

# Retail Superannuation Fund

Financial Statements  
for the year ended 30 June 2024



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# Directors' Report

# Directors' Report

For the year ended 30 June 2024

The Directors of Australian Ethical Superannuation Pty Ltd ("the Trustee"), as trustee for the Australian Ethical Retail Superannuation Fund ("the Fund") present the trustee statement together with the financial statements and notes to the financial statements of the Fund for the financial year ended 30 June 2024 and the accompanying independent auditor's report.

## RESPONSIBLE ENTITY

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733) serves as the Trustee for the Fund. The registered office and principal place of business for the Trustee is:

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

The following persons were Directors of Australian Ethical Superannuation Pty Ltd during the period under audit and up to the date of this report unless otherwise indicated:

- Steve Gibbs (Chairman)
- Fiona Reynolds (appointed 1 July 2024)
- Kate Greenhill
- Mara Bun
- Michael Anderson

## PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The Fund is operated for the purpose of providing for members with allocated pensions, and lump sum benefits upon retirement, termination of employment, death, or disablement.

There were no significant changes in the nature of the fund's principal activities during the year, and there were no significant changes in the fund's state of affairs.

## REVIEW OF OPERATIONS

### Year in review

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<sup>1</sup>. 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<sup>2</sup>. 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<sup>3</sup> 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.

## Results

The Fund offers 13 investment options for its members. Investment option strategies (except for the High Growth option) are available in both the accumulation and pension phase of the Fund. The investment option phases have the same underlying sector exposures and implement similar active asset allocation decisions as detailed in the Fund's Product Disclosure Statement.

Total return is the percentage change to a members' account balance in the Fund. These returns are calculated in accordance with FSC Guidance Note 46 Investment Option Performance - Calculation of Returns. The Fund achieved the following returns for the year:

Investment Option	2024		2023	
	Super	Pension	Super	Pension
Defensive	4.0%	4.6%	2.4%	2.7%
Conservative	3.8%	4.3%	4.0%	4.3%
Balanced	6.8%	6.5%	9.2%	8.5%
Growth	7.8%	0.0%	11.0%	12.7%
High Growth	9.2%	n/a	13.5%	n/a
International Shares	16.3%	17.4%	17.2%	19.1%
Australian Shares	9.7%	10.0%	12.5%	13.8%

All asset classes except property (held in multi asset investment options Balanced, Conservative, High Growth and Growth) contributed positively to the total return of each investment option during the year ended 30 June 2024.

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

<sup>1</sup> <https://www.stockholmresilience.org/research/planetary-boundaries.html>

<sup>2</sup> [iea.org/reports/world-energy-investment-2024/overview-and-key-findings](https://www.iea.org/reports/world-energy-investment-2024/overview-and-key-findings)

<sup>3</sup> <https://www.australianethical.com.au/why-ae/ethical-charter/>

they ended the year but overall delivered modest positive returns, helped by compression of credit spreads in the risk-positive environment. Domestic Financials continued to outperform the broader domestic market into the final quarter of the financial year, ending the year as the third best performing sector in the index. This was on the back of growing optimism for a soft-landing scenario in Australia helping bank stocks such as NAB (+45%) and Westpac (+36%), as well as a positive environment for insurers like Suncorp (+35%) and Insurance Australia Group (+29%), with solid premium growth and low claims.

Our international holdings in the Information Technology sector were a key contributor to total returns over the year, rising +34%. The sector overall was the best performing in the international index, driven mainly by the Artificial Intelligence thematic, with holdings such as NVIDIA (+191%), and Microsoft (+32%). Our relative underweight to NVIDIA and Microsoft in the Fund, resulted in some underperformance at a sector level versus the benchmark.

## Our ethical approach

### ETHICAL INVESTING AND 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 Trustee continually reviews the Fund and depending on that review may, during the financial year, make decisions to change the offerings of products to members. The Trustee plans to continue to invest in line with the strategy set out in the Fund's Product Disclosure Statement.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## EVENTS OCCURRING AFTER THE REPORTING DATE

During the period between the end of the financial year and the date of this report, there were no other items, transactions, or events of a material and unusual nature likely in the opinion of the Trustee, to significantly affect the financial position, operating results or the state of affairs of the Fund in future financial periods.

## ROUNDING OF AMOUNTS

The Fund 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 Trustee and its associates out of Fund are shown in Note 16 of the attached financial statements.

## ENVIRONMENTAL REGULATION

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

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 9 of the financial statements.

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

The Directors are of the opinion that the services as disclosed in Note 9 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

## AUDITOR'S DECLARATION

The auditor's independence declaration is included on page 26 of this report and forms part of the Directors' Report for the financial year ended 30 June 2024.

# Remuneration Report



# Remuneration Report

## Australian Ethical Registrable Superannuation Fund Remuneration Report

### For the year ended 30 June 2024

Dear Members,

New financial reporting obligations for Registrable Superannuation Entities (RSEs) include the requirement to present a Remuneration Report. On behalf of the Trustee, I am pleased to present the Remuneration Report for the financial year ended 30 June 2024 (FY24) for the Australian Ethical Registrable Superannuation Fund ('the Fund').

Australian Ethical Superannuation Pty Ltd (AES) serves as the Trustee for the Fund. AES is a wholly owned subsidiary of Australian Ethical Investment Limited (AEI). AEI is a material service provider and related party to AES, with the services described in a Trustee Services Agreement, Investment Management Agreement (IMA) and Principal Investment Advisory Agreement (PIAA) (Agreements).

The Australian Ethical Charter (Charter) applies to the AEI Group and sets the purpose of the Trustee and the Super Fund and drives its investment beliefs. Australians join the Super Fund to align their superannuation investments with the beliefs set out in the Charter. Members of the Fund also expect that the Trustee meets its duty to act in the best financial interests of the beneficiaries of the Fund.

AEI has the expertise to invest the assets of the Super Fund consistent with the Charter and to provide investment advisory services and trustee services. This is achieved through the Agreements and supported by a range of frameworks and policies.

AEI provides investment management and advisory services to AES through the IMA and PIAA. Where AEI does not have the capacity to supply asset management services, AEI will apply certain criteria to the due diligence and selection of an external manager. AEI will then undertake ongoing due diligence and monitoring of external managers on behalf of AES and report outcomes to AES.

The Key Management Personnel (KMP) of the Fund have been identified as those parties having authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly, including any director (whether executive or otherwise) of the Trustee of the Fund.

KMP of the Fund are:

- the Non-Executive Directors of Australian Ethical Superannuation Limited (AES), and
- a number of executives employed by AEI including: the Chief Executive Officer (CEO), Chief Risk Officer (CRO) and Chief Executive of Superannuation (CES), as outlined in Section 1 below.

Remuneration disclosures relating to Executive KMP are based on a pro-rated allocation of AEI Group remuneration costs relating to each Executive KMP. The allocation percentage has been determined on the following basis:

- CEO: 30% of the CEO's role relates to management of the listed entity (AEI), and the associated governance and shareholder engagement responsibilities. The remaining 70% of the CEO's time has been pro-rated based on revenue (superannuation revenue as a proportion of total AEI group revenue). Applying this allocation methodology, 55% of CEO's time has been allocated to the super fund for FY24

- CES: the CES allocation to the super fund has been based on the percentage of AEI group revenue that is received from superannuation members. Applying this allocation methodology, 78% of CES's time has been allocated to the super fund for FY24
- CRO: 30% of the CRO's role relates to Corporate Governance activities required to run the listed entity (AEI). The remaining 70% of CRO's time has been pro-rated based on revenue (superannuation revenue as a proportion of total AEI group revenue). Applying this allocation methodology, 55% of CRO's time has been allocated to the super fund for FY24

KMP remuneration for the super fund is thus lower than the remuneration disclosed in the AEI Remuneration Report – for full remuneration disclosure for AEI, refer to the AEI Remuneration Report.

### FY24 variable remuneration outcomes

The People, Remuneration and Nominations Committee (PRN) and the AEI Group Board spend considerable time each year evaluating the contributions and performance of the company, and KMP to arrive at the variable incentive outcomes for each KMP, measuring achievements against the AEI Group balanced scorecard and individual objectives. Objectives combine both financial and non-financial business and customer outcomes whilst ensuring an appropriate risk culture is maintained. KMPs have objectives underpinned by the company's core values whilst also incentivising ethical behaviour and positive customer outcomes.

Outcomes for FY24 include:

- CEO's Short Term Incentive (STI) at 69% of maximum opportunity
- STI's for other KMP range from 27% to 55% of maximum opportunity.
- The agreed hurdle for achievement of ESP, was exceeded, resulting in the vesting of the 2021 Employee Share Plan (ESP) tranche for all relevant employees (refer to AEI Group Remuneration Report for more information)

No Executive Long Term Incentive (ELTI) was available for vesting in FY24. The first tranche of ELTI awards, which were granted in 2021, will be assessed against the pre-determined performance hurdles at the end of FY25 and will vest if those performance hurdles have been achieved (see section 3.5.1 of the AEI Remuneration Report for details of ELTI hurdles).

### Looking forward

AEI Group annually reviews the remuneration framework to ensure it remains contemporary and is aligned with the Company's strategy and industry trends, whilst remaining focussed on current and upcoming regulatory changes.

AEI Group is committed to ensuring the remuneration arrangements remain fair to all stakeholders and are effective in attracting and retaining talented people who are motivated and professional and contribute positively to Australian Ethical's growth aspirations.



STEVE GIBBS

Chair  
AES Board

## 1. KEY MANAGEMENT PERSONNEL

The following persons were Directors and other KMP of AES during the period.

Name	Position	Term as KMP in FY24
<b>Executive Key Management Personnel (KMP)</b>		
John McMurdo	Managing Director & CEO	Full year
Karen Hughes	Chief Risk Officer & Company Secretary	Full year
Ross Piper	Chief Executive Superannuation	Full year
<b>Non-Executive Directors</b>		
Steve Gibbs	Chair	Full year
Katherine Greenhill	Non-Executive Director	Full year
Mara Bun	Non-Executive Director	Full year
Michael Anderson	Non-Executive Director	Full year

## 2. REMUNERATION PHILOSOPHY AND STRUCTURE

### 2.1 Remuneration Guiding Principles

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

Our remuneration approach is guided by the following principles:

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

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

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

## 2.2 Elements of remuneration

The following framework applied to AEI Group KMPs for the financial year ended 30 June 2024.

There were no significant changes to the remuneration framework in the FY24 year.

Element	Description	Quantum	Paid as
Fixed Remuneration (FR)	Comprises base salary, superannuation, packaged employee benefits and associated fringe benefits tax.	<ul style="list-style-type: none"> <li>Reviewed annually, or on promotion.</li> <li>Benchmarked against market data<sup>4</sup> for comparable roles based on position, skills and experience brought to the role.</li> <li>Target remuneration is based around the median of the relevant comparator group for each job role, taking into consideration companies in a similar industry and of a similar size.</li> </ul>	Cash and superannuation
Short Term Incentive (STI)	An annual incentive aimed at motivating and rewarding employees for achievement of annual performance objectives. A risk modifier applies where non-compliance with risk and values expectations.	<ul style="list-style-type: none"> <li>Actual outcome is linked to performance against individual KPIs and contribution against annual financial and non-financial metrics in the AEI Group Board approved balanced scorecard. Maximum achievable for KMPs is two times the target incentive, based on a percentage of Fixed Remuneration.</li> <li>For KMPs (except CEO), STI in any given year that exceeds \$100,000 will be deferred for up to 3 years, is not subject to further hurdles and is paid in shares. The CEO have additional deferral components within their remuneration.</li> <li>Short term incentives are treated as follows in the following circumstances: <ul style="list-style-type: none"> <li>resignation – usually forfeited, subject to Board discretion;</li> <li>termination for serious misconduct – forfeited;</li> <li>retirement – at discretion of the Board;</li> <li>death or total and permanent disablement – at discretion of the Board; and</li> <li>redundancy – at discretion of the Board.</li> </ul> </li> </ul>	Cash and deferred shares

<sup>4</sup> Benchmarked to data provided by the Financial Institutions Remuneration Group Inc (FIRG). FIRG is a peer group provider of remuneration and benefits data in the financial services industry.

Element	Description	Quantum	Paid as
Employee Share Plan (ESP) – AEI Group Shares	Aimed at enabling employees to share in the ownership of the AEI Group, in keeping with AEI Group Constitution and Ethical Charter. Aligns employee performance and behaviour with the long-term success of the Company. The ESP also supports the retention of employees. Applies to all employees who have satisfied the risk and values gate.	<ul style="list-style-type: none"> <li>Awarded as percentage of Fixed Remuneration (10%)</li> <li>AEI Shares are issued or purchased and held in trust for 3 years.</li> <li>Vest in the name of the employee after 3 years, provided that: <ul style="list-style-type: none"> <li>employee remains employed; and</li> <li>subject to 3-year compound annual growth in diluted earnings per Share (EPS) as follows: <ul style="list-style-type: none"> <li>0 – 5% – nil vests</li> <li>5% – 10% – pro rata up to 100%</li> <li>&gt; 10% – fully vests.</li> </ul> </li> </ul> </li> <li>The AEI Group Board applies an adjusted NPAT pre-performance fee for the purpose of calculating the 3-year EPS CAGR achievement. Adjustments are agreed in advance by the AEI Group as part of the annual budget setting process, for AEI Group strategic development initiatives</li> <li>Employees participate in dividends and have voting rights from the date of grant.</li> <li>On cessation of employment, no unvested shares shall vest unless the AEI Group Board in its absolute discretion determines otherwise.</li> </ul>	Shares
Executive Long-Term Incentive (ELTI)	Designed to align KMPs and key executives to the AEI Group business strategy. The ELTI includes specific KPIs reflecting strategic targets to drive long-term shareholder value creation, encourage the achievement of AEI's long-term strategic goals, and to support the retention of key senior talent.	<ul style="list-style-type: none"> <li>Awarded as percentage of Fixed Remuneration, ranging from 10% to 50% for selected senior executives.</li> <li>Issued as performance rights in the AEI stock and vest as AEI ordinary shares after 4 years, provided that: <ul style="list-style-type: none"> <li>Employee remains employed; and</li> <li>Stretching financial and non-financial performance hurdles are achieved. Refer section 4.7.1 of AEI Group Remuneration Report for the specific performance hurdles relating to each grant</li> </ul> </li> <li>During the vesting period, ELTI participants are not entitled to receive AEI dividends nor hold voting rights.</li> <li>On cessation of employment, all performance rights are forfeited unless the AEI Group Board in its absolute discretion determines otherwise.</li> <li>Shareholder approval will be sought for the CEO's Long Term Incentive grant (Equity Rights) under the ELTI.</li> </ul>	Performance Rights



## 2.3 FY25 changes and considerations

There are no material changes to compensation structures anticipated in FY25, however the Trustee are in the process of considering the implications of the Financial Accountability Regime (FAR).

A new FY25 ELTI grant with a vest date of 1 September 2028 is being considered which is expected to be based on a similar percentage of fixed remuneration for KMPs as in FY24. Like recent grant allocations, there will be no multiplier mechanism applied. The performance hurdles for this grant are yet to be determined. In accordance with best practice, the AEI Group shareholder approval will be sought for the CEO's Long Term Incentive grant (equity rights) under the ELTI.

## 3. EXECUTIVE KMP REMUNERATION OUTCOMES FOR FY24

### 3.1 Short Term Incentive (STI)

Performance measures for STI for AEI Group are based on a Balanced Scorecard of financial and non-financial metrics and an individual's specific performance objectives. Employees have no contractual right to receive an STI award and the AEI Group Board retains discretion to amend or withdraw the STI at any time. Adherence to AEI Group's values and risk culture are required to remain eligible for an STI award.

### 3.2 Employee Share Plan (ESP)

The ESP is currently awarded at 10% of fixed remuneration to all eligible staff of AEI Group. It serves the intent of the Australian Ethical Charter, and Company Constitution which seeks to enable all employees to share in ownership of the company and encourage behaviours and achievement consistent with the long-term success of the Company.

The hurdle for achievement of ESP was achieved by AEI Group in FY24, resulting in 100% vesting of ESP.

### 3.3 Executive Long-Term Incentive (ELTI)

There were no Executive KMP or Senior Executive Long-Term Incentive awards vested or paid in FY24.

The first tranche of ELTI awards are due to vest at the end of FY25 subject to meeting the ELTI performance measures outlined in section 3.5.1 of the Remuneration Report.

### 3.4 Executive KMP Remuneration Outcomes – statutory and cash and vesting basis

The following two tables set out Executive KMP remuneration.

- The table 'Executive KMP Remuneration Outcomes – Statutory Basis' is aligned to the way AEI Group expenses (accrues) the remuneration of the KMP under the accounting standards and the Corporations Act.
- The table 'Executive KMP Remuneration Outcomes – Cash and Vesting Basis' shows amounts received by the KMP in cash and shares vested during the financial year ended 30 June 2024.

## EXECUTIVE KMP REMUNERATION OUTCOMES – STATUTORY BASIS

The table below outlines executive KMP remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed (accrued) in the Company's financial statements for the particular year based on the balanced scorecard and other agreed KPIs, prorated for the allocation of each KMP to the super fund, as outlined on page 15.

Name	Short Term Benefits		Post-Employment Benefits			Long Term Benefits			Total	STI as a % of Fixed Remuneration	Variable Rem as a % of Total Remuneration
	Salary	STI-Cash <sup>1</sup>	Super-annuation	Termination Benefits	Long Service Leave	Deferred STI-Equity <sup>2</sup>	ESP-Equity <sup>3</sup>	ELTI-Rights <sup>4</sup>			
	\$	\$	\$	\$	\$	\$	\$	\$	\$		
<b>2024 financial year</b>											
<b>Current leadership team</b>											
J McMurdo <sup>5</sup>	286,273	156,750	15,069	-	5,900	163,392	28,912	71,046	727,342	106.2%	57.8%
K Hughes	162,895	38,500	15,069	-	5,514	-	17,233	8,441	248,478	22.1%	26.2%
R Piper	324,685	46,800	21,371	-	10,098	-	18,354	66,834	487,142	13.5%	26.9%
<b>Total 2024</b>	<b>773,853</b>	<b>242,875</b>	<b>51,510</b>	<b>-</b>	<b>21,512</b>	<b>163,392</b>	<b>64,499</b>	<b>145,321</b>	<b>1,462,961</b>		

1. The Short-term Incentive ('STI') expense is the amount accrued for performance during the respective financial year using agreed KPI's. The 2024 amounts were approved by the AEI Group Board. STI in excess of \$100,000 at AEI Group level is paid in deferred shares (with exception of the CEO who has other deferral requirements).
2. The Deferred Short-term incentive ('DSTI') expense for 2024 includes the current year expense impact of deferred shares in the FY22, FY23 and FY24 grants. The cost of shares is fixed at the time of grant and expensed on a straight-line basis over the vesting period which ranges from 1 to 3 years.
3. The ESP expense for 2024 includes the relevant 2024 expense impact of each of the FY21, FY22 and FY23 grants under the Employee Share Plan. The cost of shares is fixed at time of grant and expensed over a three-year period using an annual probability assessment of the hurdles being met at the end of the vesting period. The FY21 tranche will vest at an individual level in September 2024.
4. The ELTI rights expense includes the current year expense impact of the Executive LTI (ELTI) granted in FY21, FY22 and FY23, based on the grant price of \$13.54, \$4.54 and \$4.49 respectively.
5. The CEO was awarded 69% of his maximum STI incentive by the AEI Group Board. The maximum incentive is 2 times his target STI at 30 June 2024. 50% of this award is paid in cash and the remaining 50% is paid in deferred shares over each of the next 3 years, with first vest in September 2025.

## EXECUTIVE KMP REMUNERATION OUTCOMES – CASH AND VESTING BASIS (NON-IFRS, AUDITED)

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

Name	Short Term Benefits		Post-Employment Benefits		Termination Benefits	Long Term Benefits			Total	Performance Related
	Salary <sup>1</sup>	Cash Bonus	Equity	Super-annuation <sup>1</sup>		Long Service Leave	ESP-Equity <sup>2</sup>	ELTI-Rights		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>2024 financial year</b>										
<b>Current management team</b>										
J McMurdo	292,092	156,750	70,847	15,069	-	5,900	101,250	-	641,908	40.2%
K Hughes	163,583	38,500	-	15,069	-	5,514	14,669	-	237,335	22.4%
R Piper	325,050	54,600	-	21,371	-	10,098	-	-	411,119	13.3%
<b>Total 2024</b>	<b>780,724</b>	<b>249,850</b>	<b>70,847</b>	<b>51,510</b>	<b>-</b>	<b>21,512</b>	<b>115,919</b>	<b>-</b>	<b>1,290,362</b>	

1. Fixed remuneration – includes base salary, payments made to superannuation funds and dividend income on unvested shares.
2. ESP – Equity 2024 represents the market value of vested shares during the financial year relating to employee share plan shares granted in September 2020. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was \$4.24 (price at grant was \$4.53).

### 3.5 ELTI-performance rights

Rights to ordinary shares under the Executive LTI program are granted each year on 1 December, with the first grant in 2021. The number of performance rights allocated to each Executive KMP was determined as follows:

- Granted FY21 and FY22: based on the average share purchase price supporting the ESP program up to grant date
- Granted FY23: using an allocation price based on the 60-day variable weighted average price for the period 25 August to 16 November 2023.

On vesting, each right automatically converts into one ordinary share.

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

	Allocation Price	Fair Value Price
Granted 1 December 2021	\$10.34	\$13.54
Granted 1 December 2022	\$5.29	\$4.54
Granted 1 December 2023	\$4.37	\$4.49

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

At this time, the performance hurdles for the Performance Rights granted 1 December 2021 have not yet been met. The Board's assessment is that the likelihood of meeting the performance hurdles by the vest date is less likely than more likely given the growth still required to achieve the threshold. Accordingly, the fair value of these rights has been written down to nil.

AEI continues to have ambitious growth targets including both organic and inorganic growth. Should the underlying assessment be probable at a future date, then this write-back will be revisited.

Granted 1 December 2021*	Granted as % of Fixed Remuneration	No. of Rights Granted (based on 1 times multiplier)	Grant Value of Rights (based on 1 times multiplier)	Fair Value of Rights
J McMurdo	50%	13,298	\$180,053	–
K Hughes	10%	1,596	\$21,606	–
R Piper	25%	8,203	\$111,077	–

\* This grant includes a potential multiplier of 1 to 7 times

The table below shows the number of rights granted on 1 December 2022 and 2023 and the grant value of those rights. The Board's assessment is that it is probable that the performance hurdles for these tranches will be achieved.

The multiplier mechanism does not apply to the ELTI tranches vesting 1 September 2026 and 2027.

Granted 1 December 2022	Granted as % of Fixed Remuneration	No. of Rights Granted	Fair Value of Rights
J McMurdo	50%	27,292	\$123,906
K Hughes	10%	3,275	\$14,869
R Piper	40%	25,656	\$116,478

Granted 1 December 2023	Granted as % of Fixed Remuneration	No. of Rights Granted	Fair Value of Rights
J McMurdo	50%	34,737	\$155,968
K Hughes	10%	4,090	\$18,366
R Piper	40%	31,771	\$142,651



### 3.5.1 ELTI-performance rights

There are some differences in performance measurements for the tranches granted in 2021, 2022 and 2023 outlined below.

	Granted 1 December 2023	Granted 1 December 2022	Granted 1 December 2021
Performance measures	<p>Financial measures:</p> <ul style="list-style-type: none"> <li>• Net flows, including no more than 50% from M&amp;A activity, over the 4-year vesting period of \$6.05bn</li> <li>• Underlying cost to income ratio of no more than 75%**</li> </ul> <p>Non-financial measures:</p> <ul style="list-style-type: none"> <li>• Median NPS (Net Promoter Score) for Financial Services companies in Australia<sup>^</sup></li> <li>• Median employee engagement score for financial services companies in Australia<sup>^^</sup>; and</li> <li>• Continued compliance with the aims of our Ethical Charter.</li> </ul>	<p>Financial measures:</p> <ul style="list-style-type: none"> <li>• Net flows, including no more than 50% from M&amp;A activity, over the 4-year vesting period of \$6.05bn</li> <li>• Underlying cost to income ratio of no more than 75%**</li> </ul> <p>Non-financial measures:</p> <ul style="list-style-type: none"> <li>• Median NPS (Net Promoter Score) for Financial Services companies in Australia<sup>^</sup></li> <li>• Median employee engagement score for financial services companies in Australia<sup>^^</sup>; and</li> <li>• Continued compliance with the aims of our Ethical Charter.</li> </ul>	<p>Financial measures:</p> <ul style="list-style-type: none"> <li>• \$15bn of FUM as at 30 June 2025, and with each incremental increase in FUM of \$2.5bn, a multiplier to the base award is applied ranging from 2 to a maximum of 7 times at \$30bn*</li> <li>• Underlying operating cost to Income ratio of no more than 75%**</li> </ul> <p>Non-financial measures:</p> <ul style="list-style-type: none"> <li>• Median NPS score for both super and managed funds to measure customer satisfaction<sup>^</sup></li> <li>• Median employee engagement score for financial services companies<sup>^^</sup>, and</li> <li>• Continued compliance with the aims of our Ethical Charter.</li> </ul>
Vesting period	Four years, ending 30 June 2027	Four years, ending 30 June 2026	Four years, ending 30 June 2025

\* A multiplier of the base award will apply at each FUM target achieved. If the maximum stretch FUM target of \$30bn by 30 June 2025 (along with other KPIs) is achieved, then the maximum multiplier of 7 times the base award will apply.

\*\* Based on achievement of the underlying cost to income ratio for the year in which the rights vest.

<sup>^</sup> Achievement of at least median NPS. This includes NPS scores for both super and managed funds based on Investment Trends survey, or a comparable survey approved by the Board. NPS is to be monitored on an annual basis and KPI specifically references the results achieved in the financial year in which the rights vest.

<sup>^^</sup> Achievement of at least median employee engagement score, based on Culture Amp Employee Engagement Survey based on employee responses to Say, Stay, Strive questions for the year in which the rights vest

In implementing the ELTI opportunity, the Board was cognisant of the remuneration philosophy remaining consistent with the Ethical Charter and ensuring that the structure of the ELTI closely aligns the interests of Executive KMP with those of shareholders. The ELTI opportunity was designed to drive greater long-term business impact and purpose, with challenging stretch targets and longer vesting horizons and to reward those key to that success.

### 3.6 Unvested and ordinary shares

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

Name	Grant Date	Vesting Date	Share Price at Grant date	Balance at 1-Jul-23	Number of shares/rights granted	Number of shares/rights forfeited	Number of shares vested	Number of shares sold	Balance at 30-Jun-24
<b>J McMurdo</b>									
Unvested Deferred STI shares & ESP	1-Sep-20	1-Sep-23	4.53	26,731	-	-	(26,731)	-	-
Unvested Deferred STI shares	1-Sep-21	1-Sep-23	9.80	4,102	-	-	(4,102)	-	-
Unvested Deferred STI shares & ESP	1-Sep-21	1-Sep-24	9.80	6,909	-	-	-	-	6,909
Unvested Deferred STI shares	1-Sep-22	1-Sep-23	5.29	9,747	-	-	(9,747)	-	-
Unvested Deferred STI shares	1-Sep-22	1-Sep-24	5.29	9,747	-	-	-	-	9,747
Unvested Deferred STI shares & ESP	1-Sep-22	1-Sep-25	5.29	15,205	-	-	-	-	15,205
Unvested Deferred STI shares	1-Sep-23	1-Sep-24	4.53	-	11,544	-	-	-	11,544
Unvested Deferred STI shares	1-Sep-23	1-Sep-25	4.53	-	11,544	-	-	-	11,544
Unvested Deferred STI shares & ESP	1-Sep-23	1-Sep-26	4.53	-	18,252	-	-	-	18,252
Ordinary shares				9,815	-	-	40,581	-	50,395
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	13,298	-	-	-	-	13,298
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	27,292	-	-	-	-	27,292
Unvested Performance rights	1-Dec-23	1-Sep-27	4.37	-	34,737	-	-	-	34,737
<b>Total</b>				<b>122,847</b>	<b>76,077</b>	-	-	-	<b>198,923</b>

Name	Grant Date	Vesting Date	Share Price at Grant date	Balance at 1-Jul-23	Number of shares/rights granted	Number of shares/rights forfeited	Number of shares vested	Number of shares sold	Balance at 30-Jun-24
<b>K Hughes</b>									
Unvested ESP shares	1-Sep-20	1-Sep-23	4.53	3,459	-	-	(3,459)	-	-
Unvested ESP shares	1-Sep-21	1-Sep-24	9.80	1,684	-	-	-	-	1,684
Unvested ESP shares	1-Sep-22	1-Sep-25	5.29	3,275	-	-	-	-	3,275
Unvested ESP shares	1-Sep-23	1-Sep-26	4.53	-	3,949	-	-	-	3,949
Ordinary shares				10,359	-	-	3,459	(3,068)	10,750
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	1,596	-	-	-	-	1,596
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	3,275	-	-	-	-	3,275
Unvested Performance rights	1-Dec-23	1-Sep-27	4.37	-	4,090	-	-	-	4,090
<b>Total</b>				<b>23,648</b>	<b>8,039</b>	-	-	<b>(3,068)</b>	<b>28,619</b>
<b>R Piper</b>									
Unvested ESP shares	1-Sep-23	1-Sep-26	4.53	-	12,165	-	-	-	12,165
Unvested Performance rights	1-Dec-21	1-Sep-25	10.34	8,203	-	-	-	-	8,203
Unvested Performance rights	1-Dec-22	1-Sep-26	5.29	25,656	-	-	-	-	25,656
Unvested Performance rights	1-Dec-23	1-Sep-27	4.37	-	31,771	-	-	-	31,771
<b>Total</b>				<b>33,859</b>	<b>43,936</b>	-	-	-	<b>77,795</b>

## 4. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

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

<b>From 1 November 2023</b>	<b>AES \$</b>
<b>Base fees</b>	
Chair	38,016
Other non-executive directors	38,016
<b>Additional fees</b>	
ARC - chair	19,008
ARC - member	10,862
Insurance Benefits Committee (IBC) - chair	5,431
Insurance Benefits Committee (IBC) - member	5,431

### 4.1 Non-executive Directors' remuneration

The table below outlines Non-Executive Director remuneration relating to AES for FY24.

<b>Name</b>	<b>Board Fee</b>	<b>Audit, Risk &amp; Compliance Committee</b>	<b>Insurance Benefits Committee</b>	<b>Superannuation</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2024</b>					
S Gibbs	33,810	9,660	4,830	5,313	53,613
K Greenhill	33,810	16,905	4,830	6,110	61,655
M Bun	33,810	9,660	-	4,782	48,252
M Anderson	33,810	-	-	3,719	37,529
<b>Total</b>	<b>135,240</b>	<b>36,225</b>	<b>9,660</b>	<b>19,924</b>	<b>201,049</b>

Fiona Reynolds has been appointed to the Australian Ethical Superannuation (AES) Board, effective 1 July 2024, and will be included in FY25 Remuneration Report.

## 5. GOVERNANCE

### 5.1 The role of the AEI Group People, Remuneration and Nominations Committee (PRN)

The role of the AEI Group PRN is to help the AEI and AES Board fulfil its responsibilities to shareholders through a strong focus on governance and in particular, the principles of accountability and transparency. The PRN operates under delegated authority from the AEI and AES Boards. Under this delegation the PRN assesses the appropriateness of the remuneration framework and outcomes for Responsible Persons including KMPs, whilst the Trustee remains accountable for its delegated powers. The terms of reference include oversight of remuneration as well as executive development, talent management and succession planning.

The PRN members for the financial year ended 30 June 2024 were:

- Steve Gibbs (Chair)
- Mara Bun
- Kate Greenhill
- Julie Orr
- Sandra McCullagh

The PRN met seven times during the year. Attendance at these meetings is set out in the AEI Group Directors' Report. At the PRN's invitation, the Managing Director and Chief People & Culture Officer attended all meetings except where matters were associated with their own performance evaluation, development and remuneration were to be considered. The PRN considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including engaging remuneration consultants from time to time. Annually, the PRN assesses the eligibility for vesting of deferred shares.

### 5.2 CEO and KMP Performance

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

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

### 5.3 Malus Provisions

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

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

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



STEVE GIBBS

Chair  
AES Board  
23 September 2024



# Auditor's Independence Declaration



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

To the Directors of Australian Ethical Retail Superannuation Fund

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Retail Superannuation 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

  
Andrew Reeves  
*Partner*  
Sydney  
23 September 2024

# Independent Auditor's Report



# Independent Auditor's Report

To the Trustees of Australian Ethical Retail Superannuation Fund

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Australian Ethical Retail Superannuation Fund (the Fund).

In our opinion, the accompanying Financial Report of the Fund gives a true and fair view, including of the Fund'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:

- Statement of financial position as at 30 June 2024
- Income statement, Statement of changes in member benefits, Statement of changes in reserves, and Statement of cash flows for the year then ended
- Notes, including material accounting policies
- Director's 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 Fund 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.

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

### Other Information

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



The Other Information we obtained prior to the date of this Auditor's Report was the *Director's report and Remuneration report*. The Annual report are expected to be made available to us after the date of the Auditor's Report.

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 Trustees for the Financial Report

The RSE's trustee 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 Fund, 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 Fund, and that is free from material misstatement, whether due to fraud or error
- assessing the Fund'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 Fund 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:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Australian Ethical Retail Superannuation Fund for the year ended 30 June 2024, complies with *Section 300C* of the *Corporations Act 2001*.

### Trustees' responsibilities

The Trustees of the Fund are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300C* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 10 to 24 of the Trustees' report for the year ended 30 June 2024.

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

KPMG

Andrew Reeves

*Partner*

Sydney

23 September 2024

# Directors' Declaration

# Directors' Declaration

In the opinion of the Directors of Australian Ethical Superannuation Pty Ltd ("the Trustee"), as trustee for the Australian Ethical Retail Superannuation Fund ("the Fund"):

- 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;
  - Giving a true and fair view of the Fund's financial position as at 30 June 2024 and of its performance for the financial year ended on that date; and
  - Complying with Australian Accounting Standards and Corporations Regulations 2001;
- b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This directors' report is signed in accordance with a resolution of directors of the Trustee made pursuant to s.298(2) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'S. P. Gibbs', with a stylized flourish at the end.

Director  
Steve Gibbs  
Australian Ethical Superannuation Pty Ltd  
Sydney, 23 September 2024



# Financial Statements

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	Note	2024 \$'000	2023 \$'000
<b>Assets</b>			
Cash and cash equivalents	4	49,811	50,859
Investments	5	8,212,705	7,185,871
Derivative assets	18	547	-
<b>Receivables</b>			
Receivables	6	167,421	110,768
<b>Other assets</b>			
Deferred tax assets	12	663	680
<b>Total assets</b>		<b>8,431,147</b>	<b>7,348,178</b>
<b>Liabilities</b>			
Payables	7	14,141	25,857
Current tax liabilities	12	25,319	14,519
Deferred tax liabilities	13	119,803	80,559
Derivative liabilities	18	-	433
<b>Total liabilities (excluding member benefits)</b>		<b>159,263</b>	<b>121,368</b>
<b>Net assets available to pay benefits</b>		<b>8,271,884</b>	<b>7,226,810</b>
<b>Member benefits</b>			
Allocated to members		8,242,744	7,202,543
Unallocated to members	14	6,182	5,152
<b>Total member benefits</b>		<b>8,248,926</b>	<b>7,207,695</b>
<b>Total net assets</b>		<b>22,958</b>	<b>19,115</b>
<b>Equity</b>			
Operational risk reserve		22,958	19,115
<b>Total equity</b>		<b>22,958</b>	<b>19,115</b>

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

## INCOME STATEMENT

For the year ended 30 June 2024

	Note	2024 \$'000	2023 \$'000
<b>Superannuation activities</b>			
Distributions and dividends		262,127	153,572
Interest		2,279	1,211
Movement in fair value of investments	8	408,971	486,770
Other income		5,288	4,568
<b>Net revenue</b>		<b>678,665</b>	<b>646,121</b>
<b>Expenses</b>			
Investment expenses		56,369	44,081
Administration expenses		24,407	18,777
Other expenses		101	75
<b>Total expenses</b>		<b>80,877</b>	<b>62,933</b>
<b>Profit from operating activities before income tax expense</b>		<b>597,788</b>	<b>583,188</b>
Less: Income tax expense	11	34,700	42,251
<b>Profit from operating activities after income tax expense</b>		<b>563,088</b>	<b>540,937</b>
Less: Net benefits allocated to members' accounts		559,245	536,365
<b>Profit after income tax</b>		<b>3,843</b>	<b>4,572</b>

The above income statement should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN MEMBER BENEFITS

For the year ended 30 June 2024

	Note	2024 \$'000	2023 \$'000
<b>Opening balance of member benefits</b>		<b>7,207,695</b>	4,233,339
Employer contributions		627,560	481,669
Member contributions		131,615	110,705
Transfers from other funds		298,572	331,918
Government contributions		6,717	4,702
Successor fund transfer	1	-	1,924,245
Income tax on contributions		(99,631)	(77,579)
<b>Net after tax contributions</b>		<b>8,172,528</b>	7,008,999
Benefit payments		(475,403)	(329,626)
Insurance premiums charged to members' accounts		(19,738)	(14,927)
Death and disability benefits credited to members' accounts		12,294	6,884
<b>Benefits allocated to members' accounts, comprising;</b>			
Net investment income		561,477	541,788
Net direct administration fees*		(2,232)	(5,423)
<b>Closing balance of member benefits</b>		<b>8,248,926</b>	7,207,695

\* Net of excess administration reserve disbursement following Christian Super SFT.

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

## STATEMENT OF CHANGES IN RESERVES

For the year ended 30 June 2024

	Note	2024 \$'000	2023 \$'000
Opening balance of operational risk reserve		19,115	9,730
Net funding to reserves		2,298	2,934
Successor fund transfer		-	4,813
Movement in fair value of investments		1,545	1,638
<b>Closing balance of operational risk reserve</b>	<b>3</b>	<b>22,958</b>	19,115

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

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2024

	Note	2024 \$'000	2023 \$'000
<b>Cash flows from operating activities</b>			
Interest		2,281	1,209
Distributions and dividends		6,548	7,543
Death and disability benefits received		12,294	6,884
Successor fund transfer – administration and tax reserves	7	(16,087)	17,539
Insurance premiums paid		(19,337)	(13,743)
Investment, administration, and other expenses		(80,877)	(62,127)
Other income		5,231	4,451
Income tax received/(paid)		10,569	(2,291)
<b>Net cash flows from operating activities</b>	<b>10</b>	<b>(79,378)</b>	<b>(40,535)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		659,649	401,111
Payments for purchase of investments		(1,076,288)	(874,635)
<b>Net cash flows from investing activities</b>		<b>(416,639)</b>	<b>(473,524)</b>
<b>Cash flows from financing activities</b>			
Employer contributions		627,560	481,669
Member contributions		131,615	110,705
Transfers from other superannuation funds		298,572	331,918
Government contributions		6,717	4,702
Successor fund transfer	1	-	2,544
Benefit payments		(474,656)	(327,709)
Income tax paid		(94,839)	(72,129)
<b>Net cash flows from financing activities</b>		<b>494,969</b>	<b>531,700</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,048)</b>	<b>17,641</b>
Cash at the beginning of the period		50,859	33,218
<b>Cash at the end of the period</b>	<b>4</b>	<b>49,811</b>	<b>50,859</b>

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

# Notes to the Financial Statements

# Notes to the Financial Statements

For the year ended 30 June 2024

## NOTE 1 – REPORTING ENTITY

Australian Ethical Retail Superannuation Fund (the "Fund") is a defined contribution superannuation fund domiciled in Australia. The Fund is constituted by a Trust Deed dated 15 July 1998. The Trustee of the Fund is Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733).

The address of the Fund's registered office and principal place of business is Level 8, 124-130 Pitt St, Sydney, NSW, 2000.

The Fund is operated for the purpose of providing for the self-employed, corporate employees and individuals (and their dependents or beneficiaries) of various companies, allocated pensions, and lump sum benefits upon retirement, termination of employment, death, or disablement.

Administration of the Fund is conducted by Mercer Outsourcing (Australia) Pty Ltd ("Mercer") and Australian Administration Services ("AAS").

Australian Ethical completed a successor fund transfer (SFT) with Christian Super on 25 November 2022 where all its members and assets were transferred into the Fund. The ex-Christian Super members continue to be administered by AAS. In addition, the Christian Super administration and tax reserves were transferred to the Fund comprising of the final tax liability payable to the Australian Taxation Office (ATO) and to provide for outstanding administration related expense payments that had not been invoiced to Christian Super prior to the SFT. An excess administration reserve balance of \$4.3m had been identified by Australian Ethical and was distributed back to the active ex-Christian Super members in the Fund. The excess amount was processed on a proportionate basis directly to members accounts on 28 June 2024. The remaining excess administration reserve balance will be determined and disbursed back to the ex-Christian Super members by 31 March 2025 once all Christian Super related expense payments have been settled.

## NOTE 2 – BASIS OF PREPARATION

### STATEMENT OF COMPLIANCE

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB), the Superannuation Industry (Supervision) Act 1993 and Regulations ("SIS"), the Corporations Act 2001 and Corporations Regulations 2001 and the provisions of the Trust Deed.

The financial statements were approved by the Board of Directors of the Trustee on 23 September 2024.

### ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.



In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 17 - Financial instruments which contains information about estimation of fair values of financial instruments.
- Note 19 - Structured Entities which contains information about judgements made in relation to whether the Fund meets the definition of an investment entity.

## FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Australian currency and are for the period from 1 July 2023 to 30 June 2024 (the reporting period).

Amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise stated.

## STANDARDS AND INTERPRETATIONS ON ISSUE

The Fund has adopted new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2023.

The AASB 1056 Superannuation Entities was revised for financial years ending on or after 30 June 2024. This revised standard does not change the financial reporting requirements applying to superannuation entities but makes the standard a legislative instrument under the Corporations Act 2001, which has effect of continuing the overriding of certain requirements in other Australian Accounting Standards by AASB 1056 (which would not have occurred in the absence of reissuance of the standard). Accordingly, the application of the revised standard did not have an impact on the Fund's financial statements.

Management have assessed there are no other new accounting standards, interpretations or amendments to existing standards that are effective for the period beginning 1 July 2023 that would be expected to have a material impact on the Fund.

## NOTE 3 – MATERIAL ACCOUNTING POLICIES

### INVESTMENTS

Investments held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the investment. Transaction costs on investments at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all investments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Income Statement.

#### Fair value in an active market

The fair value of investments traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The prices used to value investments include, but are not limited to, independent and quoted 'bid' prices obtained for each investment, and redemption prices published by the manager of unlisted unit trusts.

An investment is regarded as quoted within an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### Fair value in an inactive or unquoted market

The fair value of investments not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is the market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. There may be a difference between the fair value at initial recognition and amounts determined using a valuation technique at the end of the reporting period. If such a difference exists, the Fund recognises the difference in the Income Statement to reflect a change in factors, including time, that market participants would consider in setting a price.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the most appropriate option valuation model.

The Fund's investments that are valued based on inactive or unquoted markets includes investments in alternative assets being limited partnership interests' in early-stage venture capital and unlisted infrastructure. Investments in alternative assets are both directly held by the Fund and indirectly held via investments in unlisted unit trusts.

Investments in unlisted unit trusts are recorded at the redemption price per unit as reported by the managers of such trusts.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. Refer to Note 5 and Note 17.

## 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.

Unit values denominated in foreign currency are translated to Australian dollars at the current exchange rates.

## 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 'Movement in fair value of investments' in the Income Statement.

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 'Movement in fair value of investments' in the Income Statement.

The effects of changes in foreign exchange rates recognised as part of the 'Movement in fair value of investments' are separately disclosed in Note 8.

Realised foreign exchange gains or losses on the settlement of distributions are brought to account as part of 'Distributions' in the Income Statement and in the Statement of Cash Flows.

## Derivative financial instruments

In accordance with the Fund's investment strategy, the Fund 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, derivatives are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. At balance date, the Fund held exchange traded equity futures and options and foreign exchange contracts.

## CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less from the date of acquisition, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

## REVENUE

### Interest

Interest revenue is recognised in the Income Statement on an accrual basis. Interest revenue not received at reporting date is reflected in the Statement of Financial Position as a receivable. Interest is calculated using the effective interest rate method.

### Distributions

Distribution income is recognised as at the date the unit value is quoted ex-distribution and, if not received at balance date, is reflected in the Statement of Financial Position as a receivable. Distributions received are typically reinvested.

### Movement in fair value of investments

Changes in the fair value of investments are recognised as income or expenses in the period to which the change relates and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

## EXPENSES

All expenses, including administration and investment management fees, are recognised in the Income Statement on an accrual basis.

## CONTRIBUTIONS REVENUE AND TRANSFERS IN

Contributions revenue and transfers in are recognised in the statement of changes in members' benefits when the control and the benefits from the revenue have transferred to the Fund and is recognised gross of any taxes.

## INCOME TAX

The Fund is a complying superannuation fund for the purposes of the provisions of the Income Tax Assessment Act 1997. Accordingly, the concessional tax rate of 15% has been applied to the Fund's taxable income.

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in members' funds in which case it is recognised in the Statement of Changes in Member Benefits. Income tax on contributions in the Statement of Changes in Member Benefits represent tax items that are credited or changed directly to member benefits. This includes tax on contributions and tax rebates on fees and premiums.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance date and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary difference is not provided for: the initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantially enacted at reporting date.

A deferred tax asset (DTA) is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

The expense/(benefit), and any corresponding liability/asset, is brought to account in the period in which the assessments are received by the Trustee and are payable by the Fund.

## GOODS AND SERVICES TAX

Revenues, expenses, and assets are recognised net of the amount of Goods and Services Tax (GST) recoverable, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

## RECEIVABLES

Receivables represent accrued income and other receivables such as Reduced Input Tax Credits (RITC). Receivables are normally settled within 30 days. Unsettled investment trades are amounts due to securities sales that have not been received at the reporting date. These amounts are recognised initially at fair value and subsequently measured at fair value.

## PAYABLES

Payables are carried at nominal amounts which approximate fair value. They represent liabilities for goods and services provided to the Fund prior to the end of the financial year that are unpaid, and other payables such as GST and redemption monies owing by the Fund. Unsettled investment trades are amounts due for securities purchases that have not been paid at the reporting date. Trades are recorded on trade date and normally settled within two to three business days. Payables are normally settled on 30-day terms.

## BENEFITS PAYABLE

Benefits payable represents amounts which have not been paid where a valid and approved withdrawal notice is received. Benefits payable are normally settled within two to three business days.

## OPERATIONAL RISK FINANCIAL RESERVE

The Fund maintains an Operational Risk Financial Reserve (ORFR) in accordance with the requirements established by the Australian Prudential Regulatory Authority under Prudential Standard SPS 114 Operational Risk Financial Requirement.

The purpose of the ORFR is to provide protection to the Fund in the event that a loss is incurred from an operational risk event occurring. The use of the ORFR is governed by the requirements of SPS 114, which is applicable to all APRA-regulated funds.

The Trustee has assessed a target ORFR balance of 0.25% of funds under management as appropriate for the Fund, with a 0.20% to 0.33% range to allow for changes in market movements. As at 30 June 2024 the ORFR balance equates to 0.28% (2023: 0.27%) of funds under management.

Transfers in and out of the ORFR are made only at the authorisation of the Trustee and in accordance with the Fund's Reserve Policy. The ORFR is funded out of the Trustee's administration fee entitlement. Earnings on invested amounts are retained within the ORFR. The reserve is held separately to other Fund assets and is fully invested in the Australian Ethical Balanced Fund.

## NOTE 4 – CASH AND CASH EQUIVALENTS

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
Cash and cash equivalents	49,811	50,859
<b>Total cash and cash equivalents</b>	<b>49,811</b>	<b>50,859</b>

## NOTE 5 – INVESTMENTS

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
<b>Super options</b>		
Balanced	4,792,742	4,203,176
Growth	797,392	699,971
Australian Shares	734,466	645,916
High Growth	733,396	581,965
Conservative	249,805	252,378
International Shares	190,986	158,180
Defensive	153,462	139,266
<b>Total investments in super options</b>	<b>7,652,249</b>	<b>6,680,852</b>

<b>Pension options</b>		
Balanced	284,243	237,244
Growth	95,204	81,677
Conservative	77,434	78,283
Australian Shares	40,347	31,982
Defensive	22,309	19,607
International Shares	11,838	9,820
<b>Total investments in pension options</b>	<b>531,375</b>	<b>458,613</b>

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
<b>Cash held for investment purposes*</b>		
Cash	6,123	27,291
<b>Total cash held for investment purposes</b>	<b>6,123</b>	<b>27,291</b>
<b>Operational Risk Financial Reserve</b>		
Balanced	22,884	19,017
Cash	74	98
<b>Total held in operational risk financial reserve</b>	<b>22,958</b>	<b>19,115</b>
<b>Total investments</b>	<b>8,212,705</b>	<b>7,185,871</b>

\* Received and committed as at balance date for investment into the unlisted unit trusts.

The Fund's investment options are invested in underlying registered and unregistered investment schemes managed by Australian Ethical Investment Limited, non-related external asset managers for alternative and property assets and forward foreign exchange contracts, futures contracts and equity options.

## NOTE 6 – RECEIVABLES

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
<b>Recoverable within 12 months</b>		
Investment income	164,861	108,699
GST	1,516	1,338
Member fee rebates	992	729
Christian Super tax return refund*	52	-
Interest	-	-
<b>Total receivables</b>	<b>167,421</b>	<b>110,766</b>

\*The receivable relates to Christian Super's final income tax return which was lodged with the Australian Taxation Office on 31 January 2024.

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Information regarding credit risk exposure is set out in Note 17.

## NOTE 7 – PAYABLES

	2024 \$'000	2023 \$'000
<b>Due within 12 months</b>		
Benefit payments	3,886	3,214
Insurance premiums	2,435	2,035
Investment management fees	1,825	1,546
Administration fees*	691	687
Trustee administration fees	580	477
Unsettled investments	3,050	264
PAYG tax	171	96
Christian Super tax	-	10,232
Christian Super administration expenses	1,503	7,306
<b>Total payables</b>	<b>14,141</b>	<b>25,857</b>

\* Includes dollar-based member administration fees and adviser fees payable.

Christian Super payables and reserve balances were transferred to the Fund as part of the SFT on 25 November 2022. The payables included Christian Super's final tax liability which was settled with the Australian Taxation Office on 31 January 2024. The administration expenses payable relates to expense payments that had not been invoiced prior to the SFT. An excess administration reserve balance of \$4.3m had been identified by Australian Ethical and was distributed back to the existing ex-Christian Super members that remain in the Fund. The excess amount was processed directly to members accounts on 28 June 2024. After settlement of all outstanding administration expenses, any remaining excess will be disbursed to ex-Christian Super members by 31 March 2025.

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Information regarding interest rates, foreign exchange and liquidity risk exposure is set out in Note 17.

## NOTE 8 – MOVEMENT IN FAIR VALUE OF INVESTMENTS

	2024 \$'000	2023 \$'000
Unrealised gains	415,639	481,666
Realised (losses)/gains	(4,997)	6,811
Effects of changes in foreign exchange rates	(1,671)	(1,707)
<b>Total movement in fair value of investments</b>	<b>408,971</b>	<b>486,770</b>

## NOTE 9 – AUDITOR'S REMUNERATION

Audit and tax fees in relation to the Fund are paid directly by the Trustee. During the year, the following fees were paid or payable by the Trustee for services in relation to the audit of the Fund. The auditor of the Fund is KPMG.

	<b>2024</b>	<b>2023</b>
	<b>\$'000</b>	<b>\$'000</b>
Audit and review of the financial statements	51	47
Audit services in accordance with regulatory requirements	80	74
Successor fund transfer assurance review	-	31
Tax compliance and advisory services	33	88
<b>Total auditor's remuneration</b>	<b>164</b>	<b>240</b>

## NOTE 10 – RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	<b>2024</b>	<b>2023</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit after income tax</b>	<b>563,088</b>	<b>540,937</b>
<b>Adjustments for:</b>		
Movement in fair value of investments	(408,971)	(486,770)
(Increase)/decrease in receivables	(56,602)	73,498
Insurance premiums paid	(19,738)	(14,927)
Death and disability benefits proceeds	12,294	6,884
(Decrease)/increase in payables	(15,301)	19,923
Increase in income tax payable and deferred tax	45,269	39,959
Distributions and dividends	(199,417)	(220,039)
<b>Net cash flows from operating activities</b>	<b>(79,378)</b>	<b>(40,535)</b>

## NOTE 11 – INCOME TAX EXPENSE

### a) Recognised in the income statement

	<b>2024</b>	<b>2023</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current tax expense/(benefit)</b>		
Current year	(4,222)	(10,308)
Adjustment for prior year	(261)	(182)
<b>Deferred tax expense</b>		
Movement in deferred tax	39,183	52,741
<b>Total income tax expense</b>	<b>34,700</b>	<b>42,251</b>



**b) Numerical reconciliation between tax expense and net income as a result of operations before income tax**

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
Net change for the year before tax	597,788	583,188
Prima facie income tax thereon at 15%	89,668	87,478
<b>Increase in income tax expense due to:</b>		
Net expenses allocated to member benefits	335	813
<b>Decrease in tax expense due to:</b>		
Non assessable investment income	(21,969)	(19,019)
Pension exemption	(1,666)	(966)
Imputation, foreign and early-stage venture capital tax offsets	(31,415)	(25,873)
Adjustment for prior year	(261)	(182)
<b>Income tax expense</b>	<b>34,692</b>	<b>42,251</b>

In addition to the above, \$99,630,933 (2023: \$77,578,692) is recognised in the Statement of Changes in Member Benefits relating to tax on contributions deducted from member accounts.

**NOTE 12 – CURRENT TAX LIABILITIES**

The current tax liability for the Fund of \$25,319,030 (2023: \$14,519,330) represents the amount of income taxes payable in respect of the current financial period.

**NOTE 13 – DEFERRED TAX ASSETS AND LIABILITIES**

The balance comprises temporary differences attributable to:

	<b>Assets</b>	<b>Liabilities</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>2024</b>			
Payables - investment management and administration fees	336	-	336
Unrealised gains on financial assets held at fair value through profit or loss	-	(119,803)	(119,803)
<b>Net investment tax assets/(liabilities)</b>	<b>336</b>	<b>(119,803)</b>	<b>(119,467)</b>
Payables – direct member administration fees	327	-	327
<b>Net tax assets/(liabilities)</b>	<b>663</b>	<b>(119,803)</b>	<b>(119,140)</b>

	Assets	Liabilities	Total
2023	\$'000	\$'000	\$'000
Payables - investment management and administration fees	275	-	275
Unrealised gains on financial assets held at fair value through profit or loss	-	(80,559)	(80,559)
Net investment tax assets/(liabilities)	275	(80,559)	(80,284)
Payables – direct member administration fees	405	-	405
Net tax assets/(liabilities)	680	(80,559)	(79,879)

Movement in temporary differences during the year:

	Opening Balance	Recognised in Income Statement	Closing Balance
2024	\$'000	\$'000	\$'000
Payables - investment management and administration fees	275	61	336
Unrealised gains on financial assets held at fair value through profit or loss	(80,559)	(39,244)	(119,803)
Net investment tax assets/(liabilities)	(80,284)	(39,183)	(119,467)
Payables – direct member administration fees	405	(78)	327
Net tax assets/(liabilities)	(79,879)	(39,261)	(119,140)

	Opening Balance	Recognised in Income Statement	Closing Balance
2023	\$'000	\$'000	\$'000
Payables - investment management and administration fees	118	157	275
Unrealised gains on financial assets held at fair value through profit or loss	(27,661)	(52,898)	(80,559)
Net investment tax assets/(liabilities)	(27,543)	(52,741)	(80,284)
Payables – direct member administration fees	213	192	405
Net tax assets/(liabilities)	(27,330)	(52,549)	(79,879)

## NOTE 14 – MEMBER BENEFITS

Member benefits are measured as the amount of member account balances as at the reporting date.

Members bear the investment risk relating to the underlying assets of the Fund. The underlying assets of the Fund are priced daily to quarterly. The Fund's unit prices are updated on a daily basis for movements in investment markets and updated valuations provided by external fund managers. Refer to Note 17 for the Fund's management of market, credit and liquidity risk.

At 30 June 2024 amounts unallocated to members was \$6,182,493 (2023: \$5,152,047).

### Funding arrangements

All contributions are made at rates determined by the employers and members to which they relate. During the financial reporting review period the superannuation guarantee contribution rate was 11% (2023: 10.5%). From 1 July 2024, the rate has increased to 11.5%.

### Guaranteed benefits

No guarantees have been made with respect to the liability for accrued benefits (2023: Nil).

## NOTE 15 – INSURANCE ARRANGEMENTS

The Fund provides death and disability benefits to its members. The Trustee has a group policy in place with a third-party insurance company to insure these death and disability benefits subject to specific elections made by the members of the Fund.

The Fund collects premiums from members on behalf of the insurance company. Insurance claim amounts are recognised where the insurer has agreed to pay the claim. Therefore, insurance premiums are not revenues or expenses of the superannuation entity and do not give rise to insurance contract liabilities or reinsurance assets. Insurance premiums charged to members' accounts are recognised in the Statement of Changes in Member Benefits.

## NOTE 16 – RELATED PARTIES

### (a) Trustee

The Trustee of the Australian Ethical Retail Superannuation Fund is Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733) which as an RSE licensee fulfils the role of Key Management Personnel of the Fund.

### (b) Key management personnel

The Fund does not employ personnel in its own right. However, it is required to have a Trustee to manage the activities of the Fund. Key management personnel of the Fund include persons who were directors of the Trustee, and other executives during the reporting period.

### (c) Trustee directors

The names of the Directors of the Trustee company, which are key management personnel of the Trustee, who held office during part or all of the year, or who subsequently held office are:

- Steve Gibbs (Chairman)
- Fiona Reynolds (appointed 1 July 2024)
- Kate Greenhill
- Mara Bun
- Michael Anderson

The following Directors are members of the Fund and all transactions with the Directors are pursuant to normal membership terms and conditions.

- Steve Gibbs
- Mara Bun

Madeleine Bandfield is the appointed Executive Officer Superannuation (EOS). The EOS reports to the Chair of the Board, Steve Gibbs, in order to maintain independent trustee responsibilities.

### (d) Directors' remuneration

No amounts are paid by the Fund directly to the Directors in their capacity as Directors. Directors' remuneration is paid by Australian Ethical Superannuation Pty Ltd.

### (e) Related party transactions

All related party transactions are conducted on normal commercial terms and conditions.

#### Australian Ethical Superannuation Pty Ltd

Transactions between Australian Ethical Superannuation Pty Ltd and the Australian Ethical Retail Superannuation Fund during the year consisted of:	2024 \$'000	2023 \$'000
Member administration fee	6,053	5,270
Investment management fee	56,169	43,725
Trustee administration fee*	17,612	12,864

\* The Trustee administration fee expense in accordance with the Product Disclosure Statement (PDS) is net of \$2,297,207 (2023: \$2,934,013) paid directly to the Operational Risk Financial Reserve (ORFR).

Amounts (payable to)/receivable from Australian Ethical Superannuation Pty Ltd	2024 \$'000	2023 \$'000
Member administration fee**	327	100
Investment management fee	(1,825)	(1,546)
Trustee administration fee	(570)	(410)

\*\* The Member administration fee is net of eligible large account balance rebates in accordance with the PDS of \$85,965 (2023: \$68,717) and net of \$898,153 (2023: \$644,454) fees refunded as part of the Protecting Your Super (PYS) package. Effective 1 July 2019, fees are capped at 3% p.a. for accounts with balances under \$6,000 at the time of full withdrawal or as at 30 June.

Transactions between Australian Ethical Retail Superannuation Fund and the schemes managed by the parent entity of the Trustee Company, Australian Ethical Investment Limited, during the financial year were:

For the year ended 30 June 2024

<b>Australian Ethical Managed Investment Scheme</b>	<b>Number of units held</b>	<b>Interest held  %</b>	<b>Fair value of investment  \$'000</b>	<b>Number of units acquired</b>	<b>Number of units disposed</b>	<b>Distributions received/ receivable  \$'000</b>
Moderate Fund	272,472,156	99.31	281,355	293,492,778	21,020,622	7,842
Balanced Fund	2,262,321,422	92.57	4,683,684	230,887,727	126,673,876	143,153
High Growth Fund	322,579,625	89.57	731,320	58,954,922	5,571,320	24,751
Income Fund	180,461,806	50.16	177,899	80,890,588	164,111,910	7,110
High Conviction Fund	245,842,737	45.56	238,271	185,805,461	7,619,692	6,374
Australian Shares Fund	228,099,350	34.46	625,836	27,820,320	58,986,447	28,324
International Shares Fund	224,451,168	17.40	426,143	57,383,692	44,209,119	13,188
Conservative Fund	303,002,765	15.05	310,851	337,121,802	34,119,037	10,444
Alternatives Fund	30,746,291	12.62	31,675	5,991,396	9,021,142	856
Diversified Shares Fund	81,574,875	12.12	290,513	10,018,767	30,817,170	8,678
Defensive Alternatives Fund	18,041,671	12.06	19,769	8,818,441	10,509,838	841
Emerging Companies Fund	4,709,121	2.70	8,667	5,100,264	391,143	168
Fixed Interest Fund	77,726,010	7.28	78,021	38,650,664	165,896,003	700
Global Credit Fund	56,424,597	7.51	55,014	40,972,463	103,803,702	2,904
Unlisted Property Fund	5,754,157	4.19	4,750	485,171	12,983,624	193
<b>Total</b>	<b>4,314,207,751</b>			<b>1,382,394,456</b>	<b>795,734,645</b>	<b>255,526</b>

For the year ended 30 June 2023

Australian Ethical Managed Investment Scheme	Number of units held	Interest held  %	Fair value of investment  \$'000	Number of units acquired	Number of units disposed	Distributions received/ receivable  \$'000
Balanced Fund	2,158,107,571	92.08	4,252,767	877,322,563	24,588,902	79,165
Moderate Fund	-	0.00	-	-	-	-
High Growth Fund	269,196,023	88.33	569,296	164,741,443	5,175,939	13,294
Income Fund	263,683,128	56.29	257,038	181,274,942	105,072,269	8,856
High Conviction Fund	67,656,968	25.97	64,349	46,028,664	321,944	2,018
Australian Shares Fund	259,265,477	39.35	660,142	40,570,876	12,147,758	22,269
International Shares Fund	211,276,595	16.85	348,078	61,613,604	14,345,140	8,828
Conservative Fund	-	0.00	-	-	-	-
Alternatives Fund	33,776,037	16.94	35,647	22,387,522	5,398,172	1,205
Diversified Shares Fund	102,373,278	14.33	338,364	19,332,213	16,708,376	8,036
Defensive Alternatives Fund	19,733,068	14.79	20,819	19,733,068	-	190
Emerging Companies Fund	-	0.00	-	-	-	-
Fixed Interest Fund	204,971,349	22.48	200,175	78,444,403	37,087,666	1,281
Global Credit Fund	119,255,836	19.31	117,777	119,439,852	184,016	544
Unlisted Property Fund	18,252,610	12.83	17,454	18,252,610	-	473
<b>Total</b>	<b>3,727,547,940</b>		<b>6,881,906</b>	<b>1,649,141,760</b>	<b>221,030,182</b>	<b>146,159</b>

The managed investment schemes are summarised in Note 19 as unconsolidated structured entities that the Fund does not consolidate but in which it holds an interest.

## NOTE 17 – FINANCIAL INSTRUMENTS

### Overview

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability of another entity. Financial instruments include both primary instruments (such as receivables, payables, and equity securities), and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements, and interest rate and currency swaps).

The investments of the Fund comprise units in the Australian Ethical Investment Limited registered and unregistered managed investment schemes ("the schemes"), unlisted property and unlisted infrastructure, limited partnership interests in early-stage venture capital, investments in private equity, deposits with banks, and accounts receivable and payable.

The Fund's investing activities expose it to the following risks from its use of financial instruments:

- operational risk;
- market risk (including price risk, currency risk and interest rate risk);
- credit risk; and
- liquidity risk.

These risks and a general description of how investment risk is managed by the Trustee are described more fully on the following pages.

The investment managers can invest in a variety of financial instruments, including derivatives, which expose the Fund's investments to a variety of investment risks, including market risk, credit risk and liquidity risk.

The Trustee seeks information from the Fund's investment managers (and may also seek independent advice from other qualified persons) so as to determine the nature and extent of any risks, and the expected returns, associated with each of its investments.

## Accounting policies

The Fund's accounting policies for each class of financial asset, financial liability and equity instruments are described in Note 3.

### a) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Trustee's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The objective of the Trustee of the Fund is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

### b) 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. Market risk comprises three types of risk: price risk, currency risk, and interest rate risk. Market risk is managed and monitored using sensitivity analysis and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Fund's direct investments and not on a look-through basis.

#### b) (i) Price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's financial instruments are carried at fair value, all changes in market conditions will directly affect investment returns, recognised in the Income Statement. Market price risk is mitigated by constructing a diversified portfolio of instruments traded in various markets. In addition, market price risk may be hedged using derivative financial instruments such as options or futures.

Derivatives may be used in the Fund 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 Fund 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 Fund.

The use of derivative financial instruments is subject to policies and parameters set out in the Responsible Entity's Derivatives Risk Statement and Investment Parameters. The Trustee is responsible for monitoring adherence to the Derivatives Risk Statement and the Investment Parameters. At balance date, the Fund held exchange traded equity futures and options and foreign exchange contracts.

The Trustee aims to mitigate market price risk by having a formal investment policy which diversifies the Fund's investments across various asset classes.

The following table illustrates the effect on profit after tax and net assets available for member benefits (excluding operational financial risk reserve) from possible changes in market price risk for 2024: +/-10% (2023: +/- 10%) that were reasonably possible based on the risk the Fund was exposed to at reporting date.

	Change in variable	Profit after tax		Net assets available for member benefits	
		2024	2023	2024	2023
		\$'000	\$'000	\$'000	\$'000
Unit trusts	+10%	695,608	606,855	695,608	606,855
<b>Total</b>		<b>695,608</b>	<b>606,855</b>	<b>695,608</b>	<b>606,855</b>

	Change in variable	Profit after tax		Net assets available for member benefits	
		2024	2023	2024	2023
		\$'000	\$'000	\$'000	\$'000
Unit trusts	-10%	(695,608)	(606,855)	(695,608)	(606,855)
<b>Total</b>		<b>(695,608)</b>	<b>(606,855)</b>	<b>(695,608)</b>	<b>(606,855)</b>

## b) (ii) Currency risk

Currency risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency within the conditions of the Fund's investment strategy. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's investments denominated in currencies other than the Australian Dollar.

Currency risk may be hedged using derivative financial instruments such as foreign exchange contracts to hedge the foreign currency risk exposures. The Fund's strategy on the management of currency risk is driven by the Fund's investment objective and strategy.

The currency risk disclosures do not take into account the foreign exchange exposures as a result of investments in unit trusts. Currency risk in the unit trusts is managed by the manager of the trust.

The sensitivity analysis below has been determined based on a reasonably possible strengthening and weakening of the Fund's unhedged financial instruments denominated in foreign currency at the balance sheet date. The sensitivity analysis demonstrates the effect on net assets available for member benefits which could result from a change in exchange rates by 10% (2023: 10%). The analysis assumes that all other variables, in particular interest rates, remain constant. No other flow on effects or fluctuations in foreign exchange rates have been taken into account.



	Unhedged carrying amount	Profit after tax		Net assets available for member benefits	
		AUD	+10%	-10%	+10%
2024	\$'000	\$'000	\$'000	\$'000	\$'000
US dollars	68,642	6,237	(7,631)	6,237	(7,631)
<b>Total currency risk</b>		<b>6,237</b>	<b>(7,631)</b>	<b>6,237</b>	<b>(7,631)</b>
	Unhedged carrying amount	Profit after tax		Net assets available for member benefits	
	AUD	+10%	-10%	+10%	-10%
2023	\$'000	\$'000	\$'000	\$'000	\$'000
US dollars	138,294	12,103	(15,938)	12,103	(15,938)
<b>Total currency risk</b>		<b>12,103</b>	<b>(15,938)</b>	<b>12,103</b>	<b>(15,938)</b>

### b) (iii) Interest rate risk

The Fund's direct exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted interest rates on those financial assets and financial liabilities, is as follows:

Investment strategy	Weighted average effective interest rate		Net assets available for member benefits	
	2024	2023	2024	2023
	%	%	\$'000	\$'000
Cash held for operating purpose	4.1	2.7	49,811	50,859
Cash held for investment purpose	4.2	2.8	6,123	27,291
Cash held for operational risk financial reserve	4.2	2.8	74	98
<b>Total cash held</b>			<b>56,008</b>	<b>78,248</b>

Units in unlisted unit trusts have been excluded from this analysis as they are exposed to market risks other than interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. For 2024: +/-2.5% (2023: +/-2.5%) increase or decrease is used when reporting interest rate risk internally to the Trustee and represents the Trustee's assessment of the possible change in interest rates. Given the current volatile macro-economic environment, the Trustees have assessed a reasonable possibility of the interest rate fluctuating by up to +/-2.5% (2023: +/-2.5%) on cash balances (excluding operational risk financial reserve cash).

	Change in variable		Profit after tax		Net assets available for member benefits	
	2024	2023	2024	2023	2024	2023
Floating rate	%	%	\$'000	\$'000	\$'000	\$'000
Interest rate risk	+2.5	+2.5	1,190	1,663	1,190	1,663
Interest rate risk	-2.5	-2.5	(1,190)	(1,663)	(1,190)	(1,663)

### (c) Credit risk

Credit (or counterparty) risk is the risk that a counterparty to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

At the balance sheet date, cash and investment income receivables was held with Westpac Banking Corporation and National Australia Bank, which both carry a Standard & Poor's rating of AA- as at 30 June 2024 (2023: AA-). The derivatives are entered into with Macquarie Bank Limited which carry a Standards & Poor's rating of A+ as at 30 June 2024 (2023: A+). Except for investments in the Australian Ethical Trusts and investment income receivables, the Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics.

### (d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund manages liquidity risk by the continuous monitoring of actual cash flows and the investment or liquidation of Fund investment holdings as appropriate in accordance with the Fund's investment strategy. Other financial liabilities of the Fund comprise other payables which will be settled within 12 months of 30 June 2024.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay.

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Total \$'000
<b>2024</b>				
Member benefits	8,248,926	-	-	8,248,926
Accounts payable	12,638	1,503	-	14,141
Tax payable	-	25,319	-	25,319
Derivative liabilities – foreign exchange contracts	-	-	-	-
<b>Total</b>	<b>8,261,564</b>	<b>26,822</b>	<b>-</b>	<b>8,288,386</b>
	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Total \$'000
<b>2023</b>				
Member benefits	7,207,695	-	-	7,207,695
Accounts payable	15,625	10,232	-	25,857
Tax payable	-	14,519	-	14,519
Derivative liabilities – foreign exchange contracts	-	433	-	433
<b>Total</b>	<b>7,223,320</b>	<b>25,184</b>	<b>-</b>	<b>7,248,504</b>

Member benefits represent amounts that the Fund is presently obliged to transfer to members or their beneficiaries as a result of the membership and are required to be paid within 30 days from instruction. As such, the member benefits have been classified as required to be paid within 3 months although may not necessarily be called within this time.

The Fund's major liquidity risk rests with the ability to redeem investment funds from Australian Ethical Trusts. The Fund's assets are invested into fifteen Australian Ethical Trusts, in which the majority of Fund assets are invested in a diversified portfolio. The Fund also directly invests into four separate diversified portfolios of property assets and ten separate diversified portfolios of alternative assets being limited partnership interests in early-stage venture capital, private equity and unlisted infrastructure. The Fund's liquid asset classes in the Australian Ethical managed investment schemes and cash are the primary source of liquidity to meet the redemption and expense obligations of the Fund.

The illiquid assets of the Fund are primarily invested in alternative and property assets. The Fund's investment options can hold up to 25% of illiquid assets in accordance with the strategic asset allocation as per the Fund's Investment Strategy.

There is a risk that the Fund may not be able to liquidate all of the investments at their fair value in order to meet its liquidity requirements. In the event of significant withdrawals, the Fund has the ability to suspend withdrawals until it can realise investments to meet the withdrawals.

### **(e) Estimation of fair values**

The Fund's financial assets and liabilities included in the Statement of Financial Position are carried at fair value. The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in Note 3 - Material Accounting Policies section.

### **(f) Fair value hierarchy**

#### **CLASSIFICATION OF FINANCIAL INSTRUMENTS UNDER THE FAIR VALUE HIERARCHY**

The Fund is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets;

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as published prices being the redemption prices established by the underlying fund manager) or indirectly (that is, derived from prices); and

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering the factors specific to the asset or liability.

The table below analyses the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2023.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2024</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	49,811	-	-	49,811
Cash held for investment purpose	6,197	-	-	6,197
Unlisted unit trusts	-	7,907,574	-	7,907,574
Unlisted alternative trusts	-	-	51,444	51,144
Unlisted property trusts	-	101,065	-	101,065
Unlisted infrastructure	-	-	50,377	50,377
Unlisted equity	-	-	68,636	68,636
Listed equity	19,168	-	-	19,168
Early-stage venture capital partnerships	-	-	8,244	8,244
Derivative assets/(liabilities)	547	-	-	547
<b>Total financial assets</b>	<b>75,723</b>	<b>8,008,639</b>	<b>178,701</b>	<b>8,263,063</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2023</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	50,859	-	-	50,859
Cash held for investment purpose	27,389	-	-	27,389
Unlisted unit trusts	-	6,808,047	-	6,808,047
Unlisted alternative trusts	-	-	56,466	56,466
Unlisted property trusts	-	122,592	-	122,592
Unlisted infrastructure	-	-	46,384	46,384
Unlisted equity	-	-	116,364	116,364
Early-stage venture capital partnerships	-	-	8,629	8,629
Derivative assets/(liabilities)	(433)	-	-	(433)
<b>Total financial assets</b>	<b>77,815</b>	<b>6,930,639</b>	<b>227,843</b>	<b>7,236,297</b>

## VALUATION TECHNIQUE

### Unlisted unit trusts

Investments of the Fund (other than cash held for meeting daily administrative and benefit expenses), are managed on behalf of the Trustee by a specialist investment manager who is required to invest the assets allocated for management in accordance with the terms of a written investment management agreement. The Trustee has determined that the appointment of the investment manager is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

The fair value of the unlisted unit trusts is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to current fair value of a substantially similar other instrument, and investment manager reports that provide a reliable estimate of prices obtained in actual market transactions. The fair value in Note 5 is measured using redemption price. The investment manager provides regular reports on the Fund's investments to the Trustee and the Trustee meets regularly to review the investment strategies.

### Valuation process for Level 2 and 3 valuations

The table below describes the valuation techniques used in the measurement of fair value for assets categorised as Level 2 and 3. Exposure to derivative assets and liabilities, unlisted property trusts, early-stage venture capital partnerships, private equity and unlisted infrastructure is through directly held investments and investments in the Australian Ethical Alternatives Fund, Australian Ethical Defensive Alternatives Fund and Australian Ethical Unlisted Property Fund.

Asset type	Valuation technique	Interest held by the Fund
Unlisted Australian Ethical trusts	The prices used to value the underlying investments include but is not limited to independent prices obtained for each security, quoted 'bid' prices on securities and for investments into unlisted unit trusts, redemption prices published by the Responsible Entity.	Direct investment in units issued by the Australian Ethical trusts.
Unlisted property trust	The valuation measurement is market value as defined by the International Valuation Standards Council and adopted by the Australian Property Institute. The fair value of direct property assets is based on independent external valuations. A variety of established valuation techniques are used by valuers in determining the value of direct property investments. These include, discounted cashflows, capitalisation of rental income and analysis of comparable recent sale transactions.	Direct investment in units issued by the trusts and indirectly held through the Australian Ethical Unlisted Property Fund and Australian Ethical High Growth Fund.
Early-stage venture capital partnerships and unlisted equity	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'.	Direct investment in limited partnership interests and private equity funds and indirectly held through the Australian Ethical Alternatives Fund and Australian Ethical Defensive Alternatives Fund.

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

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.

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
<b>Level 3 reconciliation</b>		
Opening balance at 1 July	<b>227,844</b>	27,264
Capital called	<b>2,841</b>	4,515
Acquisition of externally managed Level 3 assets	-	196,134
Acquisition/(disposal) of units in Australian Ethical Alternatives Fund	<b>(3,154)</b>	18,198
Acquisition/(disposal) of units in Australian Ethical Defensive Alternatives Fund	<b>(1,920)</b>	20,083
Disposal of externally managed Level 3 assets	<b>(54,065)</b>	(47,093)
Net fair value profit	<b>7,156</b>	8,743
<b>Closing balance at 30 June</b>	<b>178,701</b>	227,844

No transfers between levels have occurred in the reporting periods ended 30 June 2024 and 30 June 2023.

The sensitivity analysis below has been performed on the Fund's exposure to changes in unobservable inputs used to value financial instruments categorised as level 3 in the fair value hierarchy. The sensitivity analysis demonstrates the effect on net assets available for member benefits which could result from a change in alternative assets' fair valuation by 10% (2023: 10%). 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 balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

At balance date, the effect on net assets available for member benefits as a result of changes in alternative assets' fair valuation with all other variables remaining constant would be as follows:

	<b>2024</b>	2023
	<b>\$'000</b>	\$'000
Increase in alternative assets fair valuation by 10% (2023: 10%)	<b>17,870</b>	22,784
Decrease in alternative assets fair valuation by 10% (2023: 10%)	<b>(17,870)</b>	(22,784)

## NOTE 18 – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities that are subject to an enforceable master netting or similar agreement that covers similar financial instruments are to be offset in the Statement of Financial Position. The similar agreements include derivative clearing agreements where similar financial instruments include derivatives where the Fund has entered in to forward foreign exchange contracts.

The gross amounts of recognised financial assets and financial liabilities and their net amounts presented in the Statement of Financial Position disclosed in the below tables have been measured at fair value in the Statement of Financial Position for the derivative assets and liabilities.

	Gross amounts recognised	Offset in Statement of Financial Position	Net amount recognised
2024	\$'000	\$'000	\$'000
<b>Derivative assets</b>			
Foreign exchange contracts	74,629	(74,131)	498
Futures contracts	132	(95)	37
Equity options	504	(492)	12
<b>Total derivative assets</b>	<b>75,265</b>	<b>(74,718)</b>	<b>547</b>
<b>Derivative liabilities</b>			
Foreign exchange contracts	74,131	(74,131)	-
Futures contracts	95	(95)	-
Equity options	492	(492)	-
<b>Total derivative liabilities</b>	<b>74,718</b>	<b>(74,718)</b>	<b>-</b>

	Gross amounts recognised	Offset in Statement of Financial Position	Net amount recognised
2023	\$'000	\$'000	\$'000
<b>Derivative assets</b>			
Foreign exchange contracts	-	-	-
Futures contracts	-	-	-
Equity options	-	-	-
<b>Total derivative assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivative liabilities</b>			
Foreign exchange contracts	134,175	(133,742)	433
Futures contracts	-	-	-
Equity options	-	-	-
<b>Total derivative liabilities</b>	<b>134,175</b>	<b>(133,742)</b>	<b>433</b>

## NOTE 19 – STRUCTURED ENTITIES

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities. Depending on the Fund's power over the activities of the entity and their exposure to and ability to influence their own returns, they may control the entity. In other cases they may have exposure to such an entity but not control it.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unlisted trusts and limited partnerships. The nature and extent of the Fund's interests in structured entities are titled "units in unit trusts" and are summarised in Note 3 and Note 5.

The Fund has exposures to unconsolidated structured entities through their trading activities. The Fund typically has no other involvement with the structured entity other than the securities they hold as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset.

Exposures to trading assets are managed in accordance with financial risk management practices as set out in Note 17.

The table below describes the types of unconsolidated structured entities that the Fund does not consolidate but in which it holds an interest. The Fund 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 Fund
Investment schemes	To pool investors' savings and invest in a diversified portfolio of securities.	Investments in units issued by the unit trusts
Early-stage venture capital partnerships	To manage assets on behalf of third-party investors. These vehicles are financed through the issue of partnership interests to investors.	Limited partnership interest



	Fair value as at		Ownership interest	
	2024 \$'000	2023 \$'000	2024 %	2023 %
<b>Investment schemes</b>				
<b>Unlisted trusts</b>				
Australian Ethical Moderate Fund	281,355	-	99.31	-
Australian Ethical Balanced Fund	4,683,684	4,252,767	92.57	92.08
Australian Ethical High Growth Fund	731,320	569,296	89.57	88.33
Australian Ethical Income Fund	177,899	257,038	50.16	56.29
Australian Ethical High Conviction Fund	238,271	64,349	45.56	25.97
Australian Ethical International Shares Fund	426,143	348,078	17.40	16.85
Australian Ethical Conservative Fund	310,851	-	15.05	-
Australian Ethical Diversified Shares Fund	290,513	338,364	12.12	14.33
Australian Ethical Emerging Companies Fund	8,667	-	2.70	-
Australian Ethical Fixed Interest Fund	78,021	200,175	7.28	22.48
Australian Ethical Global Credit Fund	55,014	117,777	7.51	19.31
<b>Unlisted alternative</b>				
Australian Ethical Alternatives Fund	31,675	35,647	12.62	16.94
Australian Ethical Defensive Alternatives Fund	19,769	20,819	12.06	14.79
<b>Unlisted property</b>				
Brightlight Real Estate Impact Fund	29,611	28,243	100.00	100.00
Australian Ethical Unlisted Property Fund	4,750	17,454	4.19	12.83
Australian Unity Specialist Disability Accommodation Fund	3,829	3,575	3.19	2.88
Investa Property Group	28,709	34,640	0.72	0.73
Dexus Healthcare Property Trust	34,166	38,680	0.64	2.63
<b>Unlisted infrastructure</b>				
Morrison & Co Growth Infrastructure Fund	2,939	1,747	0.64	0.64
IFM Australia Infrastructure Fund	47,438	44,637	0.45	0.45
<b>Unlisted equity</b>				
Stafford Sustainable Capital Fund	828	2,196	19.38	13.57
Wollemi Co Investment Fund	31,061	30,672	11.59	10.14
LGT Crown Secondaries Special Opportunities II B	5,720	4,428	2.36	2.07
IFC Catalyst Fund	2,876	3,352	1.74	1.38
LGT Crown Asia Pacific Private Equity IV	13,941	14,735	0.98	0.83
LGT Crown Secondaries Special Opportunities II	14,210	12,728	0.67	0.59
Siguler Guff Small Buyout Opportunities Fund III	-	25,135	-	49.99
Siguler Guff Small Buyout Opportunities Fund IV	-	23,118	-	49.99
Shenkman Capital	-	61	-	0.00
<b>Early-stage venture capital partnerships</b>				
Right Click Capital Growth Fund	4,511	4,940	9.66	9.66
Artesian Clean Energy Seed Fund	3,733	3,689	7.78	7.75
<b>Total</b>	<b>8,187,340</b>	<b>7,158,482</b>		

The maximum exposure or loss is limited to the fair value of the investment as at the reporting date and capital commitments in Note 20. The fair value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed of. The unconsolidated structured entities are managed in accordance with the investment strategy with the respective underlying investment managers. The return of the Fund is exposed to the variability of the performance of the underlying investment strategies.

The Fund does not have current commitments (except as disclosed in Note 20), intentions or contractual obligations to provide financial or other support to the unconsolidated structured entities. There are no loans or advances currently made to these entities. There are no significant restrictions on the ability of an unconsolidated structured entity to transfer funds to the Fund in the form of cash distributions.

## NOTE 20 – CAPITAL COMMITMENTS

The Fund has made commitments to invest in early-stage venture capital partnerships, private unlisted equity and unlisted infrastructure. The investment commitments contracted by the Fund at the end of the reporting period are listed below:

<b>Asset</b>	<b>Investment period</b>	<b>2024 \$'000</b>	<b>2023 \$'000</b>
LGT Crown Secondaries Special Opportunities II	7 years	1,727	3,050
Wollemi Co Investment Fund	6 years	1,739	1,899
LGT Crown Asia Pacific Private Equity IV	6 years	1,340	1,650
Morrison & Co. Growth Infrastructure Fund	1 years	931	1,826
LGT Crown Secondaries Special Opportunities II B	7 years	689	1,319
IFC Catalyst Fund	2 years	269	399
Right Click Capital		-	278
Artesian Clean Energy		-	156
Siguler Guff Small Buyout Opportunities Fund IV		-	5,580
Siguler Guff Small Buyout Opportunities Fund III		-	2,060

## NOTE 21 – EVENTS OCCURRING AFTER THE REPORTING DATE

During the period between the end of the financial year and the date of this report, there were no other items, transactions, or events of a material and unusual nature likely in the opinion of the Trustee, to significantly affect the financial position or operating results of the Fund.