flows have been impacted by the cautious market sentiment relating to the market volatility. Super net flows were $605 million with managed funds flows of $45 million (excluding the institutional redemption). Our well diversified product set has ensured we remain resilient during the challenging market conditions and continue to grow total FUM.

Investment performance

Australian Ethical's suite of investment funds delivered strong performance in the second half of the fiscal year, resulting in attractive annual returns across large-cap domestic, small-cap domestic, international shares, and fixed income categories. This was achieved despite overall market volatility and significant challenges driven by high inflation, rising interest rates and lack of exposure to the rally in commodity prices. These factors directly impacted investors, leading to increased living costs, including higher mortgage payments, rent, energy, and grocery prices. As a result, a more pessimistic outlook prevailed throughout most of the year, and the markets experienced slowing economic activity, heightened volatility, and the failure of several US regional banks and Credit Suisse.

However, following the US banking issues in March 2023, the market anticipated the end of peak interest rates, a sentiment further supported by the US Federal Reserve's decision to pause in June and the Reserve Bank of Australia's pause in early July regarding interest rate policy. Although inflation remains a concern, there have been notable improvements over recent quarters. Market sentiment began to shift, particularly in the final three months of the financial year, with an increased appetite for risk assets emerging. Initially, this trend was evident in the Artificial Intelligence ('AI') and specialist technology sectors but gradually extended to other industries.

For the year ended 30 June 2023, our Australian Shares Wholesale Fund ('ASF') achieved a return of 13.4%, 1.0% below its benchmark over one year but above the benchmark[14] for all periods of five years or greater. In the last quarter of the year, ASF outperformed its benchmark by 5.2%, indicating a shift in sentiment, particularly within smaller-cap technology.

Our Emerging Companies Wholesale Fund returned 9.2% over one year, just 0.3% lower than its benchmark[15] and has outperformed its benchmark for all periods greater than two years. Our Diversified Shares, International shares and Income Funds delivered strong returns over one year of 16.4% (vs 16.8% benchmark), 19.8% (vs 22.6% benchmark) and 3.1% (vs 2.9% benchmark), respectively (*all wholesale*). Lastly, our Balanced Wholesale Fund delivered a first quartile[16] return of 10.4% for the financial year.

Christian Super SFT and the subsequent expansion of diversified asset classes for super members during FY23 also contributed to positive returns. According to SuperRatings, a leading source for Superannuation performance; the Balanced option ranked 17th out 47 Australian balanced funds for the 12-month period ended 30 June 2023 in the SR50 Balanced (60-76) Index.

[14] Benchmark changed from S&P/ASX Small Industrials Index to S&P/ASX 300 Accum Index from 13 Aug 2019. The historical benchmark returns are calculated by linking two indices. References to 'wholesale' funds indicate the class of pricing above a minimum investment threshold, which varies by fund

[15] S&P/ASX Small Industrials. References to 'wholesale' funds indicate the class of pricing above a minimum investment threshold, which varies by fund

[16] Mercer June 2023 quarterly performance report – Wholesale Funds. References to 'wholesale' funds indicate the class of pricing above a minimum investment threshold, which varies by fund

For our super members, our Australian Shares option ranks 1st of 43 funds rated over 10 years (10.46%) in the SuperRatings SR50 Australian Shares Index and has outperformed the same SuperRatings SR50 index over five years. Further, the Australian Ethical Balanced option has outperformed its benchmark, the SR50 Balanced (60-76) Index over 1, 5, 7 and 10 years.

Despite disappointing claims of 'responsible investing' credentials by those who are at best confused about what Responsible Investing is and at worst are deliberately greenwashing, the category of those using a 'Leading Responsible Investment' approach continues to grow. According to RIAA,[17] Australian assets managed using a rigorous, leading approach to responsible investment has hit a record value of $1.54 trillion. Further, government policy initiatives both globally and locally are expected to support continued focus on ESG metrics, particularly on climate issues, and therefore introduce potential areas of investment. For example, The Australian Carbon Credit Units ('ACCUs') Implementation Plan was announced in June of 2023 by the Australian Government to ensure the scheme continues to help us reach net zero by 2050. While carbon markets have been developed globally, this ACCU scheme increases the prospects of establishing a local carbon market, an area of continued research for our investment team.

Australian Ethical is well positioned to provide our investors with attractive and innovative investment solutions within the growing areas of transition, new energy infrastructure, and sustainable investments.

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 ('ARCC') oversees and reviews the RMF, and reviews internal and external audit results. This oversight includes the identification, treatment and monitoring of:

- The use of risk appetite
- Current and emerging material risks, including (but not limited to) investment, data, technology and cyber risks
- Exceptions, incidents and breaches
- Complaints
- The results of control testing

The full ARCC charter (and other board charters) can be found on the Australian Ethical website at:

australianethical.com.au/shareholder/corporate-governance/

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 ('AE') 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 PricewaterhouseCoopers in accordance with ARCC 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 (KPMG) who provide 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.

[17] Responsible Investment Benchmark Report Australia 2022, RIAA

Risk category	Risk description/impact	Risk mitigants
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.	• 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 • Annual review of insurance program
Financial	Risk that 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 entities), 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 • Regular monitoring of regulatory capital requirements • Appropriate policies and procedures, quality control, management approval frameworks • Appropriate financial control processes, including monitored cashflows and cash position • 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 eg interest rates, inflation, and refinement of business activities in response
Environmental, Social and Governance ('ESG')	Risk arising from inadequate or inappropriate 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 • B Corp certification status maintained

Risk category	Risk description/impact	Risk mitigants
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. Risk arising from underperformance of Managed Funds and Super Options relative to stated investment objectives.	• 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 • Embedded policies • Investment performance analytics • Stress testing • Reviews, reconciliations and monitoring of key metrics • Investment Committee ('IC') in place with independent members appointed • Quarterly review of performance (including attribution) by IC • Annual review and approval of Strategic Asset Allocations * IC approved Trust Investment Parameters
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
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 Australian Ethical'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

Risk category	Risk description/impact	Risk mitigants
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
Unit Pricing	Risk arising from incorrect unit prices for Managed Funds and Super Options	• Regular reconciliation and review processes for units on issue and applications/ redemptions • Appropriate policies and procedures for asset valuations, distributions, fees and expenses, management approval frameworks for unit prices • Appropriate segregation of duties • Periodic Internal audit reviews of unit pricing controls • Confirmation and recording of asset valuations including Valuation Committee for unlisted assets • Unit Pricing oversight model including Unit Price Committee

Risk category	Risk description/impact	Risk mitigants
IT & Cyber security	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 • AEI Board monitors IT Disaster Recovery Plans and Business Continuity Plans and annual testing • The Board and/or ARCC receives reports on cyber risk, threats, uplift programs, cyber incidents (if any), and information security testing results that identify material information security control deficiencies requiring remediation (if any) • Independent assurance over the integrity of our cyber security infrastructure
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 behaviours that are not aligned with Australian Ethical's values, culture and expectations.	• Embedded People policies and procedures (including WH&S policies, procedures and training) • Succession planning, talent identification programs, retention and hiring 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

Climate change

Strategic implications

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.

Our growth strategy recognises that our strong early position on climate change is core to our brand and reputation, with customers, partners and employees. Under our strategic pillar 'advocates for a better world' climate change is a priority topic.

While we consider our business is well positioned under both low and high temperature scenarios, we believe that sustainable, risk adjusted returns will be greater in a low-warming world overall. High-temperature scenarios are expected to bring lower overall economic output and higher variability of returns, undermining trust in investment markets and demand for investment management.

Our approach to climate change

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. Real estate and infrastructure are particularly exposed to many physical impacts of climatic change. 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 sustainability reporting.

Responsibilities

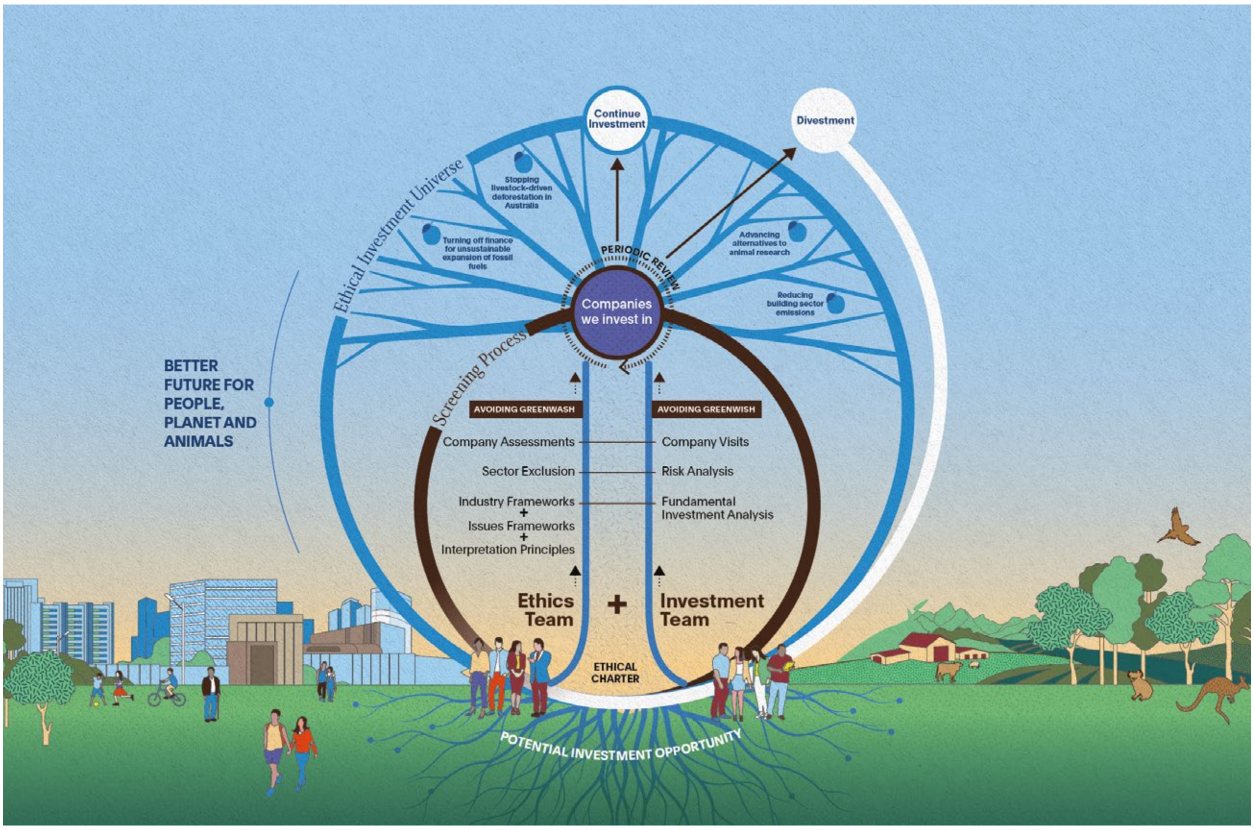
Our Chief Investment Officer and Head of Impact & Ethics are responsible for implementation of our Ethical Charter across our investment activities. They approve new and updated ethical frameworks, which include our climate-related ethical screening criteria.

We report quarterly to the Board, via the IC, 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
- technological innovation in climate mitigation and adaptation.

The below diagram outlines our investment approach:



Emissions profile

We report portfolio carbon footprint measures for our share investments in our sustainability report annually. While data is not available across all our investments, and involves some limitations (discussed in our reporting), we believe this measurement remains a useful demonstration that our Ethical Investing approach – which is applied consistently across all investments – results in our portfolio maintaining an emissions intensity well below the relevant benchmark.

Beyond our investments, our operations produce a small amount of emissions (e.g., from our offices and staff travel). We measure and report these (scope 1, 2 and 3) in our annual sustainability report. We seek to first minimise emissions (for example by purchasing renewable energy), and fully offset residual emissions. When offsetting our operational emissions, we look for opportunities for carbon abatement which also deliver additional benefits to people, planet and animals.

Our climate ambition

Through our investments and stewardship we are working towards the emissions reduction needed to achieve a 1.5°C temperature limit – 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.
- 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.

Obstacles to achievement of our climate ambition include the current lack of climate ambition and action from many companies and governments. Analysis by expert groups like the IPCC and IEA makes clear the world is falling short of the scale of action needed for global net zero by 2050. We're also concerned by the risk of greater emissions increase and climate disruption than has been predicted by many climate models.

Despite these obstacles, there are more ambitious decarbonisation pathways which would support achievement of our climate ambition. Pathways where we see more urgent transformation of our energy and transport systems; where land is restored to capture carbon and boost sustainable agriculture; where innovative building materials and techniques radically lower the footprint of our homes and infrastructure. Investors have a key role to play supporting and accelerating these pathways and transformations. These pathways and transformations also create low carbon investment opportunity for investors seeking to accelerate the decarbonisation of their own portfolios.

Outlook

The medium-term market opportunity remains compelling as we build the path that will help deliver our aspirational FUM growth targets. We expect that the challenging market conditions of FY23 will continue in FY24, but even so, are targeting $100 million in annualised revenue by the end of FY24, driven by the full-year revenue effect of the SFT, ongoing positive flows and market performance – subject to market conditions.

Having achieved the milestone of $9 billion in FUM, our larger scale presents us with a range of additional opportunities. With disciplined prioritisation of effort, resources and diligent cost control, we believe we can invest judiciously to capture the future growth opportunities, whilst also delivering further operating leverage as we target a lower cost to income ratio in FY24 and look ahead to solid profit growth in FY24.

In FY24 our investment focus will be on a handful of critical inflight projects. These include selection and transition planning to a new custody and investment administration provider as our current custodian exits the market; progression of day-two SFT activities which will help deliver synergies along with a new modern technology stack and customer experience uplift through the transition to GROW. This transformational piece of work will be led by our new Chief Executive Superannuation, Ross Piper, with full transition expected to be completed in FY25.

We plan to roll out the next stage of our Data and Technology strategy to further enhance our technology infrastructure, deliver greater internal efficiencies, enhance the use of data and business intelligence and continue to enhance cybersecurity to continue to manage this risk in the rapidly evolving external environment.

Many values-aligned organisations are investing their assets with Australian Ethical in order to meet their financial needs, whilst seeking to avoid harm and create positive change to align with their values and mission. We aim to capitalise on this opportunity by expanding our distribution capability with a dedicated 'Values-Aligned' organisations channel. This initiative will have a continued focus on retention of existing clients as well as drive further growth in not-for-profit organisations including universities, foundations, and religious organisations.

We will progress our new product pipeline with the delivery of new products to address adviser and 'values aligned' organisation demand, including further impact investment vehicles to build on the capabilities which were bolstered during the Christian Super SFT. We also plan to invest further in our brand to maintain our reach and to underpin our ambitious growth strategy across all segments.

Investment capability is key to our ambition, and we will be further investing in this area to build on our ethical investing competitive advantage and enhance our investment management platform. This will continue to enhance operational, product development and trading capability and systems, fitting for an investment management business of much larger scale. We believe this will translate into an enhanced investment capability across all asset classes, strong investment performance outcomes as well as increased innovation through new investment products and business initiatives. This initiative will be a major focus of the business through FY24 and FY25.

Overall, we expect these initiatives to result in a more diversified platform for growth going forward. And, as a business, we remain well-positioned with no debt, well-managed cash flows and significant momentum, and look forward to the opportunities that lie ahead in FY24.

Financial performance – management analysis

	2023 $'000	2022 $'000	% Increase (Decrease)
Net Profit after tax (NPAT) including performance fee	6,576	9,511	(31%)
Add: Net loss attributable to The Foundation*	–	86	
Net profit after tax attributable to shareholders	6,576	9,597	(31%)
Adjustments:			
Due diligence costs in relation to mergers & acquisition activity	–	982	
Change in fair value of investment	2,600	–	
SFT integration costs (refer Note 16)	3,733	–	
Tax on adjustments	(1,120)	(295)	
Underlying profit after tax (UPAT) including performance fee	11,789	10,284	15%
Performance fee (after tax and community grant)	–	(240)	
Underlying profit after tax (UPAT) excluding performance fee	11,789	10,044	17%
Diluted EPS on NPAT attributable to shareholders (cents per share)	5.84	8.55	
Diluted EPS on UPAT attributable to shareholders (cents per share)	10.46	9.16	

* refer to Note 46 for additional details in relation to The Foundation's financial results.

Dividends

Dividends paid during the financial year were as follows:

	2023 $'000	2022 $'000
Final dividend for the year ended 30 June 2022 of 3.00 cents (2021: 4.00 cents) per ordinary share – fully franked	3,372	4,495
Special performance dividend for the year ended 30 June 2022 of nil cents (2021: 1.00 cents) per ordinary share	–	1,124
Interim dividend for the year ended 30 June 2023 of 2.00 cents (2022: 3.00 cents) per ordinary share – fully franked	2,256	3,372
	5,628	8,991

Since year end the Directors have declared a final dividend of 5.00 cents per fully paid ordinary share (2022: 3.00 cents final dividend). The aggregate amount of the declared dividend expected to be paid on 21 September 2023 out of profits for the year ended 30 June 2023, but not recognised as a liability at year end, is $5,639,000 (2022: $3,372,000).

All dividends paid during the year were fully franked based on tax paid at 30.0%. The final dividend to be paid in September 2023 will be fully franked at 30.0%.

Changes to contributed equity during the year and prior to the issue of the report

During the year and prior to the release of this report the following changes to contributed equity occurred:

Details	Date	Shares	Weighted Average issue price	$'000
Balance	1 July 2022	112,387,138		8,969
Vesting of deferred shares in the Employee Share Plan (525,972 shares), and deferred STI shares (88,613 shares) to the Investment team	1 September 2022	–	$2.15	1,322
Vesting of FY20 deferred STI shares (5,193 shares) – CEO	1 September 2022	–	$4.53	24
Vesting of deferred STI shares (24,626 shares) for FY20 Performance fee, and FY21 deferred STI shares (7,459) for the CEO	1 September 2022	–	$9.80	314
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
Vesting of deferred shares in the Employee Share Plan (22,496 shares)	20 February 2023	–	$4.53	102
Vesting of deferred shares in the Employee Share Plan (8,308 shares)	20 February 2023	–	$9.80	81
Balance	30 June 2023	112,782,052		10,515

No amounts are unpaid on any of the shares. Refer to Note 45 for additional information and a detailed breakdown of the shares vested during the year.

Significant changes in the state of affairs

The Christian Super SFT was completed in November 2022. The SFT added $1.93 billion to our funds under management, 28,000 new superannuation customers and enhanced our asset allocation to alternative assets.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared in Note 35, no other matter or circumstance has arisen since 30 June 2023 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.

Likely developments and expected results of operations

Information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

To the best of the Directors' knowledge, the relevant environmental regulations under Commonwealth and State legislation have been complied with.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2023, and the number of meetings attended by each Director were:

	Full Board		**People, Remuneration and Nominations Committee**		**Audit, Compliance and Risk Committee**	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	12	12	8	8	5	5
Kate Greenhill	12	12	8	8	6	6
Mara Bûn	12	12	8	8	6	6
Michael Monaghan	9	8	6	6	–	–
Julie Orr	12	12	8	8	6	6
John McMurdo	12	12	–	–	–	–
Sandra McCullagh	3	3	2	1	–	–

	Product Disclosure Statement Committee		**Investment Committee**	
	Eligible	Attended	Eligible	Attended
Steve Gibbs	6	6	–	–
Kate Greenhill	–	–	–	–
Mara Bûn	–	–	6	6
Michael Monaghan	6	6	–	–
Julie Orr	–	–	6	6
John McMurdo	–	–	–	–
Sandra McCullagh	–	–	6	6

Indemnity and insurance of officers

The Company has indemnified the Directors and Executives of the Company for costs incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 39 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 39 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of KPMG

There are no officers of the Company who are former partners of KPMG.

Rounding of amounts

The Company is of a kind referred to in 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.

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.

Auditor

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

JOHN MCMURDO
Managing Director and Chief Executive Officer

24 August 2023
Sydney

Remuneration Report

Remuneration Report

For the year ended 30 June 2023

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for the financial year ended 30 June 2023 (FY23).

The remuneration report provides our shareholders and stakeholders with a thorough and transparent outline of our remuneration framework and the philosophies behind the remuneration arrangements and other employee benefits. It specifically focuses on the remuneration outcomes of Non-Executive Directors, the Chief Executive Officer ('CEO') and senior executives, collectively referred to as Key Management Personnel ('KMP'), and how it aligns with our performance and strategic goals for the year and beyond.

Financial year 2023 was a challenging one to navigate. In the early part of the year global instability contributed to some sectors that Australian Ethical does not invest in e.g., oil and gas, performing relatively well, meaning our short-term investment performance initially lagged. In the second half our performance was very strong, enabling Australian Ethical to deliver another year of positive investment returns, and further cement our reputation as an Investment Manager able to deliver strongly through various investment cycles.

Volatile financial markets generally, caused many investment managers to record outflows and decline in overall funds under management over the last year. Australian Ethical by contrast has been resilient. The business has continued to grow organically, and the completion of the Christian Super Successor Funds Transfer (SFT) in November 2022 has contributed to us finishing the year with record customer numbers and a remarkable 48% growth in funds under management to a new record high of $9.2bn.

These results have been achieved through the incredibly disciplined performance of our staff, and with high levels of engagement, a testament to the shared purpose that underpins the strength of our business, and the commitment of our people.

Each year, the Board and its People, Remuneration & Nominations Committee ('PRN') reviews the remuneration framework and has had oversight of remuneration arrangements for all employees, setting key performance objectives to influence the work ethic and behaviour of employees and the remuneration outcomes. There are no significant changes to compensation structures contemplated for FY24, and none made in FY23. The short and long-term incentive programs currently in place drive our growth aspirations which will amplify our impact and realise our purpose of better outcomes for all stakeholders, including people, planet and animals.

FY23 variable remuneration outcomes

Our remuneration policy aligns to the philosophy of the Company that sees our people as key stakeholders in the Company's success. Our remuneration framework aims to reward our management and employees fairly, competitively and provide a direct link between contribution and reward and alignment with the long-term performance of the Company. In line with this, our balanced scorecard and individual objectives combine both financial objectives and non-financial customer outcomes, balancing risk management, and ensuring adherence to our desired cultural values. All employees, including KMPs have objectives underpinned by the company's core values as well as incentivising ethical behaviour and positive customer outcomes.

The PRN and the Board spend considerable time each year evaluating the contributions and performance of the company, CEO and other KMP to arrive at the variable incentive outcomes for each KMP, measuring achievements against the balanced scorecard and individual objectives. The Board has awarded the CEO a variable incentive of 72% of maximum opportunity, and the individual outcomes for other KMP range from 53% to 81% of maximum opportunity.

After completing the highly successful integration of the Christian Super transaction, which significantly lifted funds under management, revenue and underlying profit after tax from the second half of the year, the Board has exercised its discretion to fully vest the current tranche of the Employee Share Plan.

Looking forward

We annually review our remuneration framework to ensure it remains contemporary and is aligned with the Company's strategy, industry trends and regulatory changes, including the Financial Accountability Regime ('FAR') and Australian Prudential Regulation Authority (APRA) prudential standard on remuneration (CPS 511).

We are committed to ensuring our remuneration arrangements remain fair to all stakeholders and are effective in attracting and retaining talented people who are motivated and professional.

STEVE GIBBS

Chair
People, Remuneration & Nominations Committee

1. Key Management Personnel

Name	Position	Term as KMP in FY23
Key Management Personnel (KMP)		
John McMurdo	Managing Director & CEO	Full year
Marion Enander	Chief Strategy & Innovation Officer	Full year
Karen Hughes	Chief Risk Officer & Company Secretary	Full year
Maria Loyez	Chief Customer Officer	Full year
Eveline Moos	Chief People & Culture Officer	Full year
Ross Piper	Chief Executive Superannuation	Commenced 25 November 2022
Mark Simons	Chief Financial Officer	Full year
Ludovic Theau	Chief Investment Officer	Commenced 3 April 2023
David Macri	Chief Investment Officer	Departed 31 December 2022
Non-Executive Directors		
Steve Gibbs	Chair	Full year
Katherine Greenhill	Non-Executive Director	Full year
Mara Bûn	Non-Executive Director	Full year
Michael Monaghan	Non-Executive Director	Departed 31 March 2023
Julie Orr	Non-Executive Director	Full year
Sandra McCullagh	Non-Executive Director	Commenced 1 March 2023

During the year, we welcomed Sandra McCullagh to the AEI Board following the retirement of Michael Monaghan. Ms McCullagh brings with her a wealth of experience in ESG and financial services and is also Chair of the Investment Committee. Mr Monaghan, who was previously a non-executive director of AEI and AES and Chair of the Investment Committee retired on 31 March 2023.

Subsequent to the completion of the Christian Super SFT, Ross Piper joined as Chief Executive Superannuation and a KMP. Effective 1 July 2023, the CEO and Board re-assessed the key roles that drive the strategic decision-making within the business to be Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Executive Superannuation, Chief Strategy and Innovation Officer, Chief Risk Officer, and Chief Customer Officer.

2. Our People

2.1 AE People Plan

Success in achieving our strategic goals is largely contingent on the quality and performance of our people, and the health of our organisation's culture. Our People Plan (people strategy) is focused on delivering people and culture solutions that will enable the growth of our business and transform our operating model to become a global role model in responsible investing.

The AE People Plan priority areas are:

- **Diversity, Equity and Inclusion ("DEI")** to foster a DEI led organisation to enable better performance
- **Talent and Capability** to secure talent and capability now and for the future
- **Performance and Reward** to motivate and reward our people to act in the best interests of our stakeholder groups
- **Culture and Employee Experience** to bring to life our 'Purpose Driven and High Performing" culture

2.2 FY23 achievements

During FY23 there were a number of market and external forces impacting talent attraction and retention generally, including high inflation and an uncertain economy, tight labour market, and a demand for human centric working environment.

Key People Plan initiatives and achievements are outlined below.

Diversity Equity & Inclusion

- Undertook a diversity census to better understand the profile of our workforce today so that we focus on initiatives that will drive meaningful and sustainable change across Australian Ethical.
- Introduced Flexible Public Holiday Leave because we understand that public holidays in Australia may not reflect each person's observations, beliefs and lifestyle and we believe everyone should have the opportunity to celebrate what's important to them and feel included in doing so, regardless of who they are, what they believe in, where they come from.
- Submitted our Reflect Reconciliation Action Plan with Reconciliation Australia.
- Investment team participated in 2 Future IM/pact events to support early career female talent to increase female representation in the investment management industry.
- Further improved our female gender representation at Board level (67%), executive leadership level (56%) and investment team (28%).

Talent & Capability

- Enhanced our talent management and succession planning approach.
- Completed the roll out of leadership and team membership training program.
- Successfully integrated a number of ex-Christian Super employees as a result of the Successor Fund Transfer, including Ross Piper as our new Chief Executive Superannuation.
- Enhanced key leadership capability in impact and international investing with the appointment of our new Chief Investment Officer, Ludovic Theau, and Alison George as Head of Impact and Ethics. The appointment of Conrad Tsang as our first Chief Technology Officer has further enabled our strategy in data and technology.

Performance & Reward

- Held education sessions with managers and employees to improve their understanding on the link between performance and reward and to further embed our performance framework (introduced in FY22).

Culture & Employee Experience

- Launched Wellbeing@AE program to encourage employees to engage with their financial, physical, emotional, and social wellbeing so that they can bring their best selves to work.
- Recognising the increasing cost of living pressures this year we ran a financial wellbeing workshop, facilitated by external experts, to empower employees to make smarter financial decisions.
- Conducted a Risk Culture pulse check survey aligned to APRA questions to gain a better understanding of how our people thought about risk and how those thoughts played out in their day-to-day roles.

3. Remuneration Philosophy and Structure

3.1 Remuneration guiding principles

Australian Ethical's remuneration approach is designed to facilitate the attraction, retention and engagement of talent, within the organisation's capacity to pay, to achieve Australian Ethical's corporate objectives and purpose of Investing for a Better World.

Our remuneration approach is guided by the following principles:

- Pay fairly and equitably, and market competitively, to attract and retain talented people,
- Align and balance the interests of clients, shareholders, and employees,
- Recognise and differentiate for contribution to the Group's performance,
- Promote our values, behaviours, risk and conduct expectations,
- Be simple to administer and to communicate to stakeholders,
- Adhere to all applicable legislation and regulations, and
- Supports the long-term financial soundness of AEI Group.

Australian Ethical's remuneration philosophy is consistent with the principles of the Australian Ethical Constitution and Charter contained in the AEI and AES Constitutions. It is designed to:

- ensure that the Group facilitates "the development of workers' participation in the ownership and control of their work organisations and places" – Charter element (a)
- not "exploit people through the payment of low wages or the provision of poor working conditions" – Charter element (ix)
- not "discriminate by way of race, religion or gender in employment, marketing, or advertising practices" – Charter element (x)

The Board before declaring any dividend, is required by the Company's Constitution to provide a bonus or incentive for employees of up to 30% of what the profit for that year would have been had not the bonus or incentive payment been deducted.

3.2 Elements of Remuneration

The following framework applied to all permanent employees of Australian Ethical Investment Limited (not including Non-Executive Directors and Investment Committee members) for the financial year ended 30 June 2023. Employees of Australian Ethical Superannuation Pty Limited are entitled to receive all the below elements of remuneration with the exception of long-term incentives linked to the performance of the Company.

There were no significant changes to the remuneration framework in the FY23 year.

Element	Description	Quantum	Paid as
Fixed Remuneration ('FR')	Comprises base salary, superannuation, packaged employee benefits and associated fringe benefits tax.	• Reviewed annually, or on promotion. • Benchmarked against market data[1] for comparable roles based on position, skills and experience brought to the role. • Target remuneration is based around the median of the relevant comparator group for each job role, taking into consideration companies in a similar industry and of a similar size.	Cash and superannuation
Short Term Incentive ('STI')	An annual incentive aimed at motivating and rewarding employees for achievement of annual performance objectives. Applies to all employees who have satisfied the risk and values gate.	• Actual outcome is linked to performance and contribution against annual financial and non-financial KPIs. • Maximum achievable for KMPs is two times the target incentive, based on a percentage of Fixed Remuneration. • For KMPs (except CEO and CIO), STI in any given year that exceeds $100,000 will be deferred for up to 3 years, is not subject to further hurdles and is paid in shares. The CEO and CIO have other deferral components within their remuneration. • On an annual basis the PRN will consider an additional discretionary bonus paid in deferred shares for specified members of the Investment team, connected to any performance fees achieved. • Short term incentives are treated as follows in the following circumstances: – resignation – usually forfeited, subject to Board discretion; – termination for serious misconduct – forfeited; – retirement – at discretion of the Board; – death or total and permanent disablement – at discretion of the Board; and – redundancy – at discretion of the Board.	Cash and deferred shares

Employee Share Plan ('ESP') –	Aimed at aligning employee performance and behaviour with the long-term success of the Company, to encourage employees to share in the ownership of the company and to support the retention of employees. Applies to all employees who have satisfied the risk and values gate.	• Awarded as percentage of Fixed Remuneration
		• Shares are issued or purchased and held in trust for 3 years.
		• Vest in the name of the employee after 3 years, provided that:
		– employee remains employed; and
		– subject to 3-year compound annual growth in diluted earnings per Share (EPS) as follows:
		  • 0 – 5% – nil vests
		  • 5% – 10% – pro rata up to 100%
		  • > 10% – fully vests.
		• The Board has discretion to adjust EPS for items that do not reflect management and employee performance and day to day business operations and activities.
		• Employees participate in dividends and have voting rights from the date of grant.
		• On cessation of employment, no unvested shares shall vest unless the Board in its absolute discretion determines otherwise.
			Shares

[1] Benchmarked to data provided by the Financial Institutions Remuneration Group Inc (FIRG). FIRG is a peer group provider of remuneration and benefits data in the financial services industry.

Element	Description	Quantum	Paid as
Executive Long-Term Incentive ('ELTI')	Designed to align the business strategy with specific KPIs to drive long-term growth, encourage the achievement of AEI's long-term strategic goals, and to support the retention of key senior talent.	• Awarded as percentage of Fixed Remuneration, ranging from 10% to 50% for selected senior executives. • Issued as performance rights and vest as ordinary shares after 4 years, provided that: • employee remains employed; and • achievement of all financial (FUM, net inflows and/or cost to income ratios) and non-financial (NPS scores, employee engagement and compliance with Ethical Charter) performance hurdles are required for the rights to vest. Refer below for the specific performance hurdles relating to each grant. • The multiplier mechanism applies only to the ELTI tranche vesting 1 September 2025. • During the vesting period, ELTI participants are not entitled to receive dividends nor hold voting rights. • On cessation of employment, all performance rights are forfeited unless the Board in its absolute discretion determines otherwise.	Performance Rights

In addition, Australian Ethical offers a comprehensive range of employee benefits across personal development, and financial, health and community wellbeing so employees can bring their best selves to work.

Both short and long-term incentives ensure support for a strong risk culture that values member outcomes and shareholder alignment. Our short-term incentives relating to investment performance measures incorporate 1 and 3 year performance against benchmarks and relative to peers. This is to ensure that incentives are aligned to longer term customer and member outcomes.

3.3 ELTI Performance measures

There are different performance measurements for the tranches granted on 1 December 2021 and 1 December 2022, outlined below.

	Granted 1 December 2021	Granted 1 December 2022
Performance measures	Financial measures: • $15bn of FUM as at 30 June 2025, and with each incremental increase in FUM of $2.5bn, a multiplier to the base award is applied ranging from 2 to a maximum of 7 times at $30bn; • Operating costs to Income ratio of no more than 75%; Non-financial measures: • Median NPS score for both super and managed funds to measure customer satisfaction, • Median employee engagement score for financial services companies, and • Ongoing compliance with our Ethical Charter.	Financial measures: • 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% Non-financial measures: • 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.
Vesting period	Four years, ending 30 June 2025	Four years, ending 30 June 2026
Multiplier mechanism	A multiplier of the base award will apply at each FUM target achieved. If the maximum stretch FUM target of $30bn by 30 June 2025 (along with other KPIs) is achieved, then the maximum multiplier of 7 times the base award will apply.	No multiplier applies to this grant

In considering the implementation of the ELTI opportunity, the Board has been cognisant of the remuneration philosophy remaining consistent with the Ethical Charter and ensuring that the structure of the new ELTI closely aligns the interests of senior talent with those of shareholders. The ELTI opportunity was designed to drive greater business impact and purpose and reward those key to that success.

3.4 FY24 Changes and considerations

There are no significant changes to compensation structures contemplated for FY24, and none made in FY23.

The existing discretionary performance fee sharing structure has been modified to further align our investment team with the performance outcomes of our investors. The arrangement will reward select investment team members with up to 33% of the performance fee, granted in the form of a cash component and a deferred shares component. Two thirds (2/3) paid in cash in line with the normal remuneration review payments, and one third (1/3) to be awarded in unhurdled deferred shares to vest after 3 years. This enhancement will be offset against a reduction in short-term incentive opportunity for relevant team members. There was no performance fee earned in FY23.

The Board are in the process of considering a new FY24 ELTI grant with a vest date of 1 September 2027. It is expected to be based on a similar percentage of fixed remuneration for KMPs as in FY23. Like the FY23 ELTI grant, this is not expected to include a multiplier mechanism. The performance hurdles for this grant are yet to be determined.

3.5 Performance measures for Short Term Incentives

Performance measures for Short Term Incentives (STI) are based on a Balanced Scorecard of financial and non-financial metrics, and an individual's specific performance objectives. Weightings vary with each individual and are based on their role. Employees have no contractual right to receive an STI award and the Board retains discretion to amend or withdraw the STI at any time. Adherence to the Company's values and risk culture are required to remain eligible for an STI award. The following table provides the overall Balanced Scorecard and the performance outcomes for these objectives for the financial year ended 30 June 2023. The following outcomes have been taken into account when assessing short term incentives for KMPs.

Measure	Metric	Why this metric is appropriate	Incentive Award Achievement for FY23
Financial	• Underlying profit after tax attributable to shareholders ('UPAT') and statutory Net profit after tax attributable to shareholders ('NPAT') • Net growth in Funds under Management.	Provides alignment to the Group's financial performance. The target was set in context of investment required to underpin the High Growth strategy outlined in August 2021, and to successfully complete the Christian Super SFT. Growth and scale will benefit our customers through lower fees and better products and service. It also allows us to deliver greater social and environmental impact.	**Target:** UPAT attributable to shareholders of \$7.0m NPAT attributable to shareholders of \$4.3m **Actual:** UPAT attributable to shareholders of \$11.8m NPAT attributable to shareholders of \$6.6m **Target:** Net growth >\$2.25bn FUM **Actual:** \$3.0bn • \$473m (\$650m excluding a low value institutional client redemption) of net-flows • \$1.93bn from (Christian Super SFT) • \$610m from net positive investment returns
Client experience	Compelling client experience measured by client and adviser advocacy and satisfaction.	Customer satisfaction with product and service is measured using customer surveys conducted by survey tools and independent industry consultants, and by monitoring quality of service in our customer contact centre.	**Target:** • Super – >25% of members have recommended AE to other potential members. • Adviser Net Promoter score (NPS) – Top 25 **Actual:** • Super – recommended by 52% of members • Adviser NPS – rank #20 *Source: Investment Trends data*

Measure	Metric	Why this metric is appropriate	Incentive Award Achievement for FY23
Brand familiarity and reputation	• Increased brand recognition and familiarity. • B Corp 'Best for the World' status	Strong brand familiarity and resonance is a key foundation to future growth. Our preferred standing as a for purpose and for profit business is a key proof-point of our brand.	**Target:** • Prompted brand awareness of >20% of Australians. • Achieve B Corp 'Best for the World' (top 5%) certification. **Actual:** • Prompted brand awareness increased to 23% (source: yougov) • Certified as B Corp 'Best for the World'
Investment performance	• Balanced Fund ('BF'), Australian Shares Fund ('ASF') & Emerging Companies Fund ('ECF') performance against market benchmarks. • BF, ASF & ECF performance relative to peers. • Super Fund Balanced option ('MySuper') relative to peers.	Delivering long term competitive investment returns for our customers is core to our offering.	**Target:** • Exceed relevant benchmark performance (after fees) over 1, 3 and 5 years for BF, ASF and ECF 3 years **Actual:** • 1 year – below target for each option • 3 years – above target for ECF • 5 years – above target for all options **Target:** • 2nd quartile vs peers over 1, 3 and 5 year horizons for BF, ASF and ECF **Actual:** • BF – met for all time horizons • ASF – met for 5 year horizon • ECF – met for 5 year horizon **Target:** • 2nd quartile vs peers over 1,3 and 5 year horizons for MySuper Fund **Actual:** • Met for 1 and 5 year horizons
Employee engagement	• Employee annual engagement score (as surveyed by Culture Amp). Assessed against market comparisons • Executive KMP development (application of leadership training, collaboration and 360 degree feedback) • Adherence to the Company's values is treated as a gate to short term incentive awards.	Providing a motivating and inspiring workplace and high employee engagement has been proven to drive better business outcomes for customers and shareholders.	**Target:** • Top quartile Employee Engagement across Financial Services organisations. • People Plan achievements to be assessed by the Board. **Actual:** • 70% Employee Engagement score • Significant progress in KMP training, leadership capability and depth of team • Values strongly adhered to.

Measure	Metric	Why this metric is appropriate	Incentive Award Achievement for FY23
Risk	• Managing incidents and risks out of tolerance back within Board approved risk appetite for business activities. • Risk management on strategic projects • Risk will also have a "detractor" measure, based on behaviour, risk culture in team, failure to meet requirements, or behaviour that results in AEI not acting or appearing not to act in the best interests of clients and of AERSF members. If triggered, the impact will be a reduction in total STI allocation for the person of at least 5% up to 100%, and/or for the company factor if considered an organisation wide concern.	It is critical for our Executive KMP to have a high degree of ownership for risk management.	**Target:** • Maintain strategic risk appetite and embed risk culture across the organisation. **Actual:** • Strong risk environment and culture observed by Board and third-party audit. • No material risk breaches. • SFT and all regulatory projects satisfactorily delivered. • No KMPs had a reduction in their STI due to risk.

In assessing the performance of the business and the CEO, the Board acknowledges the transformational nature of the successfully completed SFT, the significant progress on a number of our long-term strategic projects, competitive investment returns for customers, despite the backdrop of challenging financial markets for Responsible Investment Managers, and the robust risk culture the company continues to enhance. 48% growth in funds under management, with other key indicators in sound condition, sets the company up exceptionally well for FY24 and beyond.

The CEO's performance is assessed on the Company balanced scorecard and a number of strategic initiatives such as:

- Company balanced scorecard and key result areas,
- Leadership and team development,
- Strategy development and execution,
- Brand and reputation,
- Strategic partnerships including mergers and acquisitions.

The PRN considered the SLT's STI awards in light of the Balanced Scorecard achievements, and each individual's contribution to the results and recommended to the Board each SLT STI award, as reflected in the statutory table. In addition to the balanced scorecard, each SLT is also assessed on a range of individual objectives relevant to their role and responsibilities. The awards reflect recognition of the performance of each SLT, their team and the achievement of the many strategic initiatives.

4. Executive KMP Remuneration Outcomes

4.1 Corporate performance

In considering the Company's short and long-term incentive payments, regard is had to the following measures which reflect Australian Ethical's performance across a range of metrics over the last five years:

	2019	2020	2021	2022	2023
FUM at year end ($ billion)	3.42	4.05	6.07	6.20	9.20
Net inflows ($ billion) – organic growth	0.33	0.66	1.03	0.94	0.47
Net inflows ($ billion) – M&A	-	-	-	-	1.93
Operating Revenues ($'000)	40,977	49,902	59,110	70,784	81,096
Performance fees ($'000) included above	769	3,640	2,895	375	-
Underlying Profit After Tax (UPAT) ($'000)[2]	6,540	9,279	11,052	10,284	11,789
Net Profit After Tax attributable to shareholders ($'000)	6,465	9,457	11,261	9,597	6,576
UPAT excluding performance fees	6,024	7,028	9,167	10,044	11,789
NPAT excluding performance fees	5,949	7,206	9,377	9,356	6,576
Diluted Earnings Per Share (cents per share)	5.84	8.42	10.02	8.55	5.84
Diluted EPS growth excl performance fees (3 years)	25.3%	36.4%	23.2%	16.2%	(3.2%)
Dividends (cents per share, restated for share split)	5.00	5.00	7.00	6.00	7.00
Special performance fee dividend (cents per share)[3]	-	1.00	1.00	-	-
Staff engagement scores	71%	86%	82%	79%	70%

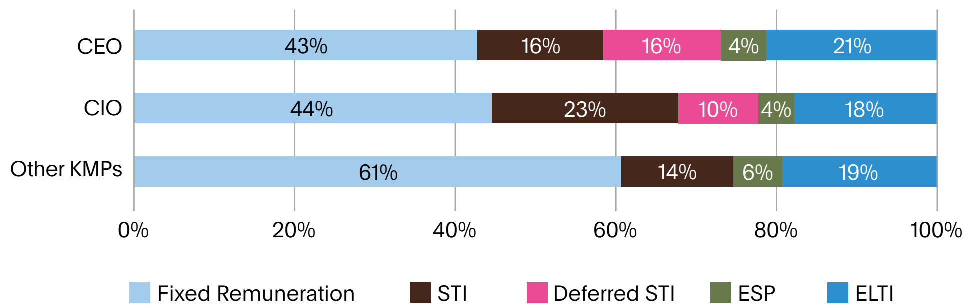
[2] Underlying Profit After Tax is a non-IFRS measure and is not audited
[3] The Special performance fee dividend is linked to the performance fee achieved on the Emerging Companies Fund outperformance in FY20 and FY21.

4.2 Weighting of remuneration components

The following are the weightings of the various components of target remuneration for the CEO, CIO and all other KMP. Target remuneration is the remuneration that KMP expect to be paid if all of their strategic initiatives are achieved.

Target Remuneration includes ELTI performance rights granted on 1 December 2022. The ELTI performance hurdles will be assessed at the end of 2026 and will only then be awarded if the performance hurdles are achieved. Opportunity for stretch targets and additional remuneration are available under certain conditions and these are outlined in the ELTI section below.

Target Remuneration by Component



STI bonus

The below table shows for each KMP how much of their STI bonus was awarded, in relation to the maximum incentive pay they were entitled to. The percentages equate to the ratio of bonus components against fixed salary. Deferred shares vest a third per year over 3 years. The KMP bonuses are subject to Board approval and all other bonuses subject to CEO discretion, minimum is 0%.

Total STI Bonus (Cash and Deferred Shares)

Name	Opportunity as a % of Fixed Remuneration		Target Opportunity	Maximum Opportunity as % of Fixed Remuneration (2 x Target)	Awarded	Achieved as % of Maximum Opportunity[1]
	Target %	Max %	$	$	$	%
J McMurdo	75%	150%	393,750	787,500	570,000	72%
M Enander	25%	50%	92,500	185,000	92,500	50%
K Hughes	15%	30%	47,250	94,500	70,000	74%
M Loyez	25%	50%	95,000	190,000	100,000	53%
D Macri (dep 31 Dec 2022)	75%	150%	333,100	666,200	-	-
E Moos	25%	50%	80,364	160,727	86,000	54%
R Piper[2]	25%	50%	64,163	128,325	70,000	55%
M Simons	25%	50%	105,000	210,000	170,000	81%
L Theau[3]	75%	150%	-	-	-	-

1 Forfeiture %, in accordance with Corporations Regulation 2001 – Reg 2M.3.03 clause 12(f), is calculated as 100% less the Achieved %
2 Target Opportunity for R Piper is adjusted to reflect the time employed with Australian Ethical.
3 L Theau is not yet eligible for STI bonus in FY23 due to his start date.

ESP Vesting

In considering the vesting of the Employee Share Plan, the Board advises that in strategically positioning the business to capture accretive growth for stakeholders, it agreed a business plan with management for FY23 that prioritised growth in funds under management and revenue, above current year profit. This was substantially (but not only) to achieve the transformational opportunity presented for the business in completing the Christian Super successor fund transfer.

In the 3-year vesting period for the current employee share plan tranche, the Board was delighted to have observed 3-year FUM growth of 127% (32% CAGR) and 3-year revenue growth of 63% (18% CAGR). Both of these key measures materially exceeding a 10% CAGR. FUM growth in FY23 alone was 48%.

The NPAT and UPAT targets set by the Board for FY23 were exceeded, as per the balanced scorecard detailed above.

Further, after running a highly successful integration of the Christian Super transaction, second half underlying profit was $6.8m ($13.6m annualised) - materially above the implied 10% 3-year compound annual growth in diluted earnings per share (pre-performance fees), required for the employee share plan to vest.

On this basis, and also noting the increase in second half dividend approved by the Board given the significant uplift in earnings post the Christian Super SFT, the board has exercised its discretion to fully vest the current tranche of the Employee Share Plan.

ELTI - Performance Rights

Rights to ordinary shares under the Executive LTI program are granted each year on 1 December, with the first grant in 2021. The number of performance rights allocated to each KMP was determined using an allocation price based on the 60-day variable weighted average price following the annual results announcement in August. On vesting, each right automatically converts into one ordinary share.

The fair value of the Performance Rights was determined based on the market price of the company's shares at the grant date, with an adjustment made for dividends foregone during that period.

	Allocation Price	Fair Value Price
Granted 1 December 2021	$10.34	$13.54
Granted 1 December 2022	$5.29	$4.54

The table below shows the number of rights granted on 1 December 2021 and the grant value of those rights based on the assumption that the first performance hurdle of $15bn is achieved (1 times multiplier). For each incremental FUM hurdle of $2.5bn, a multiplier of 2 through to 6 would be applied. The maximum opportunity is 7 times the base number of rights granted, which would only vest if $30bn FUM is achieved along with other KPIs in 2025. Therefore, the maximum fair value of rights would be 7 times the fair value presented in the table below. Refer to *Elements of Remuneration* table above for detailed vesting requirements.

At this time, the performance hurdles for the Performance Rights granted 1 December 2021 have not yet been met. The Board's assessment is that the likelihood of meeting the performance hurdles by the vest date is less likely than more likely given the growth still required to achieve the threshold, ongoing uncertainty around the outlook for world economies, and on the basis organic growth only can be assumed. Accordingly, the fair value of these rights has been written down to nil.

This probability assessment does not change the ambitious growth that is still being targeted including both organic and inorganic growth. Should the assessment be probable at a future date, then this write-back will be revisited.

Statutory expense in the *'Remuneration Outcomes – Statutory Basis'* table below includes the impact of the write-back.

Granted 1 December 2021	Granted as % of Fixed Remuneration	Potential Multiplier	No. of Rights Granted (based on 1 times multiplier)	Grant Value of Rights (based on 1 times multiplier)	Fair Value of Rights
J McMurdo	50%	1 to 7 times	24,178	$327,369	-
M Enander	40%	1 to 7 times	13,540	$183,327	-
K Hughes	10%	1 to 7 times	2,901	$39,284	-
M Loyez	40%	1 to 7 times	13,926	$188,565	-
D Macri (departed 31 Dec 2022)	40%	1 to 7 times	16,248	$219,992	-
R Piper	25%	1 to 7 times	10,517	$142,406	-
M Simons	40%	1 to 7 times	15,474	$209,516	-

Performance rights granted on 1 December 2021 to David Macri were forfeited upon resignation and the statutory expense reversed.

The table below shows the number of rights granted on 1 December 2022 and the grant value of those rights. Board's assessment is that it is probable that the performance hurdles for this tranche will be achieved.

The multiplier mechanism does not apply to the ELTI tranche vesting 1 September 2026.

Granted 1 December 2022	Granted as % of Fixed Remuneration	No. of Rights Granted	Fair Value of Rights
J McMurdo	50%	49,622	$225,284
M Enander	40%	27,977	$127,017
K Hughes	10%	5,955	$27,034
M Loyez	40%	28,733	$130,450
E Moos	10%	6,077	$27,588
R Piper	40%	32,892	$149,331
M Simons	40%	31,758	$144,181
L Theau (commenced 3 April 2023, after grant date)	-	-	-

The following two tables set out Executive KMP remuneration.

- The table 'Executive KMP Remuneration Outcomes – Statutory Basis' is aligned to the way the Company expenses (accrues) the remuneration of the senior team under the accounting standards and the Corporations Act.
- The table 'Executive KMP Remuneration Outcomes – Cash and Vesting Basis' shows amounts received by the senior leadership team in cash and shares vested during the financial year ended 30 June 2023.

The movement in the Executive KMP remuneration outcomes (statutory basis) between FY22 and FY23 is due to:

- CEO – The increase is attributable to an increase in salary in line with industry benchmarking and performance-based bonuses.
- Other KMP:
  - Increase in individual salaries in line with responsibilities and industry benchmarking to ensure reward remains competitive and fair.
  - Whilst changes in STI is based on individual performance, bonuses in general were more modest in the current year.
- Performance rights (ELTI) expense reflects the write-back of the rights granted on 1 December 2021 to reflect the probability of the rights achieving the performance hurdles. This write-back was offset by the expense relating to additional ELTI granted on 1 December 2022.
- New Chief Executive Superannuation ('CES') commenced in November 2022, and new Chief Investment Officer ('CIO') commenced in April 2023. Amounts disclosed for these roles reflect the period of time employed.
- The KMP group was redefined on 1 July 2023 at which time the General Counsel and the Head of Ethics were no longer part of the KMP.

Executive KMP Remuneration Outcomes – Statutory Basis

The table below outlines executive KMP remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed (accrued) in the Company's financial statements for the particular year based on the balanced scorecard and other agreed KPIs.

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits						
Name	Salary $	STI – Cash[1] $	Super-annuation $	Termination Benefits $	Long Service Leave $	Deferred STI – Equity[2] $	LTI – Equity[3] $	LTI – Rights[4] $	Total $	STI as a % of Fixed Remuneration	Variable Rem as a % of Total Remuneration
2023 financial year											
Current leadership team											
J McMurdo	493,712	285,000[5]	27,500	-	9,747	253,004	99,739	(21,315)	1,147,387	103.2%	55.6%
M Enander	313,455	92,500	27,500	-	7,355	15,625	34,000	(11,757)	478,679	31.7%	29.7%
K Hughes	287,435	70,000	25,292	-	9,991	-	30,000	(2,558)	420,160	22.4%	23.8%
M Loyez	349,439	100,000	27,500	-	8,058	6,250	34,906	(12,134)	514,020	28.2%	27.5%
E Moos	293,955	86,000	27,500	-	6,184	-	11,977	5,760	431,376	26.8%	22.7%
R Piper (commenced 25 Nov 2022)	234,180	70,000	24,589	-	8,551	-	-	31,179	368,499	27.1%	19.0%
M Simons	389,470	100,000	27,500	-	13,393	66,667	38,667	(13,641)	622,054	40.0%	33.0%
L Theau (commenced 3 April 2023)	73,094	-	6,323	-	1,554	-	-	-	80,971	-	-
D Macri (departed 31 Dec 2022)	308,329	-	27,500	-	7,789	-	43,543	(45,932)	341,229	-	12.8%
Total 2023	**2,743,071**	**803,500**	**221,205**	**-**	**72,621**	**341,546**	**292,833**	**(70,398)**	**4,404,376**	**38.6%**	**32.6%**
2022 financial year											
Current leadership team											
J McMurdo	466,532	281,250[5]	23,568	-	9,761	194,481	82,239	68,352	1,126,183	57.4%	55.6%
M Enander	319,332	100,000	23,568	-	7,555	15,624	21,667	38,277	526,023	29.2%	33.4%
K Hughes	275,103	72,000	23,568	-	6,394	-	29,000	8,202	414,267	24.1%	26.4%
M Loyez	331,934	100,000	23,568	-	7,447	6,250	22,240	39,371	530,810	28.1%	31.6%
E Moos (commenced 18 May 2022)	29,837	-	2,984	-	631	-	-	-	33,452	-	-
S Palmer	304,373	68,000	23,568	-	11,009	-	31,667	18,045	456,662	20.7%	25.8%
M Simons	367,829	100,000	23,568	-	13,018	35,000	36,000	43,745	619,160	25.5%	34.7%
K Heng (departed 21 June 2022)	365,197	-	23,568	-	(15,478)	-	(41,682)	-	331,605	-	-
D Macri	389,739	136,500	23,568	-	23,753	16,311	127,754	45,932	763,557	33.0%	42.8%
T May	265,062	-	23,568	-	12,570	-	28,000	7,929	337,129	-	10.7%
Total 2022	**3,114,938**	**857,750**	**215,097**	**-**	**76,660**	**267,666**	**336,883**	**269,853**	**5,138,848**	**25.8%**	**33.7%**

1. The Short-term Incentive ('STI') expense is the amount accrued for performance during the respective financial year using agreed KPI's. The 2023 amounts were approved by the Board. STI in excess of $100,000 is paid in deferred shares (with exception of the CEO and CIO who have other deferral requirements).
2. The Deferred Short-term incentive ('DSTI') expense for 2023 includes the current year expense impact of deferred shares in the FY21 and FY22 grants. The cost of shares is fixed at the time of grant and expensed on a straight-line basis over the vesting period which ranges from 1 to 3 years.
3. The Long-term incentive ('ESP') expense for 2023 includes the relevant 2023 expense impact of each of the FY20, FY21 and FY22 grants under the Employee Share Plan. The cost of shares is fixed at time of grant and expensed over a three-year period using an annual probability assessment of the hurdles being met at the end of the vesting period. The FY20 tranche will vest at an individual level in September 2023.
4. The Long-term incentive rights expense includes the current year expense impact of the Executive LTI ('ELTI') granted in FY21 and FY22, based on the grant price of $13.54 and $4.54 respectively. The life-to-date expense relating to the FY21 grant was written back as the probability of achieving the performance hurdles was assessed as nil.
5. The CEO was awarded 72% (2022: 75%) of his maximum incentive by the Board. The maximum incentive is 2 times his target STI at 30 June 2023. 50% of this award is paid in cash and the remaining 50% is paid in deferred shares over each of the next 3 years, with first vest in September 2024.

Executive KMP Remuneration Outcomes – Cash and Vesting Basis (non-IFRS, audited)

The table below reflects actual benefits received by each KMP during the reporting period including prior year bonus paid in cash in the current year and the value of shares vested under the employee share plans.

	Short Term Benefits			Post-Employment Benefits		Long Term Benefits			
Name	Salary[1] $	Cash Bonus $	Equity $	Super-annuation[1] $	Termination Benefits $	Long Service Leave $	Long Term Incentives – Equity[3] $	Total $	Performance Related %
2023 financial year									
Current leadership team									
J McMurdo	499,297	281,250	81,638	27,500	-	9,747	-	899,432	31.3%
M Enander	314,223	100,000	-	27,500	-	7,355	-	449,078	22.3%
K Hughes	288,963	72,000	-	25,292	-	9,991	85,536	481,782	32.7%
M Loyez	350,153	100,000	-	27,500	-	8,058	-	485,711	20.6%
E Moos	294,091	-	-	27,500	-	6,184	-	327,774	-
R Piper (commenced 25 Nov 2022)	234,180	-	-	24,589	-	41,994	-	300,763	-
M Simons	392,235	100,000	-	27,500	-	13,393	92,923	626,051	30.8%
L Theau (commenced 3 April 2023)	73,094	-	-	6,323	-	1,554	-	80,971	-
D Macri (departed 31 Dec 2022)	311,326	157,500	-	27,500	-	7,789	498,411	1,002,525	65.4%
Total 2023	**2,757,562**	**810,750**	**81,368**	**221,204**	**-**	**106,064**	**676,870**	**4,654,089**	**32.0%**
2022 financial year									
Current leadership team									
J McMurdo	471,660	219,300	51,756	23,568	-	9,761	-	776,045	34.9%
M Enander	319,968	110,000	-	23,568	-	7,555	-	461,092	23.9%
K Hughes	276,759	58,000	-	23,568	-	6,394	225,125	589,846	48.0%
M Loyez	332,587	100,000	-	23,568	-	7,447	-	463,601	21.6%
E Moos (commenced 18 May 2022)	29,837	-	-	2,984	-	631	-	33,452	-
S Palmer	306,174	60,000	-	23,568	-	11,009	227,237	627,988	45.7%
M Simons	369,817	130,000	-	23,568	-	13,018	249,163	785,567	48.3%
K Heng (departed 21 June 2022)	367,607	110,000	-	23,568	-	(15,478)	-	485,697	22.6%
D Macri	396,930	325,000	-	23,568	-	23,753	898,981	1,668,233	73.4%
T May	266,660	40,000	-	23,568	-	12,570	196,341	539,138	43.8%
Total 2022	**3,137,999**	**1,152,300**	**51,756**	**215,096**	**-**	**76,660**	**1,796,847**	**6,430,658**	

1. Fixed remuneration – includes base salary, payments made to superannuation funds and dividend income on unvested shares.
2. Long term incentives – Equity 2023 represents the market value of vested shares during the financial year relating to employee share plan shares granted in September 2019. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was $6.45 (price at grant was $2.15).
3. Long term incentives – Equity 2022 represents the market value of vested shares during the financial year relating to employee share plan shares granted in September 2018. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was $9.97 (price at grant was $1.32).

Unvested and Ordinary Shares

The movement during the reporting period in the number of unvested shares and ordinary shares in the Company, held directly, or beneficially, by each key management person, including their related parties is outlined in the table below.

Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2022	No. of shares/rights granted	No. of shares/rights forfeited	No. of shares vested	No. of shares sold	Balance at 30 June 2023
J McMurdo									
Unvested Deferred STI shares	1-Sep-20	1-Sep-22	4.53	5,193	-	-	(5,193)	-	-
Unvested Deferred STI shares & ESP	1-Sep-20	1-Sep-23	4.53	48,602	-	-	-	-	48,602
Unvested Deferred STI shares	1-Sep-21	1-Sep-22	9.80	7,459	-	-	(7,459)	-	-
Unvested Deferred STI shares	1-Sep-21	1-Sep-23	9.80	7,459	-	-	-	-	7,459
Unvested Deferred STI shares & ESP	1-Sep-21	1-Sep-24	9.80	12,561	-	-	-	-	12,561
Unvested Deferred STI shares	1-Sep-22	1-Sep-23	5.29	-	17,722	-	-	-	17,722
Unvested Deferred STI shares	1-Sep-22	1-Sep-24	5.29	-	17,722	-	-	-	17,722
Unvested Deferred STI shares & ESP	1-Sep-22	1-Sep-25	5.29	-	27,646	-	-	-	27,646
Ordinary shares				5,193	-	-	12,652	-	17,845
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	24,178	-	-	-	-	24,178
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	49,622	-	-	-	49,622
Total				**110,645**	**112,712**	**-**	**-**	**-**	**223,357**
M Enander									
Unvested ESP shares	1-Sep-20	1-Sep-23	4.53	6,620	-	-	-	-	6,620
Unvested ESP shares	1-Sep-21	1-Sep-24	9.80	3,571	-	-	-	-	3,571
Unvested ESP shares	1-Sep-22	1-Sep-25	5.29	-	6,994	-	-	-	6,994
Unvested Deferred STI shares	1-Sep-22	1-Sep-25	5.29	-	5,907	-	-	-	5,907
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	13,540	-	-	-	-	13,540
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	27,977	-	-	-	27,977
Total				**23,731**	**40,878**	**-**	**-**	**-**	**64,609**
K Hughes									
Unvested ESP shares	1-Sep-19	1-Sep-22	2.15	13,256	-	-	(13,256)	-	-
Unvested ESP shares	1-Sep-20	1-Sep-23	4.53	6,289	-	-	-	-	6,289
Unvested ESP shares	1-Sep-21	1-Sep-24	9.80	3,061	-	-	-	-	3,061
Unvested ESP shares	1-Sep-22	1-Sep-25	5.29	-	5,955	-	-	-	5,955
Ordinary shares				5,579	-	-	13,256	-	18,835
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	2,901	-	-	-	-	2,901
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	5,955	-	-	-	5,955
Total				**31,086**	**11,910**	**-**	**-**	**-**	**42,966**

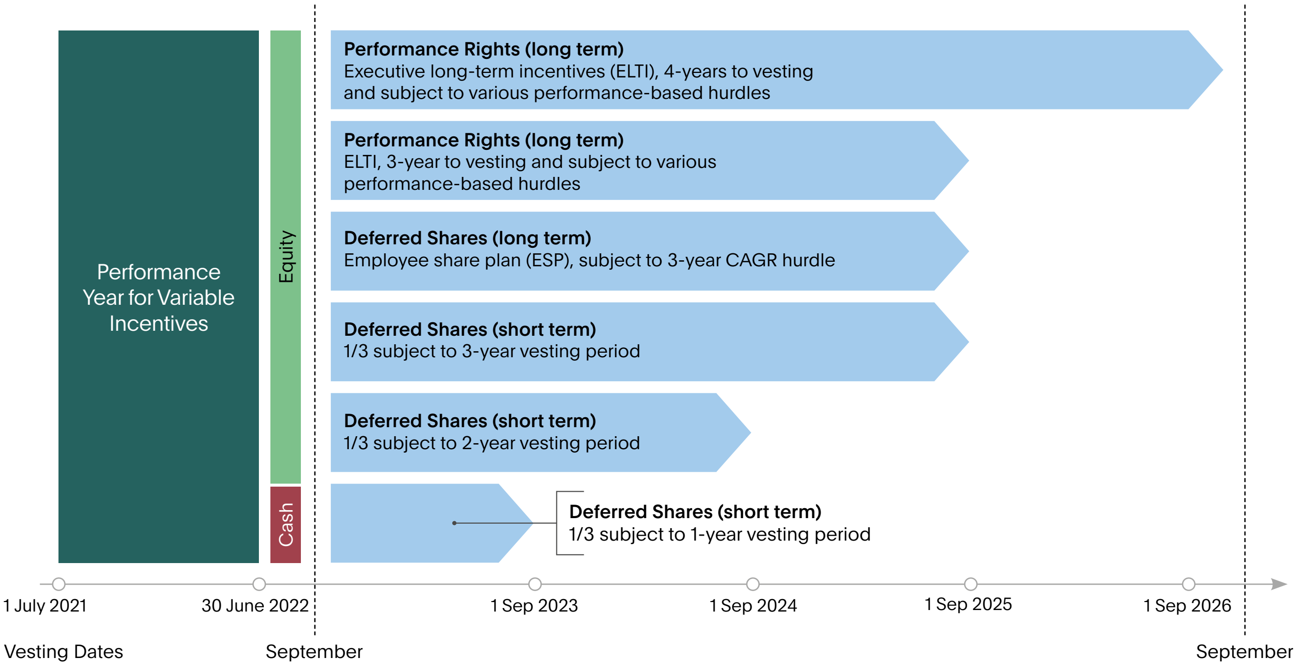
Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2022	No. of shares/rights granted	No. of shares/rights forfeited	No. of shares vested	No. of shares sold	Balance at 30 June 2023
M Loyez									
Unvested ESP shares	1-Sep-20	1-Sep-23	4.53	6,779	-	-	-	-	6,779
Unvested ESP shares	1-Sep-21	1-Sep-24	9.80	3,673	-	-	-	-	3,673
Unvested ESP shares	1-Sep-22	1-Sep-25	5.29	-	7,183	-	-	-	7,183
Unvested Deferred STI shares	1-Sep-22	1-Sep-25	5.29	-	2,363	-	-	-	2,363
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	13,926	-	-	-	-	13,926
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	28,733	-	-	-	28,733
Total				**24,378**	**38,279**	**-**	**-**	**-**	**62,657**
D Macri									
Unvested ESP shares	1-Sep-19	1-Sep-22	2.15	56,898	-		(56,898)	-	-
Unvested ESP shares	1-Sep-20	1-Sep-23	4.53	26,995	-	(4,499)	(22,496)	-	-
Unvested ESP shares	1-Sep-21	1-Sep-24	9.80	14,143	-	(7,066)	(7,077)	-	-
Unvested Deferred STI shares	1-Sep-21	1-Sep-22	9.80	616	-		(616)	-	-
Unvested Deferred STI shares	1-Sep-21	1-Sep-23	9.80	616	-		(616)	-	-
Unvested Deferred STI shares	1-Sep-21	1-Sep-24	9.80	615	-		(615)	-	-
Ordinary shares				144,865	-		88,318	(211,718)	21,465
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	16,248	-	(16,248)	-	-	-
Total				**260,996**	**-**	**(27,813)**	**-**	**(211,718)**	**21,465**
E Moos									
Unvested ESP shares	1-Sep-22	1-Sep-25	5.29	-	6,793	-	-	-	6,793
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	6,077	-	-	-	6,077
Total				**-**	**12,870**	**-**	**-**	**-**	**12,870**
R Piper									
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	-	10,517	-	-	-	10,517
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	32,892	-	-	-	32,892
Total				**-**	**43,409**	**-**	**-**	**-**	**43,409**
M Simons									
Unvested ESP shares	1-Sep-19	1-Sep-22	2.15	15,814	-	-	(15,814)	-	-
Unvested ESP shares	1-Sep-20	1-Sep-23	4.53	7,503	-	-	-	-	7,503
Unvested ESP shares	1-Sep-21	1-Sep-24	9.80	4,082	-	-	-	-	4,082
Unvested ESP shares	1-Sep-22	1-Sep-25	5.29	-	7,940	-	-	-	7,940
Unvested Deferred STI shares	1-Sep-22	1-Sep-23	5.29	-	9,452	-	-	-	9,452
Unvested Deferred STI shares	1-Sep-22	1-Sep-24	5.29	-	5,671	-	-	-	5,671
Ordinary shares				40,000	-	-	15,814	(15,814)	40,000
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	15,474	-	-	-	-	15,474
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	-	31,758	-	-	-	31,758
Total				**82,873**	**54,821**	**-**	**-**	**-**	**121,880**

Contract terms

All KMP's, except the Managing Director are permanent employees with a 12-week notice period. The Managing Director & CEO remuneration structure is outlined below:

Salary	Term	Notice period	STI	LTI	Malus Provision
Fixed salary from 1 September 2023 is $552,000 inclusive of superannuation	No fixed term	6 months, however, could be terminated without notice due to negligence in carrying out responsibilities, dishonesty, breaching Company policies or criminal activity.	Target STI of 75% of fixed remuneration with a maximum STI of 2 times the target, based on a balanced scorecard of KPIs, specific objectives and Board discretion. Of the amount payable each year, 50% shall be paid in cash and 50% shall be deferred in the form of Company shares vesting as follows – one third one year after grant date, one third two years after grant date and one third three years after grant date.	Employee share plan – 10% of fixed remuneration. The shares are subject to the rules and terms of the Employee Share Plan. Executive LTI – performance rights at 50% of fixed remuneration. Only the ELTI rights granted on 1 December 2021 have a 1 to 7 times multiplier mechanism.	The Board has the discretion to reduce or cancel any STI or LTI for: • Fraudulent or dishonest conduct; • Material misstatements or omission in the financial statements; or • Circumstances occur that the Board determines to have resulted in unfair or inappropriate benefit

The below graph summarises the structure of the variable incentive compensation paid or granted to the CEO in FY23. The graph depicts the combination of short and long term incentives granted and the upcoming vesting dates.



5. Non-Executive Director Arrangements

The director fee pool available for payment to NEDs of the Company is approved by shareholders. The maximum annual aggregate pool for directors' remuneration is $1,000,000, which was approved at the AGM in October 2021. A review of NEDs' remuneration is undertaken annually by the Company Board, taking into account recommendations from the PRN.

The following table sets out the agreed remuneration for NEDs by position for a full year, with effect from 1 November 2022. NEDs do not receive performance-related pay and are not provided with retirement benefits apart from statutory superannuation.

In total, directors' fees of $804,803 was paid during the year out of the director fee pool approved at the 2021 AGM of $1,000,000.

In addition to fixed remuneration, Non-Executive Directors (NEDs) are entitled to be paid reasonable expenses, remuneration for additional services and superannuation contributions. Non-executive Directors are not eligible to participate in employee incentive plans and the Chair of Australian Ethical Superannuation Ltd does not receive any additional fees for chairing this Board.

From 1 November 2022	AEI $	AES $	The Foundation $
Base fees			
Chair	145,559	36,390	–
Other non-executive directors	83,176	36,390	–
Additional fees			
ARC – chair	27,292	18,195	–
ARC – member	15,596	10,397	–
Investment Committee (IC) – chair	27,292	–	–
Investment Committee (IC) – member	15,596	–	–
PDS Committee – chair	5,199	–	–
PDS Committee – member	5,199	–	–
Insurance Benefits Committee (IBC) – chair	–	5,199	–
Insurance Benefits Committee (IBC) – member	–	5,199	–
PRN – chair	–	–	–
PRN – member	–	–	–

5.1 Non-Executive Directors' remuneration

The table below outlines non-Executive reward as calculated in accordance with accounting standards and the Corporations Act 2001 requirements for the directors of the consolidated group. The amounts shown are equal to the amount expensed in the Company's financial statements.

Name	Board Fee $	Audit, Risk & Compliance Committee $	People, Remuneration & Nominations Committee $	Investment Committee $	PDS Committee $	Insurance Benefits Committee $	Superannuation $	Total $
2023								
S Gibbs	162,803	23,258	–	–	4,652	4,652	20,513	215,877
K Greenhill	106,985	40,701	–	–	–	4,652	15,995	168,333
M Bûn	106,985	23,258	–	13,955	–	–	15,141	159,338
M Monaghan (retired 31 Mar 2023)	79,934	–	–	18,246	3,475	–	10,674	112,329
S McCullagh (app 1 Mar 2023)	25,091	–	–	7,351	–	–	3,406	35,848
J Orr[1]	74,424	13,955	–	13,955	–	–	10,745	113,078
M Anderson (app 1 Dec 2022)[2]	19,210	–	–	–	–	–	2,017	21,227
Total	**575,432**	**101,171**	**–**	**53,506**	**8,127**	**9,303**	**78,492**	**826,030**
2022								
S Gibbs	141,961	20,835	–	3,044	3,657	3,971	17,304	190,772
K Greenhill	93,798	36,462	–	3,044	–	3,971	13,728	151,003
M Bûn	93,798	14,111	–	12,135	–	–	12,005	132,049
M Monaghan	93,798	8,373	–	20,475	3,657	–	12,630	138,933
J Orr[1]	63,671	11,933	–	12,135	–	–	8,774	96,513
Total	**487,026**	**91,714**	**–**	**50,833**	**7,314**	**7,942**	**64,441**	**709,270**

[1] J Orr is a director of AEI Limited and a member of AEI's PRN, ARCC and Investment committee. She is not a director of AES Pty Limited.
[2] M Anderson is a director of AES only, appointed on 1 March 2023.

During the year, the following changes to Boards and committee memberships occurred:

- From 1 March 2023 Ms McCullagh was appointed a Director of AEI and a member of the People, Remuneration and Nominations Committee. Prior to this, Ms McCullagh was an independent member of the Investment Committee but was not a director or KMP. Ms McCullagh was paid $34,071 for her role as an Investment Committee member prior to becoming a director of the Company. Ms McCullagh is not a director of AES.
- Mr Monaghan resigned his roles as Director of AEI and AES, and Chair of the AEI Investment Committee, with effect from 31 March 2023.
- From 1 April 2023 Ms McCullagh was appointed Chair of the AEI Investment Committee.
- The Investment Committee also includes Sean Henaghan and Steven Rankine who were appointed on 22 February 2022, and Michael Anderson who was appointed on 1 March 2023. Mr Henaghan and Mr Rankine are not Directors of AEI and are not KMP. Their remuneration is not included in the Director fee pool. Mr Anderson is a Director of Australian Ethical Superannuation but is not a Director of AEI and is not a KMP. His remuneration is not included in the Director fee pool.

5.2 Shares owned by Non-Executive Directors

Name	Purchase date	Balance at 1 July 2022	No. of shares purchased	No. of shares sold	Balance at 30 June 2023
Non-Executive Directors					
M Bûn					
AEF Ordinary shares	13-Nov-17	57,000	–	–	57,000
Total		**57,000**	**–**	**–**	**57,000**

6. Governance

6.1 The Role of the People, Remuneration and Nominations Committee (PRN)

The role of the PRN is to help the Board fulfil its responsibilities to shareholders through a strong focus on governance and in particular, the principles of accountability and transparency. The PRN operates under delegated authority from the Board.

The terms of reference include oversight of remuneration as well as executive development, talent management and succession planning.

The PRN members for the financial year ended 30 June 2023 were:

- Steve Gibbs (Chair),
- Mara Bûn,
- Kate Greenhill,
- Julie Orr,
- Michael Monaghan (departed 31 March 2023), and
- Sandra McCullagh (appointed 1 March 2023).

The PRN met eight times during the year. Attendance at these meetings is set out in the Directors' Report. At the PRN's invitation, the Managing Director and Chief People & Culture Officer attended all meetings except where matters were associated with their own performance evaluation, development and remuneration were to be considered. The PRN considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including engaging remuneration consultants from time to time. However, no remuneration consultants were engaged in FY23. Annually, the PRN assesses the eligibility for vesting of deferred shares.

6.2 CEO and SLT Performance

The CEO is responsible for reviewing the performance of KMPs and determining whether their performance requirements were met. In addition, the CEO has oversight of all employees' performance appraisals. Both quantitative and qualitative data is used to determine whether performance criteria are achieved.

An annual assessment of the CEO is completed by the Chair and is overseen by the Board, with input from the PRN. The review includes measurement of performance against agreed KPI's and Company performance. The PRN also has oversight of SLT performance.

6.3 Malus Provisions

The Board has the discretion to reduce or forfeit awards where:

- The participant has acted fraudulently or dishonestly or is in breach of their obligations to the Company
- The Company becomes aware of material misstatement or omission in the financial statements of the Company, or
- Circumstances occur that the Board determines to have resulted in unfair or inappropriate benefit to the recipient.

6.4 Hedging Policy

Senior executives participating in the Company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the Company's securities.

6.5 Trading Restrictions and Windows

All directors and employees are constrained from trading the Company's shares during 'blackout periods'. These periods occur between the end of the half year and two days after the release of the half-year results, and between the end of the full year and two days after the release of the full year results. In addition, where potential price sensitive information is known and not required to be disclosed to the market, the directors and relevant employees are constrained from trading the Company's shares.

The Directors' report, incorporating the Remuneration report, is signed is accordance with a resolution of the Board of Directors.

STEVE GIBBS
Chair
People, Remuneration & Nominations Committee

24 August 2023

KPMG

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 audit of Australian Ethical Investment Limited 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

J Davis

Jessica Davis

Partner

Sydney

24 August 2023

Statements of comprehensive income

For the year ended 30 June 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000	Parent 2023 $'000	Parent 2022 $'000
Revenue					
Operating revenue	5	81,096	70,784	69,604	63,167
Expenses					
Employee benefits	6	(27,454)	(25,260)	(26,938)	(24,824)
Fund related	7	(14,038)	(10,194)	(4,835)	(4,034)
Marketing	8	(11,694)	(9,094)	(11,694)	(9,094)
IT expenses	9	(3,536)	(3,831)	(3,430)	(3,497)
External services	10	(2,728)	(2,842)	(2,282)	(2,301)
Community grants expense	11	(1,116)	(1,580)	(1,099)	(1,509)
Depreciation	12	(1,265)	(1,205)	(1,265)	(1,205)
Other operating expenses	13	(1,816)	(1,646)	(1,353)	(1,313)
Occupancy	14	(446)	(335)	(446)	(335)
Finance costs	21	(88)	(41)	(88)	(41)
Due diligence & transaction costs	15	–	(982)	–	(982)
Integration costs	16	(3,733)	–	(2,357)	–
Total expenses		(67,914)	(57,010)	(55,787)	(49,135)
Change in fair value of investment		(2,600)	–	(2,600)	–
Profit before income tax expense		10,582	13,774	11,217	14,032
Income tax expense	17	(4,006)	(4,263)	(4,196)	(4,085)
Net Profit for the year		6,576	9,511	7,021	9,947
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Gain/(Loss) on revaluation of investments	26	4	3	–	–
Other comprehensive income for the year, net of tax		4	3	–	–
Total comprehensive income for the year[1]		**6,580**	**9,514**	**7,021**	**9,947**
		Cents	**Cents**		
Basic earnings per share	44	5.89	8.57		
Diluted earnings per share	44	5.84	8.47		

[1] Comprehensive income includes the results of The Foundation (refer to Note 46)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June 2023

		Consolidated		Parent	
	Note	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Assets					
Current assets					
Cash and cash equivalents	18	27,134	21,787	20,498	19,313
Term deposits	19	5,600	5,600	5,000	5,000
Trade and other receivables	20	2,475	1,737	5,404	4,443
Prepayments		1,475	1,346	1,080	1,315
Right-of-use assets	21	30	626	30	626
Income tax refund due	17	–	249	–	249
Total current assets		36,714	31,345	32,012	30,946
Non-current assets					
Deferred tax	17	3,974	3,338	3,450	3,207
Property, plant and equipment	22	911	1,401	911	1,401
Right-of-use assets	21	2,284	46	2,284	46
Term deposit	23	749	504	749	504
Investments in subsidiary	24	–	–	316	316
Intercompany loan		–	–	240	–
Financial assets through profit or loss	25	2,600	5,200	2,600	5,200
Financial assets through other comprehensive income	26	72	106	1	1
Total non-current assets		10,590	10,595	10,551	10,675
Total assets		**47,304**	**41,940**	**42,563**	**41,621**
Liabilities					
Current liabilities					
Trade and other payables	28	9,832	8,568	5,821	9,403
Employee benefits	30	6,258	5,997	6,214	5,954
Deferred payable on investment	29	871	1,300	871	1,300
Tax payable	17	605	–	605	–
Lease liabilities	21	379	787	379	787
Total current liabilities		17,945	16,652	13,890	17,444
Non-current liabilities					
Lease liabilities	21	1,823	47	1,823	47
Employee benefits	31	444	284	428	284
Provisions	32	324	258	324	258
Deferred tax	17	14	34	14	34
Total non-current liabilities		2,605	623	2,589	623
Total liabilities		20,550	17,275	16,479	18,067
Net assets		26,754	24,665	26,084	23,554
Equity					
Issued capital	33	10,515	8,969	10,515	8,969
Reserves	34	2,301	2,706	2,293	2,702
Retained profits		13,938	12,990	13,276	11,883
Total equity		**26,754**	**24,665**	**26,084**	**23,554**

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

Statements of changes in equity

FOR THE YEAR ENDED 30 JUNE 2023

	Issued capital $'000	Share-based payment reserve $'000	FVOCI[1] reserve $'000	Retained profits $'000	Total equity $'000
	Note 33	Note 34	Note 34		
Consolidated					
Balance at 1 July 2021	10,676	1,033	1	12,470	24,180
Profit after income tax expense for the year	–	–	–	9,511	9,511
Other comprehensive income for the year, net of tax	–	–	–	3	3
Total comprehensive income for the year	–	–	–	9,514	9,514
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	–	–	–	(8,991)	(8,991)
Shares vested under deferred shares plan during the year	985	(985)	–	–	–
Employee deferred shares & rights	–	2,654	–	–	2,654
Employee share plan – shares purchased on-market	(2,692)	–	–	–	(2,692)
Revaluation of investments	–	–	3	(3)	–
Balance at 30 June 2022	8,969	2,702	4	12,990	24,665

	Issued capital $'000	Share-based payment reserve $'000	FVOCI[1] reserve $'000	Retained profits $'000	Total equity $'000
	Note 33	Note 34	Note 34		
Consolidated					
Balance at 1 July 2022	8,969	2,702	4	12,990	24,665
Profit after income tax expense for the year	–	–	–	6,576	6,576
Other comprehensive income for the year, net of tax	–	–	–	4	4
Total comprehensive income for the year	–	–	–	6,580	6,580
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	–	–	–	(5,628)	(5,628)
Shares vested under deferred shares plan during the year	1,895	(1,895)	–	–	–
Employee deferred shares & rights	–	1,486	–	–	1,486
Employee share plan – shares purchased on-market	(349)	–	–	–	(349)
Revaluation of investments	–	–	4	(4)	–
Balance at 30 June 2023	10,515	2,293	8	13,938	26,754

[1] Fair value through other comprehensive income (FVOCI)

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

Statements of changes in equity

FOR THE YEAR ENDED 30 JUNE 2023

	Issued capital $'000	Share-based payment reserve $'000	Retained profits $'000	Total equity $'000
	Note 33	Note 34		
Parent				
Balance at 1 July 2021	10,676	1,033	10,927	22,636
Profit after income tax expense for the year	–	–	9,947	9,947
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	9,947	9,947
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	–	–	(8,991)	(8,991)
Shares vested under deferred shares plan during the year	985	(985)	–	–
Employee deferred shares & rights	–	2,654	–	2,654
Employee share plan – shares purchased on-market	(2,692)	–	–	(2,692)
Balance at 30 June 2022	8,969	2,702	11,883	23,554

	Issued capital $'000	Share-based payment reserve $'000	Retained profits $'000	Total equity $'000
	Note 33	Note 34		
Parent				
Balance at 1 July 2022	8,969	2,702	11,883	23,554
Profit after income tax expense for the year	–	–	7,021	7,021
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	7,021	7,021
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	–	–	(5,628)	(5,628)
Shares vested under deferred shares plan during the year	1,895	(1,895)	–	–
Employee deferred shares & rights	–	1,486	–	1,486
Employee share plan – shares purchased on-market	(349)	–	–	(349)
Balance at 30 June 2023	10,515	2,293	13,276	26,084

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

Statements of cash flows

FOR THE YEAR ENDED 30 JUNE 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000	Parent 2023 $'000	Parent 2022 $'000
Cash flows from operating activities					
Receipts from customers		79,668	73,201	68,087	61,002
Payments to suppliers and employees		(57,973)	(50,731)	(54,687)	(40,946)
		21,695	22,470	13,400	20,056
Interest received		728	51	574	42
Community grants paid		(1,607)	(1,425)	(1,509)	(1,519)
Income taxes paid		(4,612)	(4,934)	(1,210)	(1,550)
Net cash from operating activities	43	16,204	16,162	11,255	17,029
Cash flows from investing activities					
Payments relating to Christian Super SFT integration		(3,233)	–	(1,857)	–
Payments for investment in Sentient Impact Group		(429)	(3,900)	(429)	(3,900)
Purchase of bank guarantee		(245)	–	(245)	–
Payments for property, plant and equipment	22	(203)	(764)	(203)	(764)
Proceeds from sale of investment property held for sale		–	504	–	504
Return on investment in SVA unit trusts		39	36	–	–
Dividends received from subsidiary		–	–	–	765
Net cash from investing activities		(4,071)	(4,124)	(2,734)	(3,395)
Cash flows from financing activities					
Purchase of employee's deferred shares		(349)	(2,692)	(349)	(2,692)
Dividends paid	35	(5,627)	(8,991)	(5,627)	(8,991)
Payments on lease liabilities	21	(810)	(781)	(810)	(781)
Loan to subsidiary entity - AES	27	–	–	(550)	–
Net cash used in financing activities		(6,786)	(12,464)	(7,336)	(12,464)
Net increase in cash and cash equivalents		5,347	(426)	1,185	1,170
Cash and cash equivalents at the beginning of the financial year		21,787	22,213	19,313	18,143
Cash and cash equivalents at the end of the financial year	18	27,134	21,787	20,498	19,313

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 . ABOUT THIS REPORT

The financial report covers the consolidated entity of Australian Ethical Investment Limited, the ultimate parent entity, and its wholly owned subsidiaries (together referred to as the 'Group' and individually as 'Group entities') 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'), and Australian Ethical Investment Limited as an individual parent entity. The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Australian Ethical Investment Limited is a listed public company limited by shares (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 Group's registered office is at Level 8, 130 Pitt Street, Sydney NSW 2000.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 August 2023. The directors have the power to amend and reissue the financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the 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 preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the accruals basis and are based on historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets at fair value through other comprehensive income, and financial assets and liabilities at fair value through profit or loss.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Parent entity information

These financial statements include the results of both the parent entity and the Group in accordance with Australian Securities and Investments Commission Corporations (Parent Entity Financial Statements) Instrument 2021/195.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Ethical Investments Limited ('Company' or 'Parent Entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Rounding of amounts

The Company is of a kind referred to in 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.

New or amended 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. The adoption of these new standards did not have an impact on the financial statements. These include:

- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
- Annual improvements to IFRS Standards 2018-2020
- Property, Plant & Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimate – Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the 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.

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Income tax & deferred tax assets/liabilities – refer to Note 17

The Group is subject to income taxes in the jurisdictions in which it operates. Estimation is required in determining the provision for income tax. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is yet to be finalised.

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Estimation of useful lives of assets – refer to Note 22

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets based on the available information at balance date. The useful lives could change in future periods as a result of technical innovations, planned use and benefits or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Lease term – Note 21

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Employee benefits provision – refer to Note 30 and Note 31

The liability for employee benefits expected to be settled more than 12 months from the reporting date is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision – refer to Note 32

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Share-based payment transactions – refer to Note 45

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. At the date the shares are granted the fair value is determined as the on-market purchase price if the shares are purchased or a 60-days VWAP price post year end results announcement if the shares are issued. Judgement is used in estimating the probability of performance hurdles being met in determining the value of equity instruments expensed in profit or loss.

Performance rights are measured at fair value at the date at which they are granted and the likelihood of performance conditions being met. The probability assessed grant date fair value x FUM target multiplier (applicable only to the rights granted on 1 September 2021) is recognised as an expense over the vesting period.

The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities but will impact profit or loss and equity.

NOTE 4. BUSINESS SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group comprises of one main operating segment being Funds Management.

NOTE 5. REVENUE

	Consolidated		Parent	
Operating revenue	**2023 $'000**	**2022 $'000**	**2023 $'000**	**2022 $'000**
Management fees	62,465	55,188	50,172	48,470
Performance fees	–	375	–	375
Administration fees (net of Operational Risk Financial Reserve contributions)	12,542	10,424	12,738	9,220
Principal investment advisory fee	–	–	5,876	4,278
Member fees (net of rebates)	5,108	4,730	–	–
Interest income	780	67	617	59
Other income	201	–	201	–
Dividends	–	–	–	765
Revenue	81,096	70,784	69,604	63,167

Recognition and measurement

Management, administration and member fees

Fee revenue is earned from provision of funds management services to customers outside the Group. Fee revenue is measured based on the consideration specified in the nine Managed Funds and Australian Ethical Retail Superannuation Fund ('AERSF') Product Disclosure Statement ('PDS'). The Group recognises revenue as the services are provided.

The parent entity earns investment management and administration fees from its subsidiary Australian Ethical Superannuation Pty Limited ('AES') in accordance with arms' length service agreements. The parent entity also earns a principal investment advisory fee from AES for the provision of services relating to developing, implementing and maintaining investment strategies including strategic advice and portfolio construction for the AERSF. The Group recognises these revenues as the services are provided.

AES earns member fees from AERSF from the provision of services to members.

The administration fee entitlement in accordance with the Product Disclosure Statement ('PDS') is net of $2,934k (2022: $1,711k) paid directly to the Operational Risk Financial Reserve ('ORFR') of the superannuation fund.

Performance fees

Performance fees in relation to the Emerging Companies Fund and High Conviction Fund are dependent on fund performance per PDS and are recognised when it is highly probable that performance hurdles have been achieved and a reversal is unlikely. Fund performance hurdles had not been achieved and as such there were no performance fees recognised in the current year.

Interest income

Interest revenue is recognised as interest accrues.

Dividends

Dividends are recognised as revenue when the right to receive payment is established.

Other income

The parent entity received a transition services fee from Christian Super for the provision of wind-up and administration services during the year.

NOTE 6. EMPLOYEE BENEFITS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Employee remuneration	24,396	22,136	24,136	21,914
Directors' fees	826	709	621	528
Strategic project contractors	234	729	234	729
Other committee member fees	154	53	154	53
Other employment related costs	1,844	1,633	1,793	1,600
	27,454	25,260	26,938	24,824

Other employment related costs include payroll tax ($1.2m), employee training and development, workers compensation insurance and other benefits of employment with Australian Ethical.

Recognition and measurement

Employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The fair value of equity-settled share-based payment arrangements is recognised as an employee remuneration expense based on the value at grant date, with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the number of awards expected to vest based on the likelihood that the performance conditions are met at the vesting date.

NOTE 7. FUND RELATED

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Administration and custody fees	11,191	7,822	3,105	2,597
Licence, ratings and platform fees	1,317	1,149	985	876
Regulatory & industry body fees	500	476	267	328
Ethical research	135	57	135	57
Regulatory projects	767	690	215	176
Custody transition project	128	–	128	–
	14,038	10,194	4,835	4,034

Regulatory projects in the current year include ongoing regulatory projects such as RG271 (Internal Dispute Resolution) and RG98 (Strengthening Breach Reporting) carried and finalised from the prior year as well as Digital License ID Verification, Advice Fee Framework and CP234 (Information Security for APRA-regulated entities).

Custody transition project relates to costs incurred in the change of custodian and investment administration for the managed funds.

Recognition and measurement

Expenses are recognised at the fair value of the consideration paid or payable for services rendered.

NOTE 8. MARKETING

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Distribution costs	5,761	3,974	5,761	3,974
Brand awareness	4,295	3,535	4,295	3,535
Other	1,637	1,585	1,637	1,585
	11,694	9,094	11,694	9,094

The increase in distribution costs includes spend on the employer platform channel. Higher spend on brand to drive greater brand awareness continued through the year. Other marketing costs include events, sponsorships, marketing & public relations content, media agents' fees and annual & sustainability reports.

NOTE 9. IT EXPENSES

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Investment and client-facing systems	2,067	1,606	1,961	1,507
Support systems, infrastructure and security	1,205	1,153	1,205	1,153
Strategic projects	264	1,072	364	837
	3,536	3,831	3,430	3,497

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

NOTE 10. EXTERNAL SERVICES

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Internal & external audit and tax services	902	819	712	623
Consultants	1,067	1,133	862	833
Legal services	355	511	310	471
Other	404	379	398	374
	2,728	2,842	2,282	2,301

Consultants include advisory services in relation to strategic projects including product development, investment governance and on-going projects such as reviews of outsourced service providers. In the prior year, these included a new strategic asset allocation model, implementation of the new finance general ledger, payroll and human resources reporting systems, strategy & innovation initiatives, and new product development.

NOTE 11. COMMUNITY GRANTS EXPENSE

The Group's constitution states that the Directors before recommending or declaring any dividend to be paid out of the profits of any one year must have first gifted or provisioned for gifting an amount equivalent to 10% of what the profit for that year would have been had bonuses and amount gifted not been deducted.

Community grants amounting to $1,099,000 (2022: $1,509,000) have been expensed and gifted from the parent entity to The Foundation. The Foundation has committed to granting all of its income (including interest income) of $1,116,000 (2022: $1,580,000) to community organisations through its grants program.

NOTE 12. DEPRECIATION AND AMORTISATION

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Depreciation of property, plant and equipment	462	470	462	470
Amortisation of intangible asset – CMS website and mobile app	231	108	231	108
Total	693	578	693	578
Depreciation of right-of-use asset – Sydney office lease	526	580	526	580
Depreciation of right-of-use asset – IT infrastructure	46	47	46	47
Total	572	627	572	627
	1,265	1,205	1,265	1,205

Refer to Note 22 for additional information on depreciation and amortisation.

NOTE 13. OTHER OPERATING EXPENSES

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Insurance	767	768	338	498
Travel	476	231	476	227
ASX listing fees and registry costs	229	266	229	266
Printing and subscriptions	169	191	135	132
Other	175	190	175	190
	1,816	1,646	1,353	1,313

NOTE 14. OCCUPANCY

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Occupancy costs in relation to Sydney office	233	293	233	293
Short term premises lease	213	42	213	42
	446	335	446	335

Occupancy costs include cleaning services, utilities and repairs & maintenance costs relating to the Sydney head office. Short term premises lease relates to our Melbourne office which is predominantly used for the customer services centre. The lease on the Sydney office is recorded in accordance with AASB 16 and as such rent expense is included in depreciation of the right-of-use asset. Refer to Note 12 and Note 21.

NOTE 15. DUE DILIGENCE & TRANSACTION COSTS

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Consultants	–	266	–	266
Legal	–	655	–	655
Contractors	–	61	–	61
	–	982	–	982

Due diligence & transaction costs include consultants, legal services and contractors engaged in relation to the investment in Sentient Impact Group, the successor funds transfer with Christian Super and ongoing investment opportunities.

NOTE 16. SFT INTEGRATION COSTS

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Project management and Project Team employment costs	1,626	–	1,626	–
Legal and consulting	802	–	802	–
Fund related transition costs	1,172	–	1,172	–
Marketing and member communications	115	–	115	–
Other	18	–	18	–
	3,733	–	3,733	–

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 17. INCOME TAX

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Income tax expense				
Current tax	4,662	4,702	4,459	4,676
Deferred tax asset – temporary differences	(636)	(438)	(243)	(590)
Deferred tax liability – temporary differences	(20)	(1)	(20)	(1)
Aggregate income tax expense	4,006	4,263	4,196	4,085
Deferred tax included in income tax expense comprises:				
Increase in deferred tax assets	(636)	(438)	(243)	(590)
Decrease in deferred tax liabilities	(20)	(1)	(20)	(1)
Deferred tax – temporary differences	(656)	(439)	(263)	(591)
Numerical reconciliation of income tax expense and tax at the statutory rate				
Profit before income tax expense	10,582	13,774	11,217	14,032
Less: Tax exempt loss attributable to the Foundation	–	86	–	–
Taxable profit before income tax	10,582	13,860	11,217	14,032
Tax at the statutory tax rate of 30% (2021: 30%)	3,175	4,158	3,365	4,209
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Non-taxable intercompany dividends from Australian Ethical Superannuation Pty Limited ('AES')	–	–	–	(229)
Other non-deductible items	831	105	831	105
Income tax expense	4,006	4,263	4,196	4,085

The applicable weighted average effective tax rate for the consolidated group is 37.9% (2022: 30.8%) and for the parent entity is 37.4% (2022: 29.1%).

The higher effective tax rate is primarily due to non-deductible expenses incurred in relation to the write-down of the investment in Sentient 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 30.4% for the consolidated group and 30.4% on profit attributable to shareholders.

NOTE 17. INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Employee benefits	976	1,111	965	1,104
Accruals	207	179	160	148
Community grants	330	453	330	453
Provision for employee leave	855	773	853	767
Integration costs	896	–	566	–
Provision for lease make-good	97	77	97	77
Other payables	592	696	458	609
Lease liabilities	21	49	21	49
Deferred tax asset	3,974	3,338	3,450	3,207
Movements:				
Opening balance	3,338	2,900	3,207	2,617
Charged to profit or loss	636	438	243	590
Closing balance	3,974	3,338	3,450	3,207

Deferred tax liability				
Deferred tax liability comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Property, plant and equipment	14	34	14	34
Deferred tax liability	14	34	14	34
Movements:				
Opening balance	34	35	34	35
Charged to profit or loss	(20)	(1)	(20)	(1)
Closing balance	14	34	14	34

Provision for income tax	605	–	605	–
Income tax refund due	–	249	–	249

Recognition and measurement

Tax expense comprises current and deferred tax recognised in the profit and loss except where related to items recognised directly in equity. Tax expense is measured at the tax rates that have been enacted or substantially enacted based on the national tax rate for each applicable jurisdiction at the reporting date.

Current tax is the expected tax payable or receivable on taxable income or loss for the year and any adjustment in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities.

NOTE 17. INCOME TAX (CONTINUED)

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. The carry forward values of deferred tax assets and liabilities have been adjusted to reflect applicable future corporate tax rates.

Australian Ethical Investment Limited and its wholly owned subsidiary, Australian Ethical Superannuation Pty Limited, have formed an income tax consolidated Group under the Tax Consolidation System. Australian Ethical Investment Limited is responsible for recognising the current tax assets and liabilities for the tax consolidated Group.

The tax consolidated group has a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax consolidated group.

Under the tax sharing agreement, Australian Ethical Superannuation Pty Limited agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment Limited pays the Australian Taxation Office for group tax liabilities.

The tax liability for the subsidiary entities is recognised through intercompany payable or receivable.

NOTE 18. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Cash at bank	242	242	229	236
Deposits at call	26,892	21,545	20,269	19,077
	27,134	21,787	20,498	19,313

Recognition and measurement

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Deposits at call earn interest at a higher rate than cash at bank which are low interest earning transactional accounts.

NOTE 19. CURRENT ASSETS – TERM DEPOSITS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Term deposits	5,600	5,600	5,000	5,000
	5,600	5,600	5,000	5,000

Recognition and measurement

Term deposits held with maturities greater than 3 months, earning interest at a higher rate than cash at bank and deposits at call.

NOTE 20. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Trade receivables	2,475	1,362	624	685
Receivable from subsidiary	–	–	4,780	3,383
Performance fee receivable	–	375	–	375
	2,475	1,737	5,404	4,443

Recognition and measurement

Trade receivables are initially recognised when they are originated and are measured at the transaction price.

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 (2022: nil) and management have not identified any additional concerns regarding collectability of the receivables as the receivables are predominantly due from related parties.

NOTE 21. LEASES

Leases includes the lease for the Sydney office premises, printing and copying equipment for the office, and other IT hardware and infrastructure.

The Group entered into a new long-term lease for a 5-year term commencing 1 July 2023 for the Sydney office. The new lease includes the existing space and an additional half floor. The Group does not have an option to purchase the premises at the expiry of the lease period.

A bank guarantee of $749,000 has been provided by the Group to the property owners over the rental of building premises at 130 Pitt Street, Sydney.

A right-of-use asset and a lease liability have been recognised in the Statement of Financial Position from 1 March 2023 in relation to the lease of level 8, including the remaining unamortised lease incentive. The respective right-of-use asset and a lease liability for the half floor on level 7 will be recognised in the Statement of Financial Position from 1 July 2023.

The Group entered a lease commitment with Harbour IT for the provision of IT hardware, software and support in April 2021 for a period of 3 years. A right-of-use asset and a lease liability have been recognised in the Statement of Financial Position in relation to this lease.

The Group entered a lease for printing and copying equipment for the office in February 2021 for a period of 5 years. A right-of-use asset and a lease liability have been recognised in the Statement of Financial Position in relation to this lease.

Consolidated & Parent	Office premises $'000	IT hardware & infrastructure $'000	Total $'000
Right-of-use assets			
Balance at 1 July 2021	1,160	138	1,298
Additions	–	–	–
Depreciation	(580)	(47)	(627)
Balance at 30 June 2022	580	92	672
Comprising of:			
Current	580	46	626
Non-current	–	46	46
	580	92	672

NOTE 21. LEASES (CONTINUED)

Consolidated & Parent	Office premises $'000	IT hardware & infrastructure $'000	Total $'000
Right-of-use assets			
Balance at 1 July 2022	580	92	672
Additions	2,214	–	2,031
Depreciation	(526)	(46)	(572)
Balance at 30 June 2023	2,268	46	2,314
Comprising of:			
Current	–	30	30
Non-current	2,268	16	2,284
	2,268	46	2,314

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Amounts recognised in profit or loss				
Interest on lease liabilities	88	41	88	41
Expenses relating to leases of low-value assets and variable lease components	566	426	566	426

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Amounts recognised in statement of cash flows				
Total cash outflow for leases	810	781	810	781

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. These includes a short-term lease for offices in Melbourne. These are not included in Right-of-use assets or lease liabilities as the terms of these leases are 12 months or under. Lease payments on these assets are expensed to profit or loss as incurred.

NOTE 21. LEASES (CONTINUED)

Consolidated & Parent	Office building $'000	IT hardware & infrastructure $'000	Total $'000
Lease liabilities			
Balance at 1 July 2021	1,435	139	1,574
Additions	–	–	–
Payments	(734)	(48)	(781)
Interest on lease liabilities	40	1	41
Balance at 30 June 2022	742	92	834
Comprising of:			
Current	742	45	787
Non-current	–	47	47
	742	92	834

Consolidated & Parent	Office building $'000	IT hardware & infrastructure $'000	Total $'000
Lease liabilities			
Balance at 1 July 2022	742	92	834
Additions	2,090	–	2,090
Payments	(763)	(47)	(810)
Interest on lease liabilities	87	1	88
Balance at 30 June 2023	2,156	46	2,202
Comprising of:			
Current	342	37	379
Non-current	1,814	9	1,823
	2,156	46	2,202

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a market review; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

NOTE 22. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Leasehold improvements – at cost	2,332	2,332	2,332	2,332
Less: Accumulated depreciation	(2,278)	(1,900)	(2,278)	(1,900)
	54	432	54	432
Plant and equipment – at cost	309	364	309	364
Less: Accumulated depreciation	(175)	(284)	(175)	(284)
	134	80	134	80
Software development – at cost	1,204	1,140	1,204	1,140
Less: Accumulated amortisation	(481)	(251)	(481)	(251)
	723	889	723	889
	911	1,401	911	1,401

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	**Leasehold improvements $'000**	**Plant and equipment $'000**	**Software development $'000**	**Total $'000**
Balance at 30 June 2021	763	122	334	1,219
Additions	39	62	663	764
Disposals	–	(4)	–	(4)
Depreciation expense	(370)	(100)	–	(470)
Amortisation expense	–	–	(108)	(108)
Balance at 30 June 2022	432	80	889	1,401
Additions	–	138	65	203
Disposals	–	–	–	–
Depreciation expense	(378)	(84)	–	(462)
Amortisation expense	–	–	(231)	(231)
Balance at 30 June 2023	54	134	723	911

Recognition and measurement

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually to ensure that it is not in excess of the recoverable amount. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

NOTE 22. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The increase in software development costs during the year is due to building the mobile app in line with our growth plans with respect to digital platforms.

Depreciation and amortisation

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives. Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives. The estimated useful lives for current and comparative periods are as follows:

Leasehold improvements	the lesser of unexpired lease term or useful life, 2-7 years
Plant and equipment	2-7 years
Platform development	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

NOTE 23. NON-CURRENT ASSETS – TERM DEPOSIT

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Long term deposit	749	504	749	504

The long-term deposit is held with National Australia Bank on a rolling 6-month term as security for a bank guarantee over the Company's Sydney office property lease. The intention is that the deposit will be held for the term of the lease. The deposit increased with the new lease over the Sydney office – refer to Note 21.

NOTE 24. NON-CURRENT ASSETS – INVESTMENTS IN SUBSIDIARY

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Investment in Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	–	–	316	316

NOTE 25. NON-CURRENT ASSETS – FINANCIAL ASSETS THROUGH PROFIT OR LOSS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Investment in Sentient Impact Group	2,600	5,200	2,600	5,200

On 9 December 2021, AEI acquired a minority equity stake (10%) in Sentient Impact Group Pty Ltd (Sentient). The investment is $5,200,000, payable in multiple instalments, with $4.33m currently paid. In addition, Australian Ethical has three future dated call options equating to an additional 30% of the equity, exercisable over the next three years.

Sentient is a Melbourne based impact investment manager. Sentient was established following the in-specie transfer of management rights for $200m of renewable infrastructure assets from Impact Investment Group. Sentient is a start-up entity with an Impact investing purpose aligned to AEI.

Refer to Note 37 for further information on fair value measurement.

NOTE 26. NON-CURRENT ASSETS – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME

The Foundation holds an investment in the Social Ventures Australia (SVA)'s Diversified Impact Fund (DIF) unit trust, in line with the Australian Ethical Charter and the Objectives of the Foundation.

SVA is a social purpose organisation that works with partners to improve the lives of people in need. They offer funding, investment and advice services to social impact organisations. The Foundation has committed to an overall investment of $200,000 in the SVA DIF, of which $140,000 has been called. The investment value is adjusted for return of capital and revalued to fair value based on the Net Asset Value (NAV) unit price.

The Group also purchased nominal holdings of shares in listed entities that the Group would not normally invest in, in order to advocate change in these companies as a shareholder.

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Investment in Social Impact programs	70	105	–	–
Listed shares in Advocacy program	2	1	1	1
	72	106	1	1
Reconciliation				
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:				
Opening fair value	106	141	1	2
Additions	–	–	–	–
Return of capital	(38)	(37)	–	–
Revaluation increments/(decrements)	4	2	–	(1)
Closing fair value	72	106	1	1

Refer to Note 37 for further information on fair value measurement.

NOTE 26. NON-CURRENT ASSETS – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Recognition and measurement

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Unlisted unit trusts acquired by the Group's Foundation; and
- Equity securities acquired by the Group for advocacy purposes, which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. The Group elected to recognise these as FVOCI as the assets are not part of the Group's core investment strategy.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

NOTE 27: NON-CURRENT ASSETS – RELATED PARTY LOAN

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Loan to Subsidiary	–	–	240	–

The loan was provided to subsidiary AES to support the ongoing costs of the super fund administrator transition to GROW. The loan is non-interest bearing until completion of the transition, expected to be in the financial year ended 30 June 2025. On completion, the loan becomes interest bearing and due to be repaid over a 5 year period. The parent entity support for AES includes waiving any loan repayment obligations to ensure AES continues as a going concern at all times.

NOTE 28. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Trade payables and accruals	8,509	6,753	4,722	7,812
Payable to subsidiary	–	–	–	82
Community grant payable	1,323	1,815	1,099	1,509
	9,832	8,568	5,821	9,403

Refer to Note 36 for further information on financial instruments.

Recognition and measurement

Trade payables and accruals represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of an invoice being rendered.

NOTE 29. CURRENT LIABILITIES – DEFERRED PAYABLE ON INVESTMENT

	Consolidated		Parent	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Deferred payable on investment	871	1,300	871	1,300

This obligation relates to the remaining instalment payment for the acquisition in Sentient Impact Group in line with instalment notices issued by Sentient. Payment has been deferred to the second half of 2023. Refer to Note 25 for additional details.

NOTE 30. CURRENT LIABILITIES – EMPLOYEE BENEFITS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Annual leave	1,556	1,224	1,548	1,215
Long service leave	1,294	1,070	1,294	1,059
Employee benefits	3,408	3,703	3,372	3,680
	6,258	5,997	6,214	5,954

Recognition and measurement

Employee benefit provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Liabilities for wages and salaries, including employee short term incentive compensation, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating benefits, such as sick leave, are not provided for but are expensed as the benefits are taken by the employees.

NOTE 31. NON-CURRENT LIABILITIES – EMPLOYEE BENEFITS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Long service leave	444	284	428	284

Recognition and measurement

The liabilities for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

NOTE 32. NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Lease make-good	324	258	324	258

Recognition and measurement

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with maturity of the lease. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the statement of financial position by adjusting the right-of-use asset and the provision. Reductions in the provision due to exceeding the carrying amount of the asset will be recognised in profit or loss.

NOTE 33. EQUITY – ISSUED CAPITAL

	Consolidated			
	2023 Shares	2022 Shares	2023 $'000	2022 $'000
Ordinary shares – fully paid	112,782,052	112,387,138	10,332	8,969

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2021	112,387,138		10,676
Vesting of deferred shares in the Employee Share Plan (730,200 shares)	1 September 2021	–	$1.32	962
Vesting of deferred STI shares (5,193 shares)	1 September 2021	–	$4.53	23
Purchase of deferred shares in the Employee share plan – on-market (274,762 shares)	16 September to 2 February 2022	–	$9.80	(2,692)
Balance	30 June 2022	112,387,138		8,969
Vesting of deferred shares in the Employee Share Plan (525,972 shares), and deferred STI shares (88,613 shares) to the Investment Team	1 September 2022	–	$2.15	1,322
Vesting of FY20 deferred STI shares (5,193 shares) – CEO	1 September 2022	–	$4.53	24
Vesting of deferred STI shares (24,626 shares) for FY20 Performance fee, and FY21 deferred STI shares (7,459) for the CEO	1 September 2022	–	$9.80	314
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
Vesting of deferred shares in the Employee Share Plan (22,496 shares)	20 February 2023	–	$4.53	102
Vesting of deferred shares in the Employee Share Plan (8,308 shares)	20 February 2023	–	$9.80	81
Balance	30 June 2023	112,782,052		10,515

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 the CEO/Managing Director 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.

The Company measures the value of deferred shares at the price at which the shares were purchased on-market, or a 60-day VWAP post results announcement where shares are issued. The Company recognises share grants as a reduction in Issued Capital.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote, including deferred shares.

Recognition and measurement

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The capital risk management policy remained unchanged during the year.

(i) Regulatory capital requirements

In connection with operating a funds management business in Australia, the Parent entity is required to hold an Australian Financial Services Licence ('AFSL'). As a holder of an AFSL, the Australian Securities & Investments Commission ('ASIC') requires the Company to:

- prepare 12-month cash-flow projections which must be approved at least quarterly by Directors, and reviewed annually by auditors;
- hold at all times minimum Net Tangible Assets ('NTA') the greater of:
  (a) $150,000;
  (b) 0.5% of the average value of scheme property (capped at $5m); or
  (c) 10% of the 3-year average responsible entity revenue (uncapped).

The current minimum NTA is $6.1m as at 30 June 2023.

The Company must hold at least 50% of its minimum NTA required as cash or cash equivalents and hold at least $50,000 in Surplus Liquid Funds ('SLF').

The Company has complied with these requirements at all times during the year.

(ii) Dividend policy

Dividends paid to shareholders are typically in the range of 80-100% of the Group's net profit after tax attributable to shareholders. The Board may declare a dividend outside that range with due consideration to retained earnings. Refer also to Note 11 which discusses the provisioning of staff bonuses and community grants prior to recommending or declaring a dividend under the Group's constitution.

NOTE 34. EQUITY – RESERVES

	Consolidated		Parent	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Share-based payment reserve	2,293	2,702	2,293	2,702
Fair value through other comprehensive income ('FVOCI') reserve	8	4	–	–
	2,301	2,706	2,293	2,702

NOTE 34. EQUITY – RESERVES (CONTINUED)

Share-based payment reserve

This reserve relates to shares granted by the Group to its employees under its share-based payment arrangements.

Further information about share-based payments to employees is set out in Note 45.

Financial assets at FVOCI reserve

The Group has elected to recognise changes in the fair value of certain investments in equity financial instruments in OCI (refer to Note 26). These changes are accumulated within the FVOCI reserve within Equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Share-based payment reserve $'000	FVOCI reserve $'000	Total $'000
Consolidated			
Balance at 30 June 2021	1,033	1	1,034
Shares vested under deferred share plan during the year	(985)	–	(985)
Employee deferred shares & rights*	2,654	–	2,654
Revaluation of investments	–	3	3
Balance at 30 June 2022	2,702	4	2,706
Shares vested under deferred share plan during the year	(1,895)	–	(1,895)
Employee deferred shares & rights*	1,486	–	1,486
Revaluation of investments	–	4	4
Balance at 30 June 2023	2,293	8	2,301

* includes employee share plan and deferred shares and ELTI rights granted to employees

	Share-based payment reserve $'000	FVOCI reserve $'000	Total $'000
Parent			
Balance at 30 June 2021	1,033	–	1,033
Shares vested under deferred share plan during the year	(985)	–	(985)
Employee deferred shares & rights*	2,654	–	2,654
Balance at 30 June 2022	2,702	–	2,702
Shares vested under deferred share plan during the year	(1,895)	–	(1,895)
Employee deferred shares & rights*	1,486	–	1,486
Balance at 30 June 2023	2,293	–	2,293

* includes employee share plan and deferred shares and ELTI rights granted to employees

NOTE 35. EQUITY – DIVIDENDS

Dividends

Dividends paid during the financial year were as follows:

	2023 $'000	2022 $'000
Final dividend for the year ended 30 June 2022 of 3.00 cents (2021: 4.00 cents) per ordinary share – fully franked	3,372	4,495
Special performance dividend for the year ended 30 June 2022 of nil cents (2021: 1.00 cents) per ordinary share	-	1,124
Interim dividend for the year ended 30 June 2023 of 2.00 cents (2022: 3.00 cents) per ordinary share – fully franked	2,256	3,372
	5,628	8,991

Since year end the Directors have declared a final dividend of 5.00 cents per fully paid ordinary share (2022: 3.00 cents final dividend). The aggregate amount of the declared dividend expected to be paid on 21 September 2023 out of profits for the year ended 30 June 2023, but not recognised as a liability at year end, is $5,639,000 (2022: $3,372,000). All dividends paid during the year were fully franked based on tax paid at 30.0%. The final dividend to be paid in September 2023 will be fully franked at 30.0%.

Franking credits

Dividends paid during the financial year were as follows:

	2023 $'000	2022 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2022: 30%)	12,667	10,716

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

NOTE 36. FINANCIAL INSTRUMENTS

Financial risk management objectives and framework

The Group's activities expose it to a variety of financial risks, including market risk arising from Funds under Management ('FUM'), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not have a material exposure to currency and interest rate risk.

The Group 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 ('ARCC'). The Board regularly monitors the overall risk profile of the Group and sets the risk appetite, usually in conjunction with the annual strategy and planning process.

NOTE 36. FINANCIAL INSTRUMENTS (CONTINUED)

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 ARCC. One of the main functions of the Committee is to identify emerging risks and determine treatment and monitoring of emerging and current risks. In addition, the Committee is responsible for seeking assurances from management that the systems and policies in place to assist the Group to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained. The Group is complying with its licences, and there is a structure, methodology and timetable in place for monitoring material service providers.

The following discussion relates to financial risks the Group is exposed to.

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.

Exposure

The Group's revenue is dependent on FUM which is influenced by equity market movements. Management calculates that a 10% movement in FUM linked to equity markets would change annualised revenue by approximately $6,924,000 (2022: $4,369,000).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is predominantly exposed to credit risk on its deposits with banks and financial institutions. The Group manages this risk by holding cash and cash equivalents at financial institutions with S&P's rating of 'A' or higher. The maximum exposure of the Group to credit risk on financial assets which have been recognised on the Consolidated Statements of Financial Position is the carrying amount of cash and cash equivalents, and trade receivables. For all financial instruments other than those measured at fair value their carrying value approximates fair value.

All trade and other receivables are short term in nature and are not past due or impaired.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 6 months.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents).

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. In addition, a twelve-month rolling forecast of liquid assets and cash flows, and profit & loss statements are reviewed by the Board quarterly to ensure there is sufficient liquidity within the Group.

Remaining contractual maturities

The following tables detail the Group's and Company's remaining contractual maturity for its financial instrument liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTE 36. FINANCIAL INSTRUMENTS (CONTINUED)

	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Consolidated – 2022					
Non-derivatives					
Non-interest bearing					
Trade payables and accruals	13,489	–	–	–	13,489
Deferred payable on investment	1,300	–	–	–	1,300
Total non-derivatives	14,789	–	–	–	14,789

	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Consolidated – 2023					
Non-derivatives					
Non-interest bearing					
Trade payables and accruals	14,462	–	–	–	14,462
Deferred payable on investment	871	–	–	–	871
Total non-derivatives	15,512	–	–	–	15,512

	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Parent – 2022					
Non-derivatives					
Non-interest bearing					
Trade payables and accruals	10,939	–	–	–	10,939
Deferred payable on investment	1,300	–	–	–	1,300
Total non-derivatives	12,239	–	–	–	12,239

	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Parent – 2023					
Non-derivatives					
Non-interest bearing					
Trade payables and accruals	10,917	–	–	–	10,917
Deferred payable on investment	871	–	–	–	871
Total non-derivatives	11,788	–	–	–	11,788

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTE 37. FAIR VALUE MEASUREMENT

Recognition and measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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 measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

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.

There were no transfers between levels during the financial year.

Fair value measurement of investment in Sentient

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.

In determining the fair value, the Directors' valuation was supported by an independent expert's indicative valuation range. The Directors will continue to assess the fair value in light of any significant changes in the business and its future growth.

Sensitivity of fair value measurement of investment in Sentient

Although the Directors believe that the estimate of fair value is appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For the fair value measurement in Sentient, a 20% favourable (unfavourable) effect of using reasonably possible alternative methodologies for the valuation would increase (decrease) equity for the Group by $520,000.

NOTE 37. FAIR VALUE MEASUREMENT (CONTINUED)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated – 2022				
Financial assets measured at fair value				
Investments	1	105	5,200	5,306
Total assets	1	105	5,200	5,306
Consolidated – 2023				
Financial assets measured at fair value				
Investments	1	71	2,600	2,672
Total assets	1	71	2,600	2,672

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Parent – 2022				
Financial assets measured at fair value				
Investments	1	–	5,200	5,201
Total assets	1	–	5,200	5,201
Parent – 2023				
Financial assets measured at fair value				
Investments	1	–	2,600	2,601
Total assets	1	–	2,600	2,601

NOTE 38. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated		Parent	
	2023 $	2022 $	2023 $	2022 $
Short-term employee benefits	4,294,110	4,914,352	4,108,700	4,749,673
Post-employment benefits	299,697	279,537	280,229	263,069
Long-term benefits	72,621	184,353	72,621	184,353
Share-based payments	563,980	336,883	563,980	336,883
	5,230,408	5,715,125	5,025,530	5,533,978

Information regarding key management personnel's remuneration and shares held in Australian Ethical Investment Limited is provided in the Remuneration Report.

NOTE 39. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	Consolidated		Parent	
	2023 $	**2022 $**	**2023 $**	**2022 $**
Audit services – KPMG				
Audit and review of financial statements – Group*	136,917	110,617	114,562	83,958
Audit and review of financial statements – managed funds for which the Company acts as Responsible Entity**	216,439	173,450	216,439	173,450
Audit and review of financial statements –superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity**	47,027	37,310	–	–
	400,383	321,377	331,001	257,408
Assurance services – KPMG				
Regulatory assurance services – Group	52,771	49,089	48,216	44,852
Regulatory assurance services – managed funds and superannuation fund**	74,444	69,250	–	–
Assurance services in relation to CPS 234 Tripartite	94,583	–	94,583	–
SFT assurance procedures	30,000	–	30,000	–
ATO Assurance review consulting services	66,625		66,625	
Assurance services in relation to the Sustainability Report	20,500	18,113	20,500	18,113
	338,923	136,452	259,924	62,965
Other services – KPMG				
Tax compliance and advisory services	104,909	122,198	83,538	113,588
Accounting advice	–	25,300	–	25,300
	104,909	147,498	83,538	138,888
Total remuneration of KPMG	844,215	605,327	674,463	459,261

* These fees include a fee of $25k for audit procedures associated with the dual administration arrangements in place following the Christian Super SFT.

** These fees are incurred by the Company and are effectively recovered from the funds via administration or management fees. The addition of new funds and audit work relating to the expanded asset base following the SFT have contributed to the increase in audit fees.

The Board considered the other non-audit / assurance services provided by the auditor and is satisfied that the provision of the non-audit services is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor, and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

NOTE 40. COMMITMENTS

As at 30 June 2023, the Group did not enter into any capital commitments other than as disclosed in Note 21.

NOTE 41. RELATED PARTY TRANSACTIONS

Parent entity

Australian Ethical Investment Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 42.

KMP remuneration

Disclosures relating to key management personnel are set out in Note 38 and the remuneration report included in the Directors' report.

Other related parties

Australian Ethical Superannuation Pty Limited ('AES') acts as trustee for Australian Ethical Retail Superannuation Fund ('AERSF').

Australian Ethical Investment Limited ('AEI') acts as the responsible entity for the following Australian Ethical Trusts ('AETs'):

- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Balanced Fund
- Australian Ethical Income Fund
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical High Growth Fund
- Australian Ethical Emerging Companies Fund
- Australian Ethical High Conviction Fund (unlisted and listed)
- Australian Ethical Alternatives Fund (unregistered)
- Australian Ethical Defensive Alternatives Fund (unregistered)
- Australian Ethical Unlisted Property Fund (unregistered)
- Australian Ethical Global Credit Fund (unregistered)

The Funds listed above are considered structured entities that have not been consolidated by the Group, as the Group does not have control over these entities. The table below sets out the transactions that occurred during the year between the Group and these entities.

Australian Ethical Employee Share Trusts ('EST') acts as trustee for the employee deferred share plan. Pacific Custodian Pty Limited acts as trustee to the trust.

NOTE 41. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	2023 $	2022 $	2023 $	2022 $
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	–	–	12,737,692	9,219,458
Investment management fees	–	–	30,339,077	26,483,078
Principal investment advisory fee	–	–	5,875,915	4,278,309
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	–	–	3,529,431	3,357,440
Dividends from the subsidiary	–	–	–	764,982
Receipts from the Australian Ethical Trusts:				
Provision of investment management services to the AETs in accordance with the PDS	19,675,964	20,599,317	19,675,964	20,599,317
Performance fee	–	375,278	–	375,278
Receipts from Australian Ethical Retail Superannuation Fund:				
Provision of investment management / administration services to AERSF in accordance with the PDS	55,173,306	43,625,200	–	–
Provision of member administration services to AERSF in accordance with the PDS	5,108,403	4,729,633	–	–
Provision of transition services as part of the Christian Super integration	193,500	–	193,500	–
Payments to Australian Ethical Foundation Limited:				
Community grants paid to The Foundation	–	–	1,099,329	1,509,368

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2023 $	2022 $	2023 $	2022 $
Receivables:				
Amounts receivable from the AETs	555,527	358,057	555,527	358,057
Amounts receivable from the AETs – performance fee	–	375,278	–	375,278
Amounts receivable from AES – trade payables and tax provision	–	–	4,780,482	9,767
Amounts receivable from AES – loan	–	–	239,899	–
Amounts receivable from AERSF	1,841,445	675,911	–	–
Payables:				
Amounts payable to AES	–	–	–	(81,597)
Amounts payable to The Foundation	–	–	(1,099,329)	(1,509,368)

NOTE 41. RELATED PARTY TRANSACTIONS (CONTINUED)

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 42. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**2023 %**	**2022 %**
Australian Ethical Superannuation Pty Limited (AES) – Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%
Australian Ethical Foundation Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%
August Investment Pty Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%

Australian Ethical Foundation Limited (The Foundation) was established for the purpose of being a vehicle for the disbursement of profits that are subject to Clause 15.1(c)(ii) of the Parent entity's constitution which requires a portion of profits to be provided for charitable, benevolent or conservation purposes. The creation of The Foundation allows for flexibility when allocating money, to manage multi-year strategic and community grants and for the creation of a corpus for long-term impact investing in worthwhile causes and organisations.

Refer to Note 46 for further details about the Foundation's activities.

The Parent entity acquired August Investment Pty Limited in 2020 for the purpose of preventing the brand being acquired by a third party. As the entity owned no other assets or liabilities, the investment was recognised as goodwill and amortised to nil after the acquisition was completed.

NOTE 43. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2023 $	**2022 $**	**2023 $**	**2022 $**
Profit after income tax expense for the year	6,576	9,511	7,021	9,947
Adjustments for:				
Depreciation and amortisation	1,265	1,205	1,265	1,205
Non-cash employee benefits expense - deferred shares	2,837	1,321	2,837	1,321
Change in fair value of investment	2,600	–	2,600	–
Christian Super SFT integration costs	3,733		2,357	
Dividend received from subsidiary	–	–	–	(765)
Change in operating assets and liabilities:				
(Increase)/Decrease in trade and other receivables	(738)	2,480	(960)	1,857
(Increase)/Decrease in lease assets	(1,642)	627	(1,642)	627
(Increase)/Decrease in other current assets	118	(437)	480	(575)
(Increase) in deferred tax assets	(636)	(437)	(243)	(589)
(Increase)/Decrease in other non-current assets	(245)	465	(245)	465
Increase/(Decrease) in trade and other payables	1,264	1,316	(3,269)	3,412
Increase in employee benefits	422	1,470	404	1,483
Increase in other provisions	65	6	65	6
Increase/(Decrease) in current tax liability	605	(1,364)	605	(1,364)
(Decrease) in deferred tax liability	(20)	(1)	(20)	(1)
Net cash from operating activities	16,204	16,162	11,255	17,029

Costs relating to the Christian Super SFT have been reported as investing cashflows.

NOTE 44. EARNINGS PER SHARE

	Consolidated	
	2023 $'000	**2022 $'000**
Profit after income tax attributable to the owners of Australian Ethical Investment Limited and its Controlled Entities	6,576	9,511
	Cents	**Cents**
Basic earnings per share	5.89	8.57
Diluted earnings per share	5.84	8.47
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	111,552,062	111,013,492
Adjustments for calculation of diluted earnings per share:		
Deferred shares	1,127,974	1,276,329
Weighted average number of ordinary shares used in calculating diluted earnings per share	112,680,036	112,289,821

NOTE 44. EARNINGS PER SHARE (CONTINUED)

Recognition and measurement

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 45. SHARE-BASED PAYMENTS

Share-based payments includes shares issued to employees under the employee share plan (ESP), deferred short-term incentives, and rights granted under the Executive long-term incentives plan (ELTI).

As at 30 June 2023, the Employee Share Trust holds 1,118,541 shares (30 June 2022: 1,348,064 shares) on behalf of employees until vesting conditions are met.

In the current year, $349,000 was paid to purchase deferred shares on-market to be granted to the CEO under both the Deferred Shares – ESP and Deferred Shares – STI share grants. The remaining shares granted to employees under the ESP were issued as new shares. In the prior year, $2,692,000 was paid to purchase all deferred shares on-market. The Board has discretion to decide whether to issue new shares or purchase shares.

The below table provides a reconciliation of the number of deferred shares in the Employee Share Trust.

2022						
Grant date	**Vesting date**	**Balance at the start of the year**	**Granted**	**Vested**	**Forfeited**	**Balance at the end of the year**
01/09/2018	31/08/2021	730,200	–	(730,200)	–	–
01/09/2019	31/08/2022	636,238	–	–	(21,653)	614,585
01/09/2020	31/08/2021	5,193	–	(5,193)	–	–
01/09/2020	31/08/2022	5,193	–	–	–	5,193
01/09/2020	31/08/2023	396,310	–	–	(9,299)	387,011
01/09/2021	31/08/2022		32,088	–	–	32,088
01/09/2021	31/08/2023		32,086	–	–	32,086
01/09/2021	31/08/2024	–	253,279	–	(14,457)	238,822
		1,773,134	317,453	(735,393)	(45,409)	1,309,785
Unallocated treasury shares						38,279
Total deferred shares in the Employee Share Trust at 30 June 2022						1,348,064

NOTE 45. SHARE-BASED PAYMENTS (CONTINUED)

2023						
Grant date	**Vesting date**	**Balance at the start of the year**	**Granted**	**Vested**	**Forfeited**	**Balance at the end of the year**
01/09/2019	31/08/2022	614,585	–	(614,585)	–	–
01/09/2020	31/08/2022	5,193	–	(5,193)	–	–
01/09/2020	31/08/2023	387,011	–	(27,623)	(34,450)	324,938
01/09/2021	31/08/2022	32,088	–	(32,085)	–	-
01/09/2021	31/08/2023	32,086	–	–	–	32,086
01/09/2021	31/08/2024	238,822	–	(11,267)	(20,416)	207,139
01/09/2022	31/08/2023	–	41,351	–	–	41,351
01/09/2022	31/08/2024	–	29,300	–	–	29,300
01/09/2022	31/08/2025	–	445,061	–	(17,640)	427,421
		1,309,785	515,712	(690,759)	(72,506)	1,062,235
Unallocated treasury shares						56,306
Total deferred shares in the Employee Share Trust at 30 June 2023						1,118,541

Recognition and measurement

Equity-settled transactions are awards of shares that are provided to employees in exchange for the rendering of services.

The grant-date fair value of equity-settled transactions are recognised as an employee expense over the vesting period with a corresponding increase in Share based payment reserve. Upon vesting, the employees become unconditionally entitled to the awards and the shares are transferred from the Share based payment reserve to Contributed equity.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related performance and service conditions are expected to be met at the vesting date.

The following share-based payment arrangements existed as at 30 June 2023.

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 Consolidated Statement of Comprehensive Income is $1,308,000 (2022: $1,443,000) 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 Consolidated Statement of Comprehensive Income is $1,010,000 (2022: $845,000) relating to the deferred portion of the short-term incentive plan.

NOTE 45. SHARE-BASED PAYMENTS (CONTINUED)

Executive Long-Term Incentives (ELTI)

The ELTI was introduced to retain key senior executives and provide reward for future outstanding performance to the period 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.

The aggregate base hurdled performance share rights issued at 1 December 2021 was 136,510 rights. The ELTI expense is based on the grant date of 1 December 2021. Each share right was fair valued at $13.54, being the share price on 1 December 2021 discounted for forecast dividend yield. These share rights will be equity settled at the end of the vesting period. At this time, Board's assessment is that the likelihood of meeting the performance hurdles by the vest date is less likely than more likely given the recessionary outlook for world economies, and as such the fair value of these rights has been written down to nil.

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. Board's assessment is that the performance hurdles for these rights are likely to be met by the vest date.

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 Statement of Profit or Loss and Other Comprehensive Income is a credit of $125,000 (2021: $339,000 expense) under the executive long-term incentives plan due to the write-back of the ELTI granted 1 December 2021 being fair valued to nil.

Additional details are available in the Remuneration Report on these employee incentive plans.

NOTE 46. 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 year ended 30 June 2023, the impact of The Foundation before intercompany eliminations is noted below:

	2023 $'000	**2022 $'000**
Statement of comprehensive income		
Revenue from parent entity	1,099	1,509
Interest income	28	2
Community grants expense	(1,116)	(1,580)
Audit fees and other operating expenses	(11)	(17)
Profit for the year	–	(86)
Other comprehensive income		
Fair value adjustment of investment	(4)	1
Total comprehensive income for the year	(4)	(85)

NOTE 46. RESULTS OF THE FOUNDATION (CONTINUED)

	2023 $'000	2022 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	597	652
Receivables from parent entity	1,099	1,509
Other receivables	8	1
Financial assets at fair value through profit or loss	71	105
Liabilities:		
Community grant payables	(1,323)	(1,815)
Trade payables	(12)	(17)
Net assets	440	435
Equity:		
Retained earnings	435	434
FVOCI reserve	5	1
Total Equity	440	435

NOTE 47. EVENTS AFTER THE REPORTING PERIOD

Apart the dividend declared as disclosed in Note 35, no other matter or circumstance has arisen since 30 June 2023 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

IN THE DIRECTORS' OPINION:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's and Group's financial position as at 30 June 2023 and of their performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

JOHN MCMURDO
Managing Director and Chief Executive Officer

24 August 2023
Sydney

This is the original version of the audit report over the financial statements signed by the directors on 24 August 2023. Page references should be read as follows to reflect the correct references now that the financial statements have been presented in the content of the annual report in its entirety: The Audited Remuneration Report is set out on pages 43 to 71 as opposed to pages 29 to 55 as outlined below.

Independent Auditor's Report

To the shareholders of Australian Ethical Investment Limited

Report on the audits of the Financial Reports

Opinions

We have audited the ***Financial Report*** of Australian Ethical Investment Limited (the Group Financial Report). We have also audited the Financial Report of Australian Ethical Investment Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s and the ***Company***'s financial position as at 30 June 2023 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- Statements of financial position as at 30 June 2023;
- Statements comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declarations.

The ***Group*** consists of Australian Ethical Investment Limited (the ***Company***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

We conducted our audits 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 opinions.

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

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

KPMG

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audits of the Financial Reports of the current period.

This matter was addressed in the context of our audit of the Financial Reports as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Management Fees – ($62.5m) and Administration fees ($12.5m) – Group; and Management Fees ($50.2m), Administration fees ($12.7m) and Principal Investment Advisory fee ($5.9m) - Company	
Refer to Note 5 to the Group Financial Report and Company Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Management, Administration and Principal Investment Advisory fees were a key audit matter due to the: • individual fee arrangements in place for each of the managed funds and the Australian Ethical Retail Superannuation Fund (the superannuation fund) which necessitated considerable audit effort; and • significance of the fees to the Group and Company, constituting 92% and 99% of total revenue, respectively. Funds under management ("FUM") used in the calculation of fees is dependent on information sourced from a third party service organisation which is both the custodian and the administrator. This required us to understand and assess the key processes and controls in determining the FUM, including that of the third party service organisation.	Our procedures included: For Group and Company • We assessed the appropriateness of the Group and Company's accounting policies against the requirements of Australian Accounting Standards and our understanding of the business and industry practice. • We read and understood the individual Management and Administration fee arrangements in the Product Disclosure Statements ("PDS") of each of the funds and the superannuation fund. • We performed a recalculation of Management and Administration fees charged using the fee percentages and FUM, obtained from each of the PDS and underlying fund financial records respectively as the basis for revenue recognition in accordance with the Group and Company's accounting policy. • We compared the independently calculated Management and Administration fee revenue to those of the Group and Company and investigated significant differences. • We assessed funds under management ("FUM") by: - testing key controls over the input of valuation data into the Group and Company's fund management system such as daily price movement checks performed by management; - reconciling daily FUM sent by the custodian to the FUM used by the Group and Company in the calculation of revenue; - obtaining and reading the custodian service organisation's Guidance Statement 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* assurance report to

	understand the processes and assess the controls relevant to the determination of the FUM; - checking the quantity of assets held to external custodian service provider reports at balance date; and - using valuation specialists, testing the fair value of a sample of investments held by underlying funds by comparing the value to market data such as global and domestic equity prices. • We assessed the disclosures in the Financial Reports using our understanding obtained from our testing and against the requirements of the accounting standards. For Company: • We read and understood the Management and Administration fee arrangements in the Investment Management and Trustee Service Agreements and the Principal Investment Advisory Agreement (collectively referred to as Agreements) between the Company and its subsidiary, Australian Ethical Superannuation Limited (AES); and • We performed a recalculation of the Management, Administration and the Principal Investment Advisory fees between the Company and AES, using the fee percentages obtained from the Agreements and FUM as a basis for revenue recognition in accordance with the Company's accounting policy. • We compared the independently calculated fee revenue to the fee revenue recorded by the Company and investigated significant differences.

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and the Remuneration Report. The Message from the CEO, Message from the Chair, Investment update, Investment performance and Highlights section of the Annual Report are expected to be made available to us after the date of the Auditor's Report.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion. In connection with our audits of the Financial Reports, our responsibility is to read the Other Information.

In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company'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 Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2023 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 29 to 55 in the Financial Report for the year ended 30 June 2023.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

J Davis

Jessica Davis

Partner

Sydney

24 August 2023

Shareholder information

Shareholder information as at 1 September 2023

Security	Number of holders	Number on issue	Voting rights
Fully paid ordinary shares	15,448	112,782,052	One vote per share

Top 20 shareholders of fully paid ordinary shares

Shareholders	Balance	%
HSBC Custody Nominees (Australia) Limited	10,754,331	9.54
J P Morgan Nominees Australia Pty Limited	6,578,021	5.83
James Andrew Thier	5,066,920	4.49
Citicorp Nominees Pty Limited	4,789,938	4.25
Ms Caroline Le Couteur	4,154,855	3.68
Mrs Judith Margaret Boag	2,300,000	2.04
Mr Trevor Roland Lee	2,150,000	1.91
Mrs Ann Marion McGregor & Mr Bruce Allan McGregor	2,014,827	1.79
Mrs Patty Bik Yuk Tse	1,899,650	1.68
Mr Howard Pender	1,785,249	1.58
Daisy Thier	1,529,700	1.36
HB Sarjeant & Assoc Pty Ltd	1,507,000	1.34
National Nominees Limited	1,323,451	1.17
Mr Anthony Scott Cook	1,061,800	0.94
Mr Phillip Andrew Vernon	977,379	0.87
Mr Michel Beuchat & Mrs Ann Beuchat	966,700	0.86
Dr Judith Ingrouille Ajani	964,654	0.86
Pacific Custodians Pty Limited	920,773	0.82
BNP Paribas Nominees Pty Ltd	841,154	0.75
BNP Paribas Noms Pty Ltd	833,523	0.74
Total	**52,419,925**	**46.48**
Balance of register	**60,362,127**	**53.52**
Grand total	**112,782,052**	**100.00**

Distribution of Holdings

Range	Securities	%	Holders
100,001 and over	70,328,162	62.36	83
10,001 to 100,000	24,324,697	21.57	905
5,001 to 10,000	5,514,480	4.89	752
1,001 to 5,000	8,941,843	7.93	3,888
1 to 1,000	3,672,870	3.26	9,820
Total	**112,782,052**	**100.00**	**15,448**

On Friday, 1 September 2023:

- AEF shares closed at $4.54
- Accordingly, 110 or more shares constituted a marketable parcel
- The Company had 1,790 shareholders whose holding was not a marketable parcel, these shareholders owned a total of 135,039 shares

Company Directory

AEI Group

Responsible Entity
Australian Ethical Investment Limited
ACN 003 188 930
AFSL Number 229949

Registrable Superannuation Entity
Australian Ethical Superannuation Pty Limited
ACN 079 259 733
RSEL Number L0001441
AFSL Number 526055

Australian Ethical Foundation Limited
ACN 607 166 503

Offices

Head Office
Australian Ethical Investment Limited
Level 8, 130 Pitt Street
Sydney NSW 2000

Registered office
Care of Company Matters Pty Limited
Level 12, 680 George Street
Sydney, NSW 2000
Phone +61 8280 7355
PO Box 20547
World Square NSW 2002

Share Registry

Link Market Services Limited
Locked Bag A14
Sydney South, NSW 1235
Phone +61 1300 554 474
Fax +61 2 9287 0303
Email registrars@linkmarketservices.com.au
linkmarketservices.com.au

Security Exchange Listing

Australian Ethical Investment Limited is listed on the Australian Securities Exchange
ASX Code: AEF

Directors

Steve Gibbs (Chair)
Mara Bûn (Non-Executive Director)
Kate Greenhill (Non-Executive Director)
Sandra McCullagh (Non-Executive Director)
Julie Orr (Non-Executive Director)
John McMurdo (MD & CEO)

Company Secretary

Karen Hughes

Banker and custodian

National Australia Bank Limited
Level 3, 255 George Street
Sydney NSW 2000

Administrator

For superannuation
Mercer Outsourcing (Australia) Pty Ltd
Collins Square
727 Collins Street
Melbourne VIC Australia 3008
Locked Bag 20013,
Melbourne VIC 3001

For managed funds
Boardroom Pty Ltd
GPO Box 3993
Sydney NSW 2001

Auditors and taxation

KPMG Australia
International Towers
300 Barangaroo Avenue
Sydney NSW 2000

Media enquiries

BlueChip Communication
Level 7, 333 George Street
Sydney NSW 2000

Contact us

Phone 1800 021 227
Email enquiries@australianethical.com.au
Reply Paid
GPO Box Centre Sydney
GPO Box 8, Sydney NSW 2001
australianethical.com.au

More information

For personal use only

Investment Restrictions

Our investment restrictions include some thresholds. Thresholds may be in the form of an amount of revenue that a business derives from a particular activity, but there are other thresholds we can use depending on the nature of the investment. We apply a range of qualitative and quantitative analysis to the way we apply thresholds. For example, we may make an investment where we assess that the positive aspects of the investment outweigh its negative aspects. For information on how we make these assessments for a range of investment sectors and issues, such as fossil fuels, nuclear power, gambling, tobacco, human rights, and many others, please read our Ethical Criteria australianethical.com.au/why-ae/ethics/ethical-criteria/

External tool and data providers

MSCI ESG Research LLC

We have used data and tools provided by MSCI ESG Research when calculating the sustainability information for our listed share portfolio in this report about sustainable impact revenue, carbon intensity, carbon footprint and investment in renewables and energy solutions. We used the MSCI tools and data for our calculations on 12 August 2023, for our listed shareholdings at 30 June 2023.

More information on MSCI methodology and metrics is available here: msci.com/documents/10199/2043ba37-c8e1-4773-8672-fae43e9e3fd0

and here:

msci.com/documents/1296102/16472518/ESG_ImpactMetrics-cfs-en.pdf/7a03ddab-46fd-cef7-5211-c07ab992d17b

MSCI ESG Research is not responsible for the impact information or the way we have used their data and tools. MSCI ESG Research (1) retains copyright in all its data; (2) does not warrant or guarantee the originality, accuracy and/or completeness of their data; (3) makes no express or implied warranties of any kind, and disclaims all warranties of merchantability and fitness for a particular purpose; (4) has no liability for any errors or omissions in connection with their data or for our reporting and use of their data; and (5) without limiting any of the foregoing, has no liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Carbon footprinting and impact measurement limitations

Investment carbon footprint metrics need to be used with caution. Company carbon data often includes estimates or is incomplete, and may include errors. Companies make different decisions about what they do and don't include when measuring and reporting their operational footprints. MSCI uses estimates for some companies. There are also different portfolio measurement methodologies, and different carbon metrics which can be used to assess carbon footprint, each with different strengths and weaknesses.

Similar limitations apply to measurement of other types of impact of companies. Company reporting of the revenue they earn from different products and services may be inaccurate or incomplete, and MSCI may make estimates in breaking down and categorising company revenue. There are different methodologies and frameworks for classifying sustainable products and services and for taking account of negative impacts of a company's operations.

Some of the impact data we use is provided in US$ terms, and some of this data has been converted to US$ using exchange rates selected by the data provider.

Where we report impact information in A$ terms, we have used an average exchange rate as published by the Australian Taxation Office for the 2023 financial year.

Use of sustainability information

The sustainability information in this report does not relate to specific financial products and may or may not be relevant to individuals' investment decisions. This information is of a general nature and is not intended to provide you with financial advice or take into account your personal objectives, financial situation or needs.

Investing ethically and sustainably means that the investment universe will generally be more limited than non-ethical, non-sustainable portfolios in similar asset classes. This means that the Portfolio may not have exposure to specific assets which over or underperform over the investment cycle. This means that the returns and volatility of the Portfolio may be higher or lower than non-ethical, non-sustainable portfolios over all investment time frames.

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Together, we shall continue to shape a tomorrow that aligns with our values and paves the way for a brighter future.

The information in this report is general information only and does not take account of your individual investment objectives, financial situation or needs. Before acting on it, consider its appropriateness to your circumstances and read the Financial Services Guide (FSG), the Product Disclosure Statement (PDS) and Target Market Determination (TMD) for the relevant product available on our website for information on the benefits and risks of our Funds. You should consider seeking advice from an authorised financial adviser before making an investment decision.

Past performance is not a reliable indicator of future performance.

Find out more

Phone: 1800 021 227
Email: enquiries@australianethical.com.au
Website: australianethical.com.au