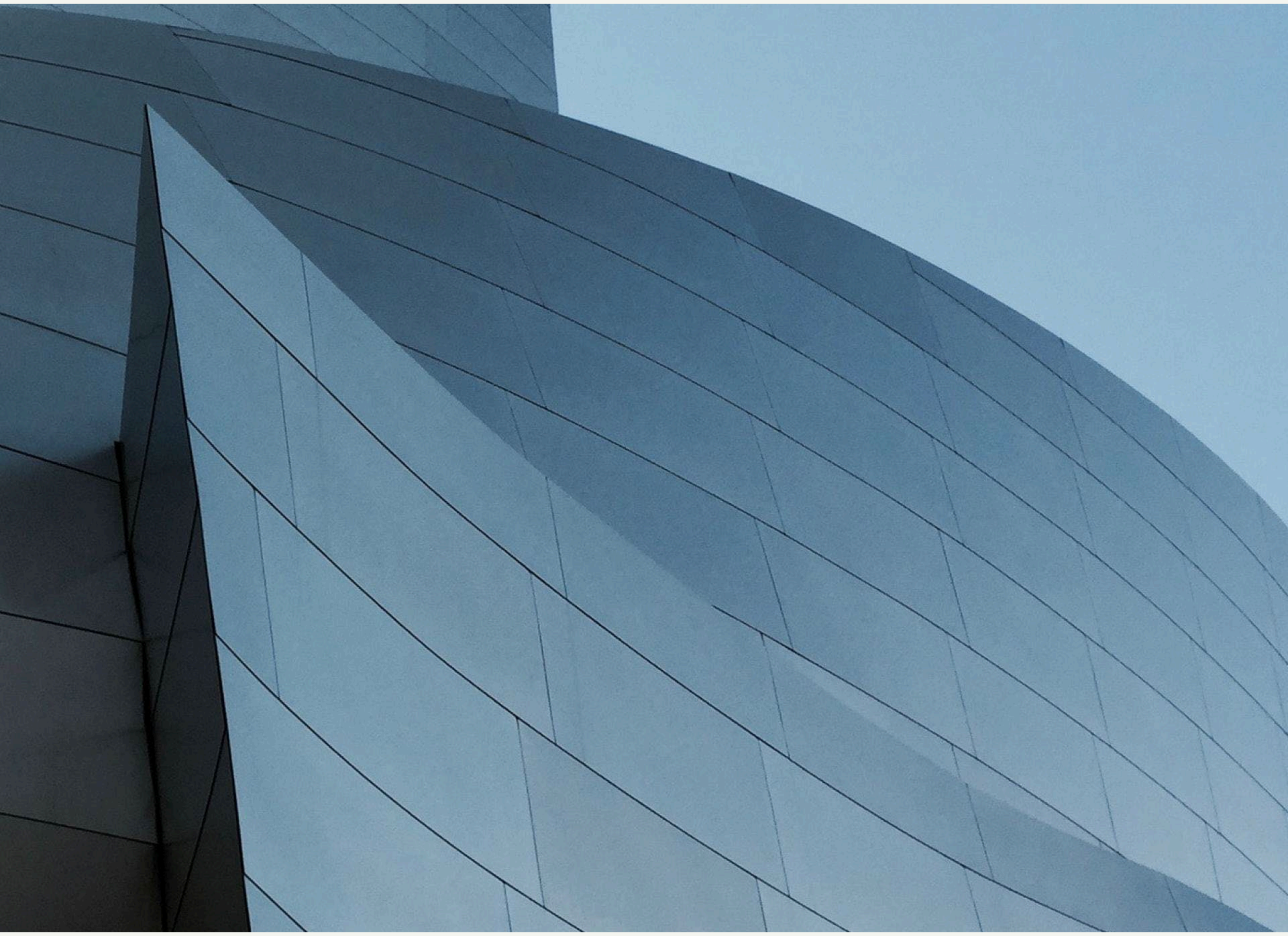
Australian Ethical

Conservative Fund

Annual Financial Report
for the period ended 30 June 2024



ARSN 672 051 795

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Directors' Report

Directors' Report

For the period ended 30 June 2024

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Conservative Fund (the Scheme) present the directors' report together with the financial statements and notes to the financial statements of the Scheme and the accompanying independent auditor's report. The financial statements of the Scheme are for the period from 8 November 2023 to 30 June 2024, as 8 November 2023 is the Scheme's inception date.

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
Level 8, 210 George Street
Sydney NSW 2000

Principal place of business is:

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

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

- Steve Gibbs (Chair)
- John McMurdo (Managing Director and CEO)
- Julie Orr
- Kate Greenhill
- Mara Bun
- Richard Brandweiner (appointed 1 September 2024)
- Sandra McCullagh

PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activity of the Scheme is to pool investors' savings to invest 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 invests in a diversified portfolio of asset types which may include Australian and New Zealand shares, international shares, unlisted property, alternative assets, interest-bearing securities, and cash. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

During the period, the Scheme received a $304.1m application from a related party entity which funded a $304.1m application by the Scheme into other related party entities. The units for all applications were processed via in-specie transfers and are not reflected in the Statement of Cashflows. These transactions were made within the Scheme for asset allocation purposes.

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

The financial year ending June 2024 saw significant momentum in global equity markets, driven by interest rate movements and advancements in Artificial Intelligence. Despite rising interest rates initially pressuring markets and causing declines in indices like the ASX 300, markets rebounded strongly as inflation readings declined and the US Federal Reserve hinted at rate cuts. Risk assets, particularly international equities, enjoyed robust returns over the 12-month period.

Central banks continue to face the challenge of controlling inflation while maintaining growth and labour markets. Despite restrictive rate settings, core inflation remains above targets but shows a trend towards lower rates. Asset prices and employment data remain solid, especially in services, despite manufacturing struggles in some developed countries. Central bank policies differ across regions due to varying growth rates and inflation levels. China is dealing with challenges from real estate risks, lower global demand, and political and trade issues, which combined have negatively impacted Australia's resource sector.

In calendar year 2023 the annual average global temperature approached 1.45 degrees above pre-industrial levels making it the hottest year on Earth since records began in 1880. Along with global temperatures, greenhouse gas levels, ocean heat and sea level rise experienced record highs in calendar year 2023, while Antarctic Sea ice was a record low. In the past year we also learned that six of nine planetary boundaries evaluated since 2009 had been transgressed, increasing the risk of large-scale abrupt or irreversible environmental changes[1]. Given the intricate biophysical system of our planet and the interplay between climate and biodiversity, the impact of climate change on ecosystems, the stability of societies and on financial markets, are likely to escalate if these trends continue.

Behind the scenes the momentum for change still gathers speed, but has a fair way to go. The world now invests more than twice as much in clean energy as it does in fossil fuels[2]. According to the International Energy Agency, clean energy investments are set to approach USD 320 billion in calendar year 2024, up by more than 50% since 2020. This is great news, but the path will not necessarily be smooth or easy.

Geopolitical turmoil in the Middle East, Europe and the US, can make it challenging for all entities to maintain focus on the longer-term commitments of the Paris Agreement. Many companies, industries and countries are struggling to find ways to meet their commitments, while others see opportunity and seek to innovate a new way forward.

For more than 38 years, our constitutionally enshrined Ethical Charter[3] has been our North Star, helping us steer a steady course. It provides the framework which shapes our investable universe, informs how we operate our business, as well as how we advocate and engage with companies, to ensure we are doing well for our investors and good for all. Through all market cycles, we have remained committed to pursuing the aims of our Ethical Charter.

Despite our long history of responsible investing, it wasn’t until the second half of the last decade that we saw accelerating public awareness of climate change and the role responsible investing could play in the solution.

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[1] https://www.stockholmresilience.org/research/planetary-boundaries.html

[2] iea.org/reports/world-energy-investment-2024/overview-and-key-findings

[3] https://www.australianethical.com.au/why-ae/ethical-charter/

Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 3 June 2024.

Results

Total return is the percentage change to a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Guidance Note 46 Investment Option Performance - Calculation of Returns. The Scheme achieved the following total returns for the period:

- Wholesale class 4.75%.

The wholesale class generated a return of 4.75% compared to the benchmark which returned 4.43% in the period from inception through 30 June 2024.

The Scheme outperformed its benchmark over the period since inception. Strong performance in the Technology sector in the second half of financial year was a key driver of strong equity market performance. Underweight unlisted property was beneficial as market valuations continued to be revised lower over the period. Active global fixed income and cash allocations outperformed the benchmark.

Equity markets saw strong double-digit returns for a second year, with the S&P 500 leading the S&P/ASX200, driven by large-cap momentum, particularly in the Artificial Intelligence sector. Bond markets were mixed in terms of where they ended the year but overall delivered modest positive returns, helped by compression of credit spreads in the risk-positive environment.

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

The Scheme seeks to provide income and capital growth over the medium-term through a diversified portfolio of growth and defensive assets that meet the Australian Ethical Charter. The recommended minimum investment timeframe is 4 years.

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; and
- Zero class of 1.13 cents per unit.

The year-end distributions payable were as follows:

- Wholesale class of 2.17 cents per unit; and
- Zero class of 2.33 cents per unit.

An interim distribution of $3,389,623 was paid in January 2024 and a final distribution of $7,059,633 was paid in July 2024.

Net assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2024 was $311m.

Fees

Responsible Entity fees charged for the period were as follows:

- 0.55% p.a. for the wholesale class; and
- Nil for the zero class.

Management costs as reported in the Scheme's Product Disclosure Statement dated 3 June 2024 include 0.11% (wholesale class) indirect costs attributable to fees and costs of specialist asset managers in unlisted property trusts and alternative assets. These additional costs form part of the net performance of the Scheme however are not payable to the Responsible Entity.

Climate change

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, our engagement and advocacy, and climate performance measurement and reporting.

Our ethical research 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 / increase in carbon pricing. Our approach can also strengthen specialist investment capabilities to navigate technological change associated with climate disruption and transition.

However, the effects of climate change are projected to be felt across the economy and society. Higher warming threatens to disrupt trade and financial markets with implications for all investment portfolios.

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 assessment criteria.

We report quarterly to the Board, via the investment committee, of changes to frameworks and critical ethical issues. Climate change related topics are regular agenda items, and the board includes members with climate change expertise. During FY24 the investment committee approved an update to our investment beliefs recognising the criticality of preventing dangerous climate change to both our ethical and financial goals.

Our ethics team applies our Ethical Criteria to assess the positive and negative impacts of potential investments on people, animals and the environment, and that research defines our universe of potential ethical investments. The team includes members with expertise in climate change. Using diverse company, industry, government, responsible investment, scientific, civil society and news sources, the team monitors developments in:

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

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, annually. Our climate reporting 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. During the year we elevated climate policy advocacy to a strategic priority for stewardship and commenced work on an investor initiative, co-ordinated via the Investor Group on Climate Change (IGCC), seeking corporates to exercise their influence positively to encourage Australia to set a science-based national climate target for 2035.
- Applying and communicating our climate-related Ethical Criteria for investment in key sectors including the energy, finance, food, transport and mining sectors. 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 tolerance 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 Guide. We restrict investments in companies assessed to be obstructing the objectives of the Paris Agreement to limit global warming to well below 2°C and to pursue a limit of 1.5°C. The way this test is applied depends on the company and its sector.

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

LIKELY DEVELOPMENTS

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

EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2024 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

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

INDEMNITIES AND INSURANCE PREMIUMS FOR THE RESPONSIBLE ENTITY AND AUDITOR

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

ROUNDING OF AMOUNTS

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

RELATED PARTY DISCLOSURES

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

ENVIRONMENTAL REGULATION

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

AUDITOR’S DECLARATION

The auditor’s independence declaration is included in this report and forms part of the directors' report for the financial period ended 30 June 2024.

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

John McMurdo
Managing Director
Australian Ethical Investment Limited
25 September 2024

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 Conservative Fund:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Conservative Fund for the financial year ended 30 June 2024 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 September 2024

Financial Statements

Financial Statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2024

	Note	2024 $'000
Investment income		
Interest	2	49
Dividends	3	9,276
Net change in fair value of financial assets	4	8,623
Net investment income/(loss)		17,948
Operating expenses		
Transaction costs		2
Operating expenses before finance costs		2
Profit/(loss) from operating activities		17,946
Finance costs		
Distributions paid and payable to unitholders of the Scheme	11	(10,450)
Change in net assets attributable to unitholders (total comprehensive income)	6	7,496

There are no comparatives for the prior year as the Scheme 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 2024

	Note	2024 $'000
Assets		
Cash and cash equivalents	7	2,806
Margin accounts	8	234
Receivables	9	5,886
Financial assets held at fair value through profit or loss	10	309,006
Total assets		317,932
Liabilities		
Distribution payable	11	7,060
Total liabilities		7,060
Net assets attributable to unitholders	6	310,872
Represented by:		
Net assets attributable to unitholders at net asset value price		317,965
Distribution payable to unitholders of the Scheme		(7,060)
Adjustments arising from different unit pricing and accounting valuations		(33)
Total net assets attributable to unitholders	6	310,872

There are no comparatives for the prior year as the Scheme 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 2024

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 2024

	Note	2024 $'000
Cash flows from operating activities		
Interest received		**49**
Dividends received		**9**
Transaction costs paid		**(2)**
Net cash provided by operating activities	**13**	**56**
Cash flows from investing activities		
Proceeds from sale of investments		**31,366**
Purchase of investments		**(24,268)**
Transfers to margin accounts		**(234)**
Net cash used in investing activities		**6,864**
Cash flows from financing activities		
Proceeds from issue of units		**31,057**
Payments for redemption of units		**(35,171)**
Net cash provided by financing activities		**(4,114)**
Net increase/(decrease) in cash and cash equivalents		**2,806**
Cash and cash equivalents at 8 November		**-**
Cash and cash equivalents at 30 June	**7**	**2,806**

There are no comparatives for the prior year as the Scheme 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 2024

NOTE 1 – MATERIAL ACCOUNTING POLICIES

REPORTING ENTITY

The Australian Ethical Conservative Fund (the Scheme), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 20 September 2023 and will terminate on 20 September 2103 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 8 November 2023 to 30 June 2024, as 8 November 2023 is the Scheme's inception date.

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, except for receivables and payables which are measured at cost.

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

The Statement of Financial Position is prepared on a liquidity basis. All balances including financial assets held at fair value are readily converted to cash, except for investments in other Australian Ethical trusts and direct unlisted property assets.

ESTIMATES AND JUDGEMENTS

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

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

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

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

CASH AND CASH EQUIVALENTS

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

MARGIN ACCOUNTS

Margin accounts comprise of cash held or owned as collateral for derivative transactions. The cash is held by the broker and is only available for margin calls. It is not included as a component of cash and cash equivalents. Movements to and from the margin accounts are presented under investing activities in the Statement of Cash Flows.

FAIR VALUE MEASUREMENT PRINCIPLES

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

The Scheme can invest into a variety of assets including Australian and New Zealand shares, international shares, property, alternative assets, interest-bearing securities, and cash. Generally, valuation information is obtained from third-party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

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

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

The Scheme uses derivative instruments in the form of futures and options. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognised in the statement of comprehensive income in the year in which they occur.

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

Classification

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

Recognition and initial measurement

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

Measurement

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

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

Derecognition

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

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

Impairment of financial assets held at amortised cost

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

Offsetting

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

Derivative financial instruments

In accordance with the investment mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. After initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. At balance date, the Scheme held exchange traded equity futures and options.

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 trades and other receivables are estimated to be nil as there are currently no past due receivables as at 30 June 2024 and management have not identified any additional concerns regarding collection of the receivables.

PAYABLES

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

DISTRIBUTIONS PAID AND PAYABLE

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

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

CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

REVENUE

Interest income

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

Dividend income

Dividend and distribution income relating to exchange-traded equity investments is recognised as dividend income in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date. Income distributions from other managed investment schemes are recognised in the Statement of Profit or Loss and Other Comprehensive Income as dividend income in accordance with the declaration set out in their Constitutions.

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

INCOME TAX

Under current income tax legislation, the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the beneficiaries (the unitholders). The income of the Scheme is to be attributed to unitholders in accordance with the Scheme's Constitution which requires the distribution of the net accounting income for the 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 cost bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

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

NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

EXPENSES

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

STANDARDS AND INTERPRETATIONS ON ISSUE NOT YET ADOPTED

The Scheme has applied AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting policies and Definition of Accounting Estimates, applicable to annual reporting periods beginning on or after 1 January 2023, for the first time in the current financial period. There are no other new standards that are effective and that are expected to have a material impact on the Scheme in the current or future reporting periods and on foreseeable future transactions. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

NOTE 2 – INTEREST INCOME

	2024 $'000
Bank interest	49
Total interest income	**49**

NOTE 3 – DIVIDEND INCOME

	2024 $'000
Dividend income from securities designated at fair value through profit or loss	**9,276**
Total dividend income	**9,276**

NOTE 4 – NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS

	2024 $'000
Unrealised gain/(loss) arising on financial assets designated at fair value through profit or loss	**7,431**
Realised gain/(loss) arising on the disposal of investments	**1,192**
Net change in fair value of financial assets	**8,623**

NOTE 5 – ISSUED UNITS

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

	2024 Units
Wholesale class	
On issue at beginning of period	-
Issued	**235,954**
Redeemed	-
On issue at period end	**235,954**
Zero class	
On issue at beginning of period	-
Issued	**337,121,802**
Redeemed	**(34,119,037)**
On issue at period end	**303,002,765**

NOTE 6 – NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to provide investors with a balance between capital growth and a moderate level of income through a diversified portfolio of assets.

	2024 $'000
Opening balance	-
Issued	**335,157**
Distributions reinvested	**3,390**
Redeemed	**(35,171)**
Change in net assets attributable to unitholders	**7,496**
Net assets attributable to unitholders	**310,872**

NOTE 7 – CASH AND CASH EQUIVALENTS

	2024 $'000
Cash at bank	2,806
Total cash and cash equivalents	**2,806**

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 – MARGIN ACCOUNTS

	2024 $'000
Cash in margin accounts	234
Total cash in margin accounts	**234**

Cash held in the margin account at Macquarie Bank is restricted to funding initial and variation margins on open derivative positions.

NOTE 9 – RECEIVABLES

	2024 $'000
Dividends and distributions	5,885
GST	1
Total receivables	**5,886**

NOTE 10 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2024 $'000
Designated at fair value through profit or loss		
Equities		
Australian listed		1,491
Derivatives		
Exchange traded		32
Unit trusts		
Unlisted Australian Ethical trusts		307,483
Financial assets at fair value through profit or loss	15	**309,006**

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

NOTE 11 – DISTRIBUTIONS PAID AND PAYABLE

	2024 $'000
Interim distribution paid	3,390
Distributions payable	7,060
Total distributions paid and payable	**10,450**

The Scheme paid interim distributions as follows:

- Wholesale class of nil cents per unit; and
- Zero class of 1.13 cents per unit.

The year-end distributions payable were as follows:

- Wholesale class of 2.17 cents per unit; and
- Zero class of 2.33 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.

	2024 $
Financial statements audit fees	15,375
Compliance plan audit	5,002
Tax compliance service	5,448
Total auditor's remuneration	**25,825**

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

	2024 $'000
Net profit/(loss) from operating activities	**17,946**
Adjustments for:	
Net realised (gain)/loss on disposal of investments	(1,192)
Net unrealised (gain)/loss on revaluation of investments	(7,431)
Dividends and distributions reinvested	(3,381)
Changes in assets and liabilities:	
(Increase)/decrease in trade and other receivables	(5,886)
Increase/(decrease) in other payables	-
Net cash provided by operating activities	**56**

Non-cash financing and investing activities

During the period, dividends and distributions received totalling $3,380,620 were reinvested for additional shares and units. Income distributions totalling $3,389,623 were reinvested by unitholders for additional units in the Scheme.

During the period the Scheme received a $304.1m application from a related party entity which funded a $304.1m application by the Scheme into other related party entities. The units for all applications were processed via in-specie transfers and are not reflected in the Statement of Cashflows.

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 period and up to the date of this report unless otherwise indicated:

- Steve Gibbs (Chair)
- John McMurdo (Managing Director and CEO)
- Julie Orr
- Kate Greenhill
- Mara Bun
- Richard Brandweiner (appointed 1 September 2024)
- Sandra McCullagh

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

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

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

- 0.55% p.a. for the wholesale class; and
- Nil for the zero class.

	2024 **$'000**
Management fees	-

Fees earned by the Responsible Entity are net of any non-reclaimable GST. Fees payable to the Responsible Entity at 30 June 2024 were $36.

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 2024	Value of units held opening $	Value of units held closing $	Interest held %	Value of units acquired/ (disposed) $	Distributions paid/payable by the Scheme $
Australian Ethical Retail Superannuation Fund	-	310,850,536	99.92	303,129,322	10,444,146

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

The Scheme held investments in the following related parties:

30 June 2024	Value of units held opening $	Value of units held closing $	Interest held %	Value of units acquired/ (disposed) $	Distributions paid/payable by the Scheme $
Australian Ethical Alternatives Fund	-	10,068,515	4.01	10,257,425	251,957
Australian Ethical Australian Shares Fund	-	5,608,636	0.31	5,049,443	251,360
Australian Ethical Defensive Alternatives Fund	-	6,826,322	4.16	6,833,564	304,494
Australian Ethical Diversified Shares Fund	-	22,631,968	0.94	20,259,577	672,043
Australian Ethical Emerging Companies Fund	-	726,921	0.23	634,614	14,131
Australian Ethical Fixed Interest Fund	-	113,827,296	10.62	109,637,465	1,021,213
Australian Ethical Global Credit Fund	-	65,342,284	8.91	65,868,985	3,722,104
Australian Ethical High Conviction Fund	-	2,819,023	0.54	2,600,781	81,944
Australian Ethical Income Fund	-	44,379,049	12.51	44,676,384	1,731,304
Australian Ethical International Shares Fund	-	25,908,116	1.06	22,512,002	832,480
Australian Ethical Unlisted Property Fund	-	9,344,422	8.24	10,664,763	379,041

Distributions paid/payable to the Scheme 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

	2024 $'000
Financial assets	
Cash and cash equivalents	**2,806**
Margin accounts	**234**
Receivables	**5,886**
Financial assets held at fair value through profit or loss	**309,006**
Total assets	**317,932**
Financial liabilities	
Other financial liabilities	
Distribution payable	**7,060**
Net assets attributable to unitholders	**310,872**
Total liabilities	**317,932**

(b) Operational risk

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

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

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

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

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

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

(c) Financial risk management objectives

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

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

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

(d)(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and this will affect the Scheme's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's Constitution and Product Disclosure Statement. The Scheme's investment mandate is to invest in a range of assets, which may include cash, property, alternative assets, fixed interest securities and both domestic and international equities. There has been no change to the Scheme's exposure to market risks or the way it manages and measures the risk.

(d)(ii) Interest rate risk

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

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

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

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance sheet date is representative of balances held throughout the financial 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:

	2024 $'000
Increase in interest rates by 2.5%	**76**
Decrease in interest rates by 2.5%	**(76)**

(d)(iii) Price risk

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

The Scheme's portfolio manager aims 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.

Derivatives may be used in the Scheme to manage risk, including foreign currency exposure risk, or gain exposure to markets. Changes in the value of a derivative may not correlate with the underlying asset. The use of derivatives may expose the Scheme to the potential for the value of a derivative to fail to move in line with the underlying asset. As a result, the use of derivatives may have the effect of magnifying both gains and losses to the Scheme.

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. At balance date, the Scheme held exchange traded equity futures and options.

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

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk (i.e. redemption value for unlisted trusts) at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unitholders which could result from a change in redemption prices. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in redemption prices as at the balance sheet date is representative of balances held throughout the financial 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 redemption prices with all other variables remaining constant would be as follows:

	2024 $'000
Increase in redemption prices by 10%	**30,901**
Decrease in redemption prices by 10%	**(30,901)**

(e) Credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is exposed to credit risk through its interest-bearing securities, deposits at banks, and trades 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 2024 and margin account cash held with Macquarie Bank which carries a Standard & Poor's rating of A+ at 30 June 2024. No financial assets carried at amortised cost were past due or impaired at 30 June 2024.

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.

	2024 $'000
Cash and cash equivalents	**2,806**
Cash in margin accounts	**234**
Receivables	**5,886**
Total credit risk	**8,926**

(f) Liquidity risk

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

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

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

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

	2024					
	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	4.15	2,806	-		-	2,806
Margin accounts	3.27	234	-	-	-	234
Non-interest bearing						
Receivables		5,886	-	-	-	5,886
Financial assets		282,767	-	9,344	16,895	309,006
Total financial assets		291,693	-	9,344	16,895	317,932
Non-interest bearing						
Payables		-	-	-	-	-
Distribution payable		7,060	-	-	-	7,060
Amounts payable to unitholders		310,872	-	-	-	310,872
Total financial liabilities		317,932	-	-	-	317,932

(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.

	2024			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Designated at fair value through profit or loss				
Equities				
Australian listed	**1,491**	**-**	**-**	**1,491**
Derivatives				
Exchange traded	**32**	**-**	**-**	**32**
Unit trusts				
Unlisted Australian Ethical trusts	**-**	**290,588**	**16,895**	**307,483**
Financial assets at fair value through profit or loss	**1,523**	**290,587**	**16,895**	**309,006**

During the period there were no transfers between levels.

In the analysis it is assumed that the amount of financial assets exposed to fluctuations in unobservable inputs as at the balance sheet date is representative of the balances held throughout the financial period. No other flow-on effects or fluctuations in fair value have been taken into account.

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

Asset type	**Valuation technique**	**Interest held by the Scheme**
Unlisted Australian Ethical trusts (Level 2 & Level 3)	The prices used to value the underlying investments include but is not limited to independent prices obtained for each security, quoted 'bid' prices on securities and for investments into unlisted unit trusts, redemption prices published by the Responsible Entity.	Direct investment in units issued by the Australian Ethical trusts
Unlisted property trust (Level 2)	The valuation measurement is market value as defined by the International Valuation Standards Council and adopted by the Australian Property Institute. The fair value of direct property assets is based on independent external valuations. A variety of established valuation techniques are used by valuers in determining the value of direct property investments. These include, discounted cashflows, capitalisation of rental income and analysis of comparable recent sale transactions.	Direct investment in units issued by the trusts and indirectly held through the Australian Ethical trusts

Asset type	Valuation technique	Interest held by the Scheme
Early-stage venture capital partnerships (Level 3)	Valuation techniques are in accordance with International Private Equity and Venture Capital (IPEV) valuation principles endorsed by the Australian Investment Council (AIC). In estimating Fair Value of investments, the valuation techniques that are appropriate in light of the nature, facts and circumstances of the investment are applied. Consistent valuation techniques for investments with similar characteristics, industries and/or geographies is considered and used. There are a number of different techniques applied, including 'Price of Recent Investment', 'Multiples', 'Net Assets', 'Discounted Cash Flows or Earnings'.	Limited partnership interest indirectly held through the Australian Ethical trusts
Debt instruments unsecured (Loans) (Level 3)	Discounted cash flow (DCF) is the primary valuation approach adopted for infrastructure debt investments where cash flow forecasts can be made with a reasonable degree of certainty. Under the DCF approach, the expected future cash flows from the debt investments are discounted at a risk adjusted discount rate to convert all future cash flows to their present value equivalent. For debt investments greater than 5% of the portfolio, third-party experts are engaged to provide an annual assessment of the appropriate risk adjusted discount rate specific to each debt investment.	Direct investment in units issued by the Australian Ethical trusts
Unlisted infrastructure & unlisted infrastructure trusts (Level 3)	Third-party experts apply valuation techniques to determine fair value. Valuers use accepted valuation methodologies that are most appropriate for each asset, considering factors such as asset size, characteristics, and domicile. The assumptions within the valuation techniques applied to infrastructure assets can include income capitalisation, discounted cash flow, trading and transaction earnings multiples or direct sales comparison. The assumptions are determined by the valuer and adjusted to reflect the current consensus view of economic conditions and asset specific drivers.	Investment is held through the Australian Ethical trusts

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

	2024 $'000
Increase in alternative assets by 10%	**1,689**
Decrease in alternative assets by 10%	**(1,689)**

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

	2024 $'000
Opening balance at 8 November	**-**
Acquisition of units in unlisted Australian Ethical trusts	**19,497**
Disposal of units in unlisted Australian Ethical trusts	**(2,406)**
Net fair value profit/(loss)	**(196)**
Total level 3 assets held at fair value	**16,895**

CARRYING AMOUNTS VERSUS FAIR VALUE

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

NOTE 16 – INVESTMENT IN UNCONSOLIDATED STRUCTURED ENTITIES

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

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

Type of structured entity	**Nature and purpose**	**Interest held by the Scheme**
Investment schemes	To pool investors’ savings and invest in a diversified portfolio of securities.	Investments in units issued by the scheme

	Fair value as at 30-Jun-24 $	Ownership interest 30-Jun-24 %
Investment schemes		
Australian Ethical Alternatives Fund	**10,068,515**	**4.01**
Australian Ethical Australian Shares Fund	**5,608,636**	**0.31**
Australian Ethical Defensive Alternatives Fund	**6,826,322**	**4.16**
Australian Ethical Diversified Shares Fund	**22,631,968**	**0.94**
Australian Ethical Emerging Companies Fund	**726,921**	**0.23**
Australian Ethical Fixed Interest Fund	**113,827,296**	**10.62**
Australian Ethical Global Credit Fund	**65,342,284**	**8.91**
Australian Ethical High Conviction Fund	**2,819,023**	**0.54**
Australian Ethical Income Fund	**44,379,049**	**12.51**
Australian Ethical International Shares Fund	**25,908,116**	**1.06**
Australian Ethical Unlisted Property Fund	**9,344,422**	**8.24**

Each of the above structured entities is incorporated in Australia.

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

The unconsolidated structured entities are managed in accordance with the investment strategy of the respective underlying investment managers. The investment decisions of the structured entities are based on the analysis conducted by the investment manager. The return of the structured entities is exposed to the variability of the performance of the underlying investment strategies. The investment managers receive a management fee for undertaking the management of these investments. Income is received from non-related structured entities in accordance with Constitutions. The Scheme does not have current commitments or intentions or a contractual obligation to provide financial or other support to the unconsolidated structured entities and has no intention of providing financial or other support.

NOTE 17 – CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2024.

NOTE 18 – EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2024 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

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

Directors' Declaration

Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Conservative 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 2024 and of its performance for the financial 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 September 2024

Independent Auditor's Report

Independent Auditor's Report

To the unitholders of Australian Ethical Conservative Fund

Opinion

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

In our opinion, the accompanying ***Financial Report*** of Australian Ethical Conservative Fund gives a true and fair view, including of the Scheme's financial position as at 30 June 2024 and of its financial performance for the year then ended, in accordance with the *Corporations Act 2001*, in compliance with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statement of financial position as at 30 June 2024
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes, including material accounting policies; and
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Reports was the Director's report.

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

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

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

Responsibilities of Directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney
25 September 2024