Australian Ethical

# High Conviction Fund

Annual Financial Report
for the period ended 30 June 2022

ARSN 653 076 236

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# Directors' Report

# Directors' Report

For the period ended 30 June 2022

The Australian Ethical High Conviction Fund ("the Scheme"), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 21 August 2021 and will terminate on 19 August 2101 unless terminated earlier in accordance with the provisions of the Scheme's Constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the period from 3 September 2021 to 30 June 2022, as 3 September 2022 is the Scheme's registration date.

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Scheme present the directors' report together with the financial statements and notes to the financial statements of the Scheme for the period ended 30 June 2022 and the accompanying independent auditor's report.

## RESPONSIBLE ENTITY

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

**Registered office:**

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

**Principal place of business is:**

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

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

- John McMurdo, Managing Director and CEO
- Kate Greenhill
- Stephen Gibbs
- Mara Bun
- Michael Monaghan
- Julie Orr

## PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activity of the Scheme is to pool investors' savings to invest in a relatively concentrated portfolio of securities in accordance with the investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's Constitution. The Scheme is authorised to invest principally in a portfolio of Australian and New Zealand equities predominantly drawn from the S&P ASX 300. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

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

## REVIEW OF OPERATIONS

In today's world, when the social context of business has never mattered more, authenticity is emerging as the most valuable currency of all as people look for brands they can trust.

Russia's invasion of Ukraine sparked the largest boycott by businesses and consumers since the apartheid era in South Africa. Public outrage, pressure on business leaders and the ability of consumers to make their voices heard reached unprecedented levels.

Financial markets have had a turbulent start to 2022 but we don't believe the instability will derail efforts to shift the economy on to a more sustainable footing. In fact, we believe the structural drivers behind a low carbon future remain as strong as ever, putting authentic and experienced responsible investors like us in the box seat.

Resurgent fossil fuel companies, which were already benefitting from the reawakening of previously locked down economies, received a further boost as the war raised concerns over Russian supply.

The subsequent outperformance of the energy sector meant that many responsible investors - typically underweight oil and gas companies in their portfolios - began to see their performance wane compared with conventional funds. And as the rising price of oil and gas persuaded some of them to reinvest back in traditional energy companies, the authenticity of the responsible investment movement came under scrutiny. High profile scandals, greenwashing and abandoned climate pledges only served to further undermine the movement's credibility.

What we've seen this year is just how large a tent responsible investing has become, home to a spectrum of investor concerns and preferences. The investments that compromise one person's sense of right and wrong might not apply to someone else. And while those choices reflect different philosophies and different takes on many issues, what's become crystal clear is that investors do not operate in a vacuum. Decisions taken, or not taken, have an impact on the world around us.

Even as Australia's original ethical investor, at Australian Ethical our role isn't to judge others or to question their ethics or investment choices. We can only stay true to our own moral compass and the values we defined in our Ethical Charter.

We've seen some short-term headwinds this year. But our authenticity remains intact. We're still investing our customers' money in line with our Ethical Charter; we're still transparent about where it's invested and we're still advocating for a better world for people, planet, and animals. It's all we've done since 1986 and it's all we'll ever do.

### Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 1 October 2021 and reissued 1 February 2022 upon listing with Cboe Australian Securities Exchange ("Cboe").

From 1 February 2022, investors are able to access the Wholesale Performance Fee class either directly with the Responsible Entity or by buying or selling units through Cboe.

### Results

The key influences on overall market returns were elevated inflation data, interest rate rises and concerns over future economic growth.

The Scheme benefited from being relatively defensively positioned versus the benchmark, with large exposures to insurance, communications and consumer staples, sectors that are somewhat economically resilient. The Scheme holds around 5% in cash. Underperformance versus benchmark reflects the Scheme's material underweight to fossil fuel-oriented resource companies, consistent with our Ethical Charter.

Key company overweights in communications, staples, utilities, and insurance are expected to be resilient to any slowdown in economic growth but also able to manage higher inflation due to strong market positions and pricing power. In general, the Scheme continues to be relatively defensively positioned and oriented towards more mature companies with strong balance sheets. Short-term volatility is expected to create opportunities for active management with a focus on long-term fundamentals. The Scheme is oriented towards more mature companies in established industries that we believe are likely to be able to sustain their earnings independent of the economic cycle.

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

- Wholesale class -10.0%; and
- Wholesale Performance Fee class -9.9%.

## Distributions paid and/or payable

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

As per Note 11 the Scheme paid interim distributions as follows:

- Wholesale class of nil cents per unit;
- Wholesale Performance Fee class of nil cents per unit; and
- Zero class of nil cents per unit.

The year-end distributions payable are as follows:

- Wholesale class of 1.08 cents per unit;
- Wholesale Performance Fee class of 12.62 cents per unit; and
- Zero class of 1.53 cents per unit.

No interim distribution was paid in January 2022 and a final distribution of $2,111,151 was paid in July 2022.

## Net assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2022 was $123,226,770.

## Fees

Responsible Entity fees charged for the period were as follows:

- 0.95% for the wholesale class;
- 0.80% for the wholesale performance fee class; and
- Nil for the zero class.

No performance fee accrued as performance did not exceed the S&P/ASX 300 Accumulation Index (The hurdle). The performance fee is equal to 15% of the difference between the class return and the hurdle, multiplied by the value of the class assets after Responsible Entity fee. There is no performance fee charged by AEIL in relation to the Wholesale and the Zero class units which are held by other AEIL managed investment schemes and Australian Ethical Retail Superannuation Fund.

## Climate change

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

Our Chief Investment Officer and Head of Ethics Research 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 for emissions intensive sectors. The Board of directors has oversight of our ethical frameworks, with quarterly reporting to the Board of changes to frameworks and critical ethical issues.

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

The direct impact of climate change on Australian Ethical's business is its effect on our investment portfolios. The prospects and value of the businesses we invest in are exposed to risks and opportunities flowing from the many effects of climate change.

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

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

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

We identify, assess, and manage material climate-related investment risks through our ethical investment process. All investments are screened according to the 23 principles of our Ethical Charter which is embedded in our constitution. Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5°C. These companies are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all investment portfolios.

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

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

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

### INVESTMENT PORTFOLIO MANAGEMENT

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

### INFLUENCING COMPANIES

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

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

## LIKELY DEVELOPMENTS

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

## EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2022 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

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

## INDEMNITIES AND INSURANCE PREMIUMS FOR THE RESPONSIBLE ENTITY AND AUDITOR

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

## ROUNDING OF AMOUNTS

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

## RELATED PARTY DISCLOSURES

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

## ENVIRONMENTAL REGULATION

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

## AUDITOR’S DECLARATION

The auditor’s independence declaration is included on page 11 of this report and forms part of the directors' report for the period ended 30 June 2022.

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

John McMurdo
Managing Director
Australian Ethical Investment Limited
25 August 2022

# Lead Auditor's Independence Declaration

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

## To the Directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical High Conviction Fund:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical High Conviction Fund for the financial year ended 30 June 2022 there have been:

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney
25 August 2022

# Financial Statements

# Financial Statements

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2022

| | Note | 2022 $'000 |
|---|---|---|
| **Investment income** | | |
| Interest | 2 | 6 |
| Dividends | 3 | 1,760 |
| Net change in fair value of financial assets | 4 | (10,210) |
| **Net investment income** | | (8,444) |
| **Operating expenses** | | |
| Management fees | 14 | 14 |
| Transaction costs | | 90 |
| **Operating expenses before finance costs** | | 104 |
| **Profit/(loss) from operating activities** | | (8,548) |
| **Finance costs** | | |
| Distributions paid and payable to unitholders of the Scheme | 11 | (2,111) |
| **Change in net assets attributable to unitholders (total comprehensive income)** | 6 | (10,659) |

*There are no comparatives for the prior year as the Scheme was launched in the current period.*

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

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

| | Note | 2022 $'000 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 7 | 8,463 |
| Receivables | 8 | 17 |
| Financial assets held at fair value through profit or loss | 9 | 118,313 |
| **Total assets** | | 126,793 |
| **Liabilities** | | |
| Payables | 10 | 1,455 |
| Distribution payable | 11 | 2,111 |
| **Total liabilities** | | 3,566 |
| **Net assets attributable to unitholders** | 6 | 123,227 |
| **Represented by:** | | |
| Net assets attributable to unitholders at net asset value price | | 125,422 |
| Distribution payable to unitholders of the Scheme | | (2,111) |
| Adjustments arising from different unit pricing and accounting valuation | | (84) |
| **Total net assets attributable to unitholders** | 6 | 123,227 |

*There are no comparatives for the prior year as the Scheme was launched in the current period.*

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

## STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2022

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

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

## STATEMENT OF CASH FLOWS

For the period ended 30 June 2022

| | Note | 2022 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | | 6 |
| Dividends received | | 1,760 |
| Management fees paid | | (11) |
| Transaction costs paid | | (95) |
| **Net cash provided by operating activities** | 13 | 1,660 |
| **Cash flows from investing activities** | | |
| Proceeds from sale of investments | | 10,003 |
| Purchase of investments | | (137,074) |
| **Net cash used in investing activities** | | (127,071) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of units | | 134,244 |
| Payments for redemption of units | | (370) |
| Distributions paid to unitholders | | - |
| **Net cash provided by financing activities** | | 133,874 |
| Net increase/(decrease) in cash and cash equivalents | | 8,463 |
| Cash and cash equivalents at 3 September | | - |
| **Cash and cash equivalents at 30 June** | 7 | 8,463 |

*There are no comparatives for the prior year as the Scheme was launched in the current period.*

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

# Notes to the Financial Statements

# Notes to the Financial Statements

For the period ended 30 June 2022

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

The Australian Ethical High Conviction Fund ("the Scheme"), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 21 August 2021 and will terminate on 19 August 2101 unless terminated earlier in accordance with the provisions of the Scheme's Constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the period from 3 September 2021 to 30 June 2022, as 3 September 2022 is the Scheme's registration date.

On 1 February 2022, the Scheme became a Quoted Managed Fund and commenced trading on Cboe Australia securities exchange (ticker code: AEAE).

### Statement of compliance

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

### BASIS OF PREPARATION

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

The principal accounting policies adopted in the preparation of the financial statements are set out below.

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

### ESTIMATES AND JUDGEMENTS

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

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

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

### CASH AND CASH EQUIVALENTS

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

## FAIR VALUE MEASUREMENT PRINCIPLES

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

The Scheme can invest into Australian and New Zealand equities. Generally, valuation information is obtained from third-party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security;
- quoted 'bid' prices on securities.

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

The Scheme's assets are measured at fair value in accordance with AASB13 Fair Value Measurement. This is taken as last market bid price being the price a market participant would pay to buy the asset and is different to the price used in the unit pricing process which is the last sale price. The statement of financial position presents the difference in the values used in unit pricing to this financial report.

### Classification

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

### Recognition and initial measurement

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

### Measurement

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

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

### Derecognition

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

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

### Offsetting

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

## RECEIVABLES

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC). Unsettled sales are amounts due from brokers for securities sold that have not been received at reporting date. Trades are recorded on trade date and normally settle within two business days.

Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables as at 30 June 2022 and management have not identified any additional concerns regarding collection of the receivables.

## PAYABLES

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

## DISTRIBUTIONS PAID AND PAYABLE

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

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

## CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

## REVENUE

### Interest income

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

### Dividend income

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

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

## INCOME TAX

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

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

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

## NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

## EXPENSES

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

## FOREIGN CURRENCY TRANSACTIONS AND BALANCES

Assets and liabilities denominated in foreign currency are translated at the rates of exchange ruling at the reporting date. Unrealised foreign exchange gains or losses, arising on translation of assets and liabilities denominated in foreign currency at reporting date, are recognised as part of the 'net change in fair value of investments'.

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Realised foreign exchange gains or losses, arising on the sale of assets denominated in foreign currency, are brought to account as part of 'Net change in fair value of investments'.

The effects of changes in foreign exchange rates recognised as part of the 'net change in fair value of investments' are separately disclosed in Note 4.

Realised foreign exchange gains or losses on the settlement of dividends are brought to account as part of or 'dividend income’ in the Statement of Profit or Loss and Other Comprehensive Income and in the Statement of Cash Flows.

## STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET ADOPTED

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2022 reporting period and have not been early adopted by the Scheme. Management have assessed that none of these are expected to have a material impact on the financial statements of the Scheme.

## NOTE 2 – INTEREST INCOME

| | **2022<br>$'000** |
|---|---|
| Interest income from securities designated at fair value through profit or loss | - |
| Bank interest | 6 |
| **Total interest income** | **6** |

## NOTE 3 – DIVIDEND INCOME

| | |
|---|---|
| Dividend income from securities designated at fair value through profit or loss | 1,760 |
| **Total dividend income** | **1,760** |

## NOTE 4 – NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS

| | |
|---|---|
| Unrealised gain/(loss) arising on financial assets designated at fair value through profit or loss | (10,563) |
| Realised gain/(loss) arising on the disposal of investments | 817 |
| Effects of changes in foreign exchange rates | (464) |
| **Net change in fair value of financial assets** | **(10,210)** |

## NOTE 5 – ISSUED UNITS

Each unit represents a right to an individual share in the Scheme per the Constitution. From 1 February 2022, investors are able to access the Wholesale Performance Fee class either directly with the Responsible Entity or by buying or selling units on the Cboe Australian Securities Exchange. Zero class units are issued to other schemes managed by the Responsible Entity and the Australian Ethical Retail Superannuation Fund (AERSF). All rights attached to zero class units are the same as those of the other classes.

| | **2022 Units** |
|---|---|
| **Wholesale class** | |
| On issue at beginning of period | - |
| Issued | 109,153 |
| **On issue at period end** | 109,153 |
| **Wholesale Performance Fee class** | |
| On issue at beginning of period | - |
| Issued | 554,325 |
| Redeemed | (38,685) |
| **On issue at period end** | 515,640 |
| **Zero class** | |
| On issue at beginning of period | - |
| Issued | 133,293,251 |
| **On issue at period end** | 133,293,251 |

## NOTE 6 – NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

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

| | **2022 $'000** |
|---|---|
| Opening balance | - |
| Issued | 134,256 |
| Redeemed | (370) |
| Change in net assets attributable to unitholders | (10,659) |
| **Net assets attributable to unitholders** | 123,227 |

## NOTE 7 – CASH AND CASH EQUIVALENTS

| | |
|---|---|
| Cash at bank | 8,463 |
| **Total cash and cash equivalents** | 8,463 |

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

## NOTE 8 – RECEIVABLES

| | |
|---|---|
| Applications | 14 |
| GST | 3 |
| **Total receivables** | 17 |

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

| | Note | 2022 $'000 |
|---|---|---|
| Designated at fair value through profit or loss | | |
| **Equities** | | |
| Australian listed | | 104,986 |
| New Zealand listed | | 13,327 |
| **Financial assets at fair value through profit or loss** | 15 | 118,313 |

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

## NOTE 10 – PAYABLES

| | |
|---|---|
| Redemptions | 1 |
| Investment purchases | 1,453 |
| Management fees | 1 |
| **Total payables** | 1,455 |

## NOTE 11 – DISTRIBUTIONS PAID AND PAYABLE

| | |
|---|---|
| Distributions payable | 2,111 |
| **Total distributions paid and payable** | 2,111 |

The Scheme paid interim distributions to the classes as follows:

- Wholesale class of nil cents per unit;
- Wholesale Performance Fee class of nil cents per unit; and
- Zero class of nil cents per unit.

The year-end distributions payable are as follows:

- Wholesale class of 1.08 cents per unit;
- Wholesale Performance Fee class of 12.62 cents per unit; and
- Zero class of 1.53 cents per unit.

## NOTE 12 – AUDITOR'S REMUNERATION

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

| | **2022** **$** |
|---|---|
| Financial statements audit fees | 15,375 |
| Compliance plan audit | 4,403 |
| Tax compliance service | 4,561 |
| **Total auditor's remuneration** | **24,339** |

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

| | **2022** **$'000** |
|---|---|
| **Net profit from operating activities** | (8,548) |
| **Adjustments for:** | |
| Net realised (gain)/loss on disposal of investments | (817) |
| Net unrealised (gain)/loss on revaluation of investments | 10,563 |
| Effects of changes in foreign exchange rates | 464 |
| **Changes in assets and liabilities:** | |
| (Increase)/decrease in receivables | (3) |
| Increase/(decrease) in payables | 1 |
| **Net cash provided by operating activities** | **1,660** |

## NOTE 14 - RELATED PARTY DISCLOSURES

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

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

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

- John McMurdo, Managing Director and CEO
- Kate Greenhill
- Stephen Gibbs
- Mara Bun
- Michael Monaghan
- Julie Orr

Some of the Directors indirectly hold units in the Scheme through a superannuation fund.

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

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

- 0.95% for the wholesale class;
- 0.80% for the wholesale performance fee class; and
- Nil for the zero class.

| | **2022<br>$'000** |
|---|---|
| **Management fees** | **14** |

Fees earned by the Responsible Entity are net of any non-reclaimable GST. Fees payable to the Responsible Entity at 30 June 2022 were $773 and are included in payables.

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

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

| 30 June 2022 | Units held opening $ | Units held closing $ | Interest held % | Units acquired $ | Distributions paid/payable by the Scheme $ |
|---|---|---|---|---|---|
| Australian Ethical High Growth Fund | - | 11,085,537 | 9.01 | 12,250,000 | 191,473 |
| Australian Ethical Balanced Fund | - | 87,809,319 | 71.36 | 95,500,000 | 1,516,669 |
| Australian Ethical Retail Superannuation Fund | - | 19,496,210 | 15.84 | 21,053,500 | 336,744 |

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

## NOTE 15 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

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

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

## (a) Categories of financial instruments

| | 2022 $'000 |
|---|---|
| **Financial assets** | |
| Cash and cash equivalents | 8,463 |
| Receivables | 17 |
| Financial assets held at fair value through profit or loss | 118,313 |
| **Total assets** | 126,793 |
| **Financial liabilities** | |
| *Other financial liabilities* | |
| Payables | 1,455 |
| Distribution payable | 2,111 |
| Net assets attributable to unitholders | 123,227 |
| **Total liabilities** | 126,793 |

## (b) Operational risk

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

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

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

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

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

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

## (c) Financial risk management objectives

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

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

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

## (d)(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and this will affect the Scheme's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's Product Disclosure Statement. The Scheme's investment mandate is to invest in a range of assets, which may include Australian and New Zealand equity investments listed on the ASX.

## (d)(ii) Foreign currency risk

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

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

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

| | **2022**<br>**$'000** |
|---|---|
| NZD | **13,327** |

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

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

| FX Exposure | Currency | 2022 $'000 |
|---|---|---|
| Increase in FX rate by 10% | NZD | (1,212) |
| Decrease in FX rate by 10% | NZD | 1,481 |

### (d)(iii) Interest rate risk

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

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

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

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

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

| | 2022 $'000 |
|---|---|
| Increase in interest rate by 1% | 85 |
| Decrease in interest rate by 1% | (85) |

### (d)(iv) Price risk

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

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

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

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

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

| | **2022**<br>**$'000** |
|---|---|
| Increase in market prices by 10% | **11,831** |
| Decrease in market prices by 10% | **(11,831)** |

## (e) Credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is exposed to credit risk through its deposits at banks and trade and other receivables.

The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trades within two business days, and other receivables monthly.

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2022.

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

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

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

| | **2022**<br>**$'000** |
|---|---|
| Cash and cash equivalents | 8,463 |
| Receivables | 17 |
| **Total credit risk** | 8,480 |

## (f) Liquidity risk

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

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

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

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

| | | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Weighted average interest rate % | 0-3 months $'000 | 3 months to 1 year $'000 | 1 to 5 years $'000 | 5+ years $'000 | Total $'000 |
| **Variable interest-bearing assets** | | | | | | |
| Cash and cash equivalents | 0.07 | 8,463 | - | - | - | 8,463 |
| **Non-interest bearing** | | | | | | |
| Receivables | n/a | 17 | - | - | - | 17 |
| Financial assets | n/a | 118,313 | - | - | - | 118,313 |
| Total financial assets | | 126,793 | - | - | - | 126,793 |
| **Non-interest bearing** | | | | | | |
| Payables | n/a | 1,455 | - | - | - | 1,455 |
| Distribution payable | n/a | 2,111 | - | - | - | 2,111 |
| Amounts payable to unitholders | n/a | 123,227 | - | - | - | 123,227 |
| Total financial liabilities | | 126,793 | | | | 126,793 |

## (g) Fair values

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

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

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

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

| | 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| **Designated at fair value through profit or loss** | | | | |
| **Equities** | | | | |
| **Australian listed** | 104,986 | - | - | 104,986 |
| **New Zealand listed** | 13,327 | - | - | 13,327 |
| **Financial assets at fair value through profit or loss** | 118,313 | - | - | 118,313 |

CARRYING AMOUNTS VERSUS FAIR VALUE

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

## NOTE 16 - CONTINGENCIES AND COMMITMENTS

There are no contingent assets or liabilities or commitments as at 30 June 2022.

## NOTE 17 – SEGEMENT REPORTING

The Scheme operates in one segment which is the reportable segment.

| Reportable segment | Operations |
|---|---|
| Equities | The Scheme invests in a concentrated portfolio of Australian and New Zealand companies that meet the Australian Ethical Charter to achieve long-term capital growth and income. |

## NOTE 18 - EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2022 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

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

# Directors' Declaration

# Directors' Declaration

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

a) The financial statements and notes to the financial statements that are set out in this report are in accordance with the Corporations Act 2001, including:
   i. Giving a true and fair view of the Scheme's financial position as at 30 June 2022 and of its performance for the period ended on that date; and
   ii. Complying with Australian Accounting Standards and Corporations Regulations 2001;

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

c) The Scheme has operated during the period in accordance with the provisions of the Scheme's Constitution.

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

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

John McMurdo
Managing Director
Australian Ethical Investment Limited
25 August 2022

# Independent Auditor's Report

# Independent Auditor's Report

## To the unitholders of Australian Ethical High Conviction Fund

### Opinion

We have audited the ***Financial Report*** of Australian Ethical High Conviction Fund (the Scheme).

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

- giving a true and fair view of the Scheme's financial position as at 30 June 2022 and of its financial performance for the period since date of registration, being 3 September 2021 to 30 June 2022; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2022;
- Statement of profit or loss and other comprehensive income Statement of changes in equity, and Statement of cash flows for the period since date of registration, being 3 September 2021 to 30 June 2022;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

### Basis for opinion

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

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

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

### Key Audit Matters

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

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

<table>
<tr><th colspan="2">Valuation and existence of financial assets held at fair value through profit or loss<br>[AUD (in 000s) 118,313]</th></tr>
<tr><td colspan="2">Refer to Note [9] to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Financial assets at fair value through profit or loss comprise investments in listed securities ("investments").<br><br>The Scheme outsources certain processes and controls relevant to:<br><br>• Executing transactions as instructed by the Responsible Entity and recording and valuing investments to the Scheme administrator;<br>• Maintaining custody and underlying records of investments to the Custodian; and<br>• Processing unitholders' transactions to the Registry.<br><br>Valuation and existence of investments is a key audit matter due to the:<br><br>• Size of the Scheme's portfolio of investments. These investments represent a significant percentage of the Scheme's total assets at period end; and<br>• Importance of the performance of these investments in driving the Scheme's investment income and capital performance, as reported in the Financial Report.<br><br>As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.</td><td>Our procedures included:<br><br>• We assessed the appropriateness of the accounting policies applied by the Scheme, including those relevant to the fair value of investments, against the requirements of the accounting standards.<br>• We obtained and read the Scheme's Service Provider's ASAE 3402 Assurance Reports on Controls at a Service Organisation and GS007 Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services assurance reports to understand the processes and assess the controls relevant to the:<br>- Scheme administrator – to execute transactions, record and value the Scheme's investments;<br>- Custodian – to maintain custody and underlying records of the Scheme's investments; and<br>- Registry – to provide registry services for processing Scheme's transactions.<br>• We assessed the reputation, professional competence and independence of the auditors of the ASAE 3402 and GS007 assurance reports.<br>• We checked the existence of investments, being the ownership and accuracy to the independent confirmation from the Custodian.<br>• We checked the valuation of investments, as recorded in the general ledger, to independently sourced prices from relevant stock exchanges as at 30 June 2022.<br>• We evaluated the Scheme's disclosures of investments, using our understanding obtained from our testing, against the requirements of the accounting standards.</td></tr>
</table>

## Other Information

Other Information is financial and non-financial information in Australian Ethical High Conviction Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Australian Ethical Investment Limited (the Responsible Entity) are responsible for the Other Information.

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

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

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

## Responsibilities of the Directors for the Financial Report

The Directors of Australian Ethical Investment Limited (the Responsible Entity) are responsible for:

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

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
25 August 2022