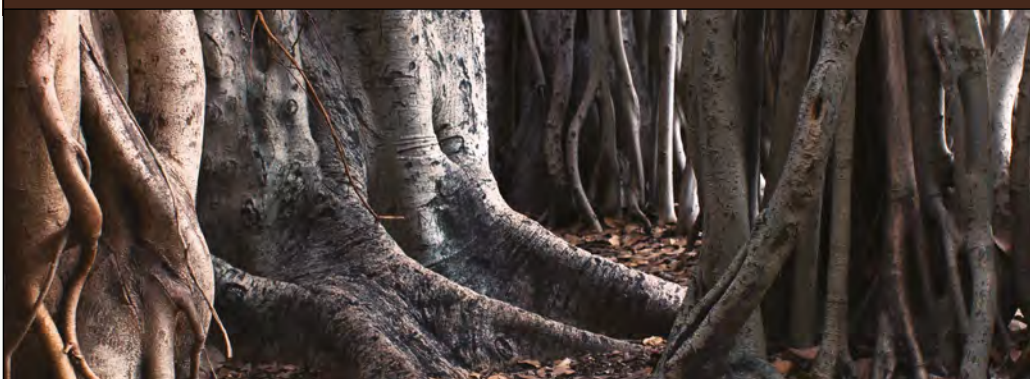


**Australian
Ethical**



2022 Annual Report

AE



About the report

Welcome to the Australian Ethical Investment Limited (Australian Ethical) Annual Report for 2022.

We have included the performance for Australian Ethical and its wholly owned subsidiaries: Australian Ethical Superannuation Pty Ltd (Australian Ethical Super) and Australian Ethical Foundation Limited (The Foundation), for the period 1 July 2021 to 30 June 2022 (FY22) in this report.

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

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

We welcome your feedback on our reports. Please contact Tom May, General Counsel & Company Secretary, Australian Ethical Investment Limited on 0488 779 474 or at tmay@australianethical.com.au.

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



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Message from the CEO

John McMurdo, Chief Executive Officer & Managing Director



A global pandemic, war, energy security crisis, food shortages, heatwaves, wildfires, melting glaciers, displaced people, mudslides, floods...

If ever we needed a reminder of why Australian Ethical exists to invest for a better world, then the first six months of 2022 have more than delivered.

It's human nature to prioritise the near term over the future; to care about what's close rather than what's far away. But for how much longer I wonder? As consecutive 'once-in-a-generation' natural disasters continue to impact around the world, previously abstract warnings about the climate crisis have become all too real. What was once far away has in fact become closer than ever.

Of course, this isn't new news. For more than 30 years, climate change and the future of the planet have been making headlines. And yet, humanity's collective emissions have been going up steadily every year.

It's easy to feel overwhelmed. And no doubt, some people do. But we see many reasons to be hopeful. That's because rather than giving up, Australians are instead thinking bolder and acting braver than ever before. For example, in a warning to slow moving governments around the world, Australians are showing how climate investor activists are taking matters into their own hands. We saw that in the Federal election, when a group of independents helped oust a coal-friendly government. Or when Mike Cannon-Brookes upended AGL Energy, one of the country's oldest and biggest carbon emitters.

Everyday Australians are showing the same climate ambition too, looking to make their money matter and turning to Australian Ethical to do so. In contrast to industry-wide trends of outflows and negative growth, we've seen another year of strong growth at Australian

Ethical. New customer joins and retail and wholesale net inflows are up. We remain Australia's fastest growing super fund, boast industry leading net promoter scores (NPS) and customer satisfaction scores¹ and have a received a string of awards and accreditations.

And if I look beyond the immediate footprint of our business, I see an external regulatory environment that has never been so supportive of what we do. In fact, at time of writing, Australia's new Federal government has just passed a bill in the lower house of parliament to bind the country to reducing greenhouse gas emissions by 43% from 2005 levels by 2030. Meanwhile, new legislation in Europe has come into force that requires financial advisers to consult investors on their sustainability preferences and in the US the Inflation Reduction Act² could bring the country to within shouting distance of its emissions reduction targets.

Scientific data continues to demonstrate that climate change is urgent and alarming. At Australian Ethical we take action through our advocacy, by growing our investments in a low carbon future and by supporting the passionate people taking action.

There was once a time when few people would have been concerned about whether their money was indirectly fueling the climate crisis. But that time has passed. Today the morality of money – what we spend it on, what we invest in – has never been so important. The ability to divorce our financial decisions from our values belongs to a bygone era.

Today, the future of investing is ethical.

John.

¹ Number 1 for NPS, Investment Trends Super Member Engagement Report 2022 – Independent research with 23 major super funds surveying over 7,500 Australians. Number 1 NPS for High Net Worth (HNW) managed fund investors, Investment Trends High Net Worth Investor Report – November 2021.

² americanprogress.org/article/5-major-benefits-of-the-inflation-reduction-acts-climate-investments/



“

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to impact around the
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the climate crisis have
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Message from the Chair

Steve Gibbs, Chair



How times change. Just a year ago, investment managers around the world were trumpeting the qualities of their environmental, social and governance (ESG) funds supported by performance data which showed they had beaten their conventional equivalents over several periods.

Today they have toned down their rhetoric after months of disappointing performance and negative stories about the exaggerated benefits of ESG. Russia's invasion of Ukraine has emboldened critics, who – rightly – questioned why so many ESG funds were invested in Russian assets in the first place. In fact, for the many investment managers who until recently prided themselves on doing the right thing, events this year have exposed fundamental and potentially long-lasting flaws.

ESG has been thrust into the spotlight in recent years. However, its growth has had a dangerous side-effect: greenwashing. And as funds rebrand to include the phrase 'sustainable' or 'ESG' in their name, it's raising suspicions about the potential for greenwashing – not the kind of recycling that climate crisis campaigners had in mind.

With so many funds rebranding, it's difficult to identify what funds are trying to achieve and how their investment strategies have been altered in line with adding an ESG or sustainable tag to the fund. All of this is unlikely to help the average retail investor feel more confident investing sustainably.

As chair of the Australian Ethical Board, I can't help but think all this presents an enormous opportunity for our business: an opportunity to educate investors about the difference between ESG and ethical investing; an opportunity to champion our pedigree and authenticity; and an opportunity to accelerate the movement of capital towards genuine ethical investments.

In my opinion, critics are right to note that ESG has created a gravy train which has undermined the responsible investment movement. Those fund managers - and there are many – that have been using ESG as a marketing, sales, PR or a 'we-have-it-all' thing will have a much harder time now. In fact, for those who have been selling ESG products that are process rather than results oriented, and who can't show how it's done, tracked, and measured and what results they achieve, well, maybe now is the time for them to throw in the towel.

Unfortunately, there will always be those that put profit ahead of principles. But for them, the message became clear this year: you can run, but you can't hide.

The combination of regulatory and technological changes, the impact of the climate crisis and evolving social norms are making ethical investing even more important going forward. The very fact that some firms feel they must pretend to be ethical shows just how much attitudes have changed.

Greenwashing may well be the current headline, but I see a better future for the integration of sustainability, values and finance. It's the future Australian Ethical has been investing for since 1986.

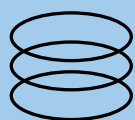
Steve.

“

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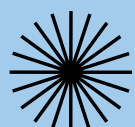


Financial year 2022 highlights



\$6.2 billion in funds under management

\$0.9 billion in positive net flows



Underlying profit of **\$10.3 million**³

down 7% (underlying profit pre-performance fees up 10%)

Diluted EPS 3-year **CAGR of 14%**

Performance fee on Emerging Companies Fund (ECF)⁴ of **\$0.4 million**

Adviser channel **net flows growth of 46%**

Increase in funded customer⁵ numbers by 17%

2 new products launched including our first ETF

Launch of our first mobile app

Money Magazine Best of the Best 2022

– Best Australian Equities ESG Fund for Diversified Shares

Winner SuperRatings Infinity Award – Best sustainable super fund (3rd time awarded)

#1 NPS for super⁶

#1 NPS for customer advocacy⁶

#1 NPS for HNW managed fund investors⁷

We remain the **fastest growing super fund over 5 years** by members⁸

Top quartile employee engagement of 79%⁹



\$1.6 million

allocated for impact initiatives via the Foundation

\$8 million

allocated to not-for-profits since inception

³ Attributable to shareholders.

⁴ Australian Ethical's Emerging Companies fund (wholesale) outperformed its benchmark, the S&P/ASX Small Industrials for the 12 months to 30 June 2022.

⁵ Includes both funded super fund members and managed fund investors.

⁶ Investment Trends Super Member Engagement Report 2022 – Independent research with 23 major super funds surveying over 7,500 Australians.

⁷ Investment Trends High Net Worth Investor Report – November 2021.

⁸ KPMG 2022 Super Insights Report, published May 2022, using statistics from APRA and ATO as at 30 June 2021.

⁹ Top quartile Australian Financial Services Benchmark (Culture Amp, June 2022).



77% lower CO₂ intensity for listed companies in our portfolio compared to benchmark¹⁰



5.6 x more investment in renewables and energy solutions than benchmark¹¹



1.8 x more revenue from sustainable impact solutions¹²

3.7 x more revenue from sustainable water and agriculture & pollution prevention¹²



Nil investment in fossil fuel companies, nuclear, tobacco, gambling companies^{13,14}



450+ companies engaged with for people, planet & animals¹⁵



Best for the World for customer & governance by BCorp¹⁶

¹⁰ Carbon intensity (measured as tonnes CO₂e per \$ revenue) of Australia Ethical share investments compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.

¹¹ Proportion of our share investments in renewables and energy solutions compared to the blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.

¹² Revenue from impact solutions compared to a blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Comparisons based on shareholdings at 30 June 2022 and analysis tools provided by external sources which cover 88% of the listed companies we hold shares in by value.

¹³ We don't invest in companies whose main business is fossil fuels, or in diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).

¹⁴ We have never invested in tobacco and support Tobacco Free Portfolios. For more information on our Ethical Criteria, visit: australianethical.com.au/why-ae/ethics/ethical-criteria

¹⁵ Total includes lending our voice to support others' initiatives, engaging with companies, the investment community or government directly (on our own or with others), and filing and voting on shareholder resolutions. Represents FY22 activity.

¹⁶ BCorp 'Best for the World Honouree' Customer 2022 and BCorp 'Best for the World Honouree' Governance 2022. The Best for the World Honourees' are BCorps whose score in the top 5% of all 3,500+ BCorps worldwide. This relates to the Australian Ethical entity, not the investment portfolio.

Investment report

David Macri, CFA, Chief Investment Officer



The slide in global share markets over the six months to June 2022 has been dramatic and intense.

During the period we've seen underlying market concern switch from focusing on the impact of the global pandemic to gauging the impact of geopolitical tensions and inflation. Facing into a troubling trio of rising inflation, higher interest rates and the war in Ukraine has been challenging for investors around the world.

Over the last six months of FY22, the largest 500 companies in the US as measured by the S&P 500 Index declined 20%, while the technology focused Nasdaq 100 fell 29%. Europe's STOXX50 and Germany's DAX indices recorded similar falls of 20%. Australian shares as measured by the S&P/ASX 300 declined by 6.5% for the financial year. The sharpest annual falls were in the Information Technology (-38%) and Consumer Discretionary (-21%) sectors as investors cut their growth expectations. It was also a tough year in bond markets amid the aggressive interest rate hike signals from central banks around the world.

And while at Australian Ethical we continue to be pleased with the long-term performance of our investment strategies; our short-term performance has not been immune to the broader market pressure.

Many of the better performing ASX companies over the financial year were in the carbon-intensive resource sector in which we are heavily underweight. The current supply and demand dynamics in global energy markets is delivering windfall profits for fossil fuel companies in the short-term, where we don't invest. Meanwhile our long-term overweight allocation to smaller innovative ASX companies has detracted from recent returns. These earlier stage, small, growth-orientated industrial companies have underperformed in the rising interest rate environment, although we remain confident in their long-term growth prospects.

When markets are falling, it's easy to become reactive and drift from established principles and processes in response to short-term market conditions. But having a singular focus on ethical investing, guided by our Ethical Charter, provides a stable lens through which to view the world.

Long-term focus

We believe the outlook for the long-term performance of our funds remains strong. Current geopolitical events and natural disasters only serve to underscore the importance of energy security and tackling climate change. Our ethical investment philosophy has a long-term and strategic focus on future-building companies that will thrive in a low-carbon economy. We also take comfort in our years of experience, long-term performance figures and an investment approach that has been tested and proven over multiple cycles.

Times like these are difficult, but we expect heightened volatility to lead to a renewed focus on solving urgent global problems, together with opportunities to invest wisely for the long term.

Investment team update

If an investor's primary job is to contemplate the future and how their investments will perform over time, then a year of floods, fires, war and dealing with the consequences of a global pandemic has reminded us of what a complex task this is. We may all be familiar with the adage of having eggs in different baskets, but rarely do we recognise the possibility that even eggs in different baskets can still all break at once!

And yet in today's world, thinking about multiple scenarios is vital for considering the different ways the future can play out. In today's world, portfolio resilience must be more than a defensive reaction to market volatility.

During the past financial year, we have been taking further steps in our journey to bolster the resilience of our investment portfolios. We believe truly resilient portfolios are those that can stand the test of time, managing short-term shocks while navigating long-term trends to maximise returns across market cycles.

But for a business as unique as Australian Ethical, portfolio resilience must be tailored to suit our specific requirements. It's not as simple as outsourcing our asset allocation framework to a peer-group benchmark or third-party provider. Instead, it's a layered, multi-pronged approach that will help us leverage our existing strengths as a global leader in responsible investing so we can realise our purpose of investing for a better world.

As such, in addition to improving our investment strategies and processes to make them more robust and repeatable, we have also focused on enhancing our asset allocation and governance frameworks.

Asset allocation

Last financial year we hired a new head of asset allocation, John Woods, CFA. This financial year he has been responsible for reaching some key milestones in our asset allocation strategy, strengthening the resilience of existing portfolios and preparing them for growth.

As a multi-asset fund manager, our asset allocation follows a systemised and evidence-led approach to understand the opportunities and risks across different asset classes. It is a complex offering which requires a tailored understanding of the distributions of returns relevant to achieving the goals of our ethical portfolios.

By identifying diversifying exposures and managing meaningful risks, we have already improved portfolio risk and our ability to take better advantage of our long-term investment horizon and liquidity. Milestones reached during the period include:

- Investments in two new alternatives managers (Generation and Main Sequence)
- New domestic equities product launched (High Conviction Fund)

- Advocacy Fund relaunched as a multi-asset High Growth Fund
- Paved the way for an exposure to a new asset class for AE via a mandate for global credit securities
- Improved risk management
- Introduction and deployment of asset allocation model for scenario analysis
- Acquired new data, risk tools and research resources

Governance

Of course, true resilience goes beyond diversification and focuses on resilience no matter what the economic environment.

Good governance lives at the heart of what we do. We have strengthened policies and procedures to ensure any possible conflicts of interest and risks are monitored and managed accordingly. We also added three independent members to our Investment Committee: Sean Henaghan, Sandra McCullagh and Steve Rankine.

Sean Henaghan is the current CIO of Aurora Capital and former CIO of AMP Capital Multi-Asset Group and has proven leadership of a substantial investment business with over \$100 billion of assets across a range of multi-asset investments.

Sandra McCullagh is a current non-executive director (NED) of the Investor Group on Climate Change (IGCC), a former NED of QSuper, and established the ESG equities research capability at Credit Suisse Australia.

Steve Rankine is the former Head of Asset Management at Hastings Funds Management and, prior to that, MD of Debt Capital Markets at Westpac Institutional Bank. He now sits on several investment committees and boards across funds management, infrastructure, and insurance.

These appointments complement the skillsets of our existing committee members, bringing the total of the committee to seven.

Investment performance

Managed Funds returns to 30 June 2022[#]

Our Emerging Companies fund achieved above benchmark results for all periods, while our Australian Shares Fund remained above benchmark for all periods of three years or greater.

	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Fund performance								
Income	(0.3)	0.0	0.3	0.9	1.1	1.7	2.7	3.3
Benchmark ¹	0.1	0.1	0.3	0.9	1.2	1.7	2.9	3.6
Income (Wholesale)	(0.3)	0.1	0.4	1.1	1.4	n/a	n/a	n/a
Benchmark ¹	0.1	0.1	0.3	0.9	1.2	n/a	n/a	n/a
Fixed Interest	(11.1)	(6.4)	(3.3)	(0.1)	0.5	1.7	n/a	n/a
Benchmark ²	(10.5)	(5.8)	(2.6)	0.9	1.6	2.6	n/a	n/a
Fixed Interest (Wholesale)	(10.9)	(6.2)	(3.0)	0.4	1.1	n/a	n/a	n/a
Benchmark ²	(10.5)	(5.8)	(2.6)	0.9	1.6	n/a	n/a	n/a
Balanced	(7.7)	4.5	3.5	5.4	5.6	7.5	4.4	6.0
Benchmark ³	(5.0)	5.2	3.7	5.9	6.2	8.5	5.6	6.6
Balanced (Wholesale)	(7.1)	5.3	4.3	n/a	n/a	n/a	n/a	n/a
Benchmark ³	(5.0)	5.2	3.7	n/a	n/a	n/a	n/a	n/a
High Growth	(9.5)	8.6	3.9	6.7	7.0	10.4	n/a	n/a
Benchmark ³	(5.3)	10.0	5.3	7.3	7.4	10.6	n/a	n/a
High Growth (Wholesale)	(9.0)	9.4	4.7	7.7	8.1	11.6	n/a	n/a
Benchmark ³	(5.3)	10.0	5.3	7.3	7.4	10.6	n/a	n/a
Diversified Shares	(11.5)	7.4	3.1	6.2	6.7	10.5	4.6	7.3
Benchmark ⁴	(6.3)	9.4	5.0	7.1	7.2	11.5	5.8	7.5
Diversified Shares (Wholesale)	(11.1)	8.1	3.9	7.2	7.8	11.8	n/a	n/a
Benchmark ⁴	(6.3)	9.4	5.0	7.1	7.2	11.5	n/a	n/a
International Shares	(8.3)	7.9	5.9	7.7	7.5	12.1	3.7	n/a
Benchmark ⁵	(6.5)	9.2	7.8	10.1	9.3	14.3	6.9	n/a
International Shares (Wholesale)	(8.0)	8.7	6.7	8.7	8.5	n/a	n/a	n/a
Benchmark ⁵	(6.5)	9.2	7.8	10.1	9.3	n/a	n/a	n/a
Australian Shares	(17.8)	8.0	6.0	6.9	8.3	11.3	7.0	9.5
Benchmark ⁶	(6.8)	9.4	3.4	6.8	7.8	9.1	2.6	7.1
Australian Shares (Wholesale)	(17.3)	8.8	6.8	7.9	9.6	12.7	n/a	n/a
Benchmark ⁶	(6.8)	9.4	3.4	6.8	7.8	9.1	n/a	n/a
Emerging Companies	(23.1)	7.5	9.4	11.3	12.1	n/a	n/a	n/a
Benchmark ⁷	(24.0)	0.5	(2.2)	3.3	5.3	n/a	n/a	n/a
Emerging Companies (Wholesale)	(22.8)	8.0	9.9	12.0	12.9	n/a	n/a	n/a
Benchmark ⁷	(24.0)	0.5	(2.2)	3.3	5.3	n/a	n/a	n/a

* Past performance is not a reliable indicator of future performance.

[#] After fees performance

¹ Bloomberg AusBond Bank Bills Index

² Bloomberg AusBond Composite

³ Indices of underlying asset classes weighted by the Fund's Strategic Asset Allocation

⁴ 75% S&P/ASX 200 Accumulation / 25% MSCI World ex Australia (NET)

⁵ MSCI World ex Australia (NET)

⁶ S&P/ASX300 Accumulation

⁷ S&P/ASX Small Industrials Accumulation

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

Note: We launched a new High Conviction Fund and ETF in FY22

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Super and pension returns to 30 June 2022**

Our MySuper option (Balanced Accumulation) remained above benchmark for all periods of three years or greater, while our Australian Shares Accumulation option remained above benchmark for periods of two years or greater.

	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Accumulation options performance								
Defensive	(0.7)	(0.4)	(0.2)	0.4	0.6	1.0	2.0	2.6
Benchmark ^{1~}	(0.2)	(0.2)	0.0	0.5	0.7	1.3	2.6	3.3
Conservative	(7.2)	(1.6)	(0.2)	1.9	2.4	3.1	n/a	n/a
Benchmark ⁸	(2.5)	2.4	1.7	2.7	2.7	3.8	n/a	n/a
Balanced (accumulation)	(6.3)	4.9	4.0	5.8	6.0	7.4	4.4	5.8
Benchmark ⁹	(3.4)	6.7	4.1	5.3	5.2	6.4	4.2	5.2
Growth	(5.9)	6.5	4.3	6.3	6.3	8.7	3.8	6.4
Benchmark ¹⁰	(4.5)	8.0	4.6	6.3	6.1	7.8	4.5	5.8
Australian Shares	(15.3)	8.5	6.6	7.8	8.7	11.8	7.2	9.4
Benchmark ^{6~}	(6.2)	8.4	3.2	6.2	6.9	2.4	(0.8)	n/a
International Shares	(7.6)	7.6	5.7	7.2	6.8	11.0	n/a	n/a
Benchmark ^{5~}	(6.0)	8.0	6.8	8.6	7.8	13.1	n/a	n/a
High Growth	(8.0)	8.7	4.3	6.8	6.9	10.0	n/a	n/a
Benchmark ^{11^}	(6.1)	8.2	4.3	6.1	6.2	9.7	n/a	n/a

	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Pension options performance								
Defensive	(0.8)	(0.4)	(0.2)	0.4	0.7	1.2	2.3	3.0
Benchmark ^{1<}	(0.2)	(0.2)	0.0	0.6	0.8	1.4	2.6	3.4
Conservative	(8.3)	(1.9)	(0.5)	2.0	2.5	3.5	n/a	n/a
Benchmark ¹²	(3.2)	2.4	1.7	2.9	3.0	4.2	n/a	n/a
Balanced	(7.4)	3.1	3.0	5.0	5.4	7.2	4.2	6.0
Benchmark ¹³	(3.8)	4.5	2.9	4.1	4.1	5.9	3.9	5.2
Growth	(8.0)	6.5	4.3	6.7	6.7	9.2	4.3	7.1
Benchmark ¹⁴	(5.3)	8.4	4.9	6.7	6.5	8.3	4.8	6.2
Australian Shares	(16.9)	8.9	7.2	8.4	9.1	12.6	7.9	10.3
Benchmark ^{6<}	(7.0)	9.1	3.4	6.7	7.5	2.9	(0.3)	n/a
International Shares	(9.0)	7.6	5.7	7.4	7.1	11.3	n/a	n/a
Benchmark ^{5<}	(6.8)	8.9	7.5	9.7	8.8	13.9	n/a	n/a

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

⁸ SuperRatings SR50 Capital Stable (20-40) Index

⁹ SuperRatings SR50 Balanced (60-76) Index

¹⁰ SuperRatings SR50 Growth (77-90) Index

¹¹ SuperRatings SR25 High Growth (91-100) Index

¹² SuperRatings SRP50 Capital Stable (20-40) Index

¹³ SuperRatings SRP25 Conservative Balanced (41-59) Index

¹⁴ SuperRatings SRP50 Growth (77-90) Index

~ Net of tax and % administration fees

< Net of % administration fees

Our senior leadership team



David Macri | BSc, CFA
Chief Investment Officer

David has been with Australian Ethical for more than 13 years, with over 10 of these spent as Chief Investment Officer. He is responsible for all investment aspects of the company, including the in-house management of diversified funds, fixed interest, domestic and international equities, and the Australian Ethical Super fund which includes asset allocation and manager selection.

He has over 24 years' experience in the financial services industry, including stints on the 'buy-side' (Credit Suisse Asset Management), 'sell-side' (Macquarie) and as an Investment Consultant (Mercer and Mellon).



Eveline Moos | BCom
Chief People & Culture Officer

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



John McMurdo | MBA, GAICD
Chief Executive Officer and Managing Director

John brings more than 30 years' experience in investment management, private client advisory and wealth management across Australia and New Zealand, including 18 years in CEO roles at several leading investment and wealth management businesses. He has significant Board and Directorship experience within and outside financial services.

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



Karen Hughes | BSc (Hons), ACA (ICAEW), GAICD
Chief Risk Officer and Company Secretary

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



Mark Simons | B Bus, CA, GAICD
Chief Financial Officer

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



Maria Loyez | MEng
Chief Customer Officer

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



Marion Enander | BCom, MBA

Chief Strategy & Innovation Officer

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



Dr Stuart Palmer | BA, LLB, MLitt, PhD

Head of Ethics Research

Stuart evaluates the impacts which the products, services and operations of companies have on people, animals and the environment. He also contributes to our voice for more sustainable business and investment models and practices. Stuart has previously worked with the Ethics Centre and as a banker and lawyer.



Tom May | BA, LLB, MBA, TFASFA, MAICD, FGIA

General Counsel and Company Secretary

Tom is joint Company Secretary and oversees the company's governance and legal functions to ensure that the Group meets its regulatory obligations. Tom has over 30 years' legal experience in Australia, London and Tokyo.



Australian Ethical Investment Limited and
its Controlled Entities

Financial Report

30 JUNE 2022

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Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (the 'Group') consisting of Australian Ethical Investment Limited ('Australian Ethical', the 'Company' or 'Parent entity'), Australian Ethical Superannuation Pty Limited ('AES') and Australian Ethical Foundation Limited (the 'Foundation'), being the entities it controlled at the end of, or during, the year ended 30 June 2022.



Directors

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:



Steve Gibbs | BEcon, MBA

Non-Executive Director since 2012 and Chair since 2013

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

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



Mara Bûn | BA (Political Economy), GAICD

Non-Executive Director since 2013

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

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



Kate Greenhill | BEc, FCA, GAICD

Non-Executive Director since 2013

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

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



Michael Monaghan | BA, FIAA, FAICD

Non-Executive Director since 2017

Michael is Chair of the Investment Committee, a member of the People, Remuneration and Nominations Committee and the Product Disclosure Statement Committee. He is a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Michael has more than 35 years' experience in investment, consulting and leadership of financial services organisations both in Australia and internationally.

Michael is currently Chair of Flag Income Notes 3 Pty Ltd and a Director of Alpha Vista Financial Services Holdings Pty Ltd.



Julie Orr | BEc, MCom, MCom(Hons), CA, GAICD, FGIA

Non-Executive Director since 2018

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

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

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



John McMurdo | MBA, GAICD

Chief Executive Officer and Managing Director, appointed February 2020

John joined the Australian Ethical Board in February 2020 as Chief Executive Officer and Managing Director. He brings more than 30 years' experience in investment management, private client advisory and wealth management across Australia and New Zealand, including 18 years in CEO roles at several leading investment and wealth management businesses. He also brings significant previous Board and Directorship experience within and outside financial services.

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



Company secretary

Tom May and Karen Hughes are joint Company Secretaries.

Tom May

BA, LLB, MBA, TFASFA, MAICD, FGIA

Tom also oversees governance and legal functions to ensure that the Group meets its regulatory obligations and maintains industry leading governance practices. Tom has over 30 years' legal experience in Australia, London and Tokyo.

Karen Hughes

BSc (Hons), ACA (ICAEW), GAICD

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

Principal Activities

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

Year in review

The events of 2022 have been challenging for most investors – ethical or otherwise. Geopolitical tensions plus the market and economic volatility associated with unwinding hugely accommodating macroeconomic policy settings have created a complex landscape to navigate.

Australian Ethical has not been immune from these impacts. Having delivered market-leading returns for our customers across most of our products just 12 months ago, our short-term performance has been negatively affected by this year's significant headwinds.

Amid today's disruption-crowded environment, uncertainty looms large thanks to the combination of post-pandemic global inflation, rising interest rates and the war in Ukraine. That these issues weren't on many investors' radars this time last year is a reminder of how quickly economic and geopolitical circumstances can change.

But the continuing growth we have seen in retail and wholesale net flows and new customers tell us that investor appetite for authentic ethical investment products remains strong. Because while the pandemic, climate change and the global energy crisis underscored the need to transition to a more sustainable future, the events of 2022 have highlighted the urgency.

Investor responses to these events illustrate how large a tent responsible investing has become, home to a spectrum of investor concerns and preferences. The investments that comprise one person's sense of right and wrong might not apply to someone else. But investors do not operate in a vacuum. Decisions taken, or not taken, have an impact on the world around us.

At Australian Ethical our role isn't to judge others or to question their ethics or investment choices. We can only stay true to our own moral compass and the values we defined in our Ethical Charter. Where Russia's unprovoked invasion of Ukraine and resurgent fossil fuel companies prompted some 'responsible' players to reinvest in traditional energy companies to benefit from spiking oil and gas prices, our position on fossil fuel companies remained unchanged. Our short-term investment performance was impacted, but our ethical integrity remains intact. It's what our customers expect from us and we're proud to help them align their money with their values. That's because we still believe that in the long term our approach will prevail in leaving a better world.

We find our unwavering commitment to our purpose is a stable lens through which to view the world. Even when short-term investment returns are down, we're still invested in future-building companies that will thrive in a low carbon economy and our advocacy remains unchanged. It's how our customers can be sure they're invested for a better world for people, planet and animals.

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

Review of operations

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

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

As more people around the world began to question what their money was funding, 83% of Australians said they expected their money to be invested responsibly and ethically, with 80% expecting their savings to have a positive impact on the world around us¹.

Our authenticity has been rewarded by another solid year of financial results. This includes strong retail and wholesale net flows, new customer joins and leading net promoter scores (NPS) at a time when other investment managers are seeing consecutive quarters of outflows. Our authenticity is reflected in the quality of our new hires, our continuing high employee engagement and the meaningful impact of our Foundation.

But most of all, our authenticity can be found in our expanding suite of award-winning ethical investment portfolios that prove money can be a force for good.

¹ https://responsibleinvestment.org/wp-content/uploads/2022/03/From-Values-to-Riches-2022_RIAA.pdf

Highlights

Despite challenging conditions, Australian Ethical has made significant progress on our high growth strategy. This includes:

Principled Investment Leadership (being a powerful proof point for ethical investing)

- Two new product launches, including our first exchange traded fund (ETF)
- Strengthened the Investment Team and added three new highly skilled Investment Committee members
- New investments in alternative asset classes
- Enhanced asset allocation through implementation of a new strategic asset allocation model
- Minority stake in Sentient Impact Group

Compelling client experience (delivering a modern and seamless experience that engages customers with a better financial future)

- New app launched for managed fund customers
- Continuing digitisation of customer journey
- New hires and a new telephony system to improve contact centre operations

Advocates for a better world (combining active engagement with people power to push for a better world)

- Set a more ambitious 2040 net zero emissions target for our private sector investments
- More than 450 company engagements
- Gave 7,500 Australians a direct voice at COP26 by featuring their names on the front page of the UK Financial Times during the conference in Glasgow

- Visionary Grants program launched via the Foundation to support innovative climate solutions
- Launched Giving Green via the Foundation, an evidence-based climate action giving guide

Impactful business (growing our scale to grow and amplify our positive impact)

- Successor Fund Transfer (SFT) deed with Christian Super executed and integration planning commenced, which will see up to 30,000 members and \$1.96 billion FUM transfer to Australian Ethical
- Opened new acquisition channel with employer platform partnerships
- Continued build-out of adviser channel with flows increasing 46% year on year
- Scaled up back-office infrastructure
- Multiple award wins and accolades

Leadership & innovation (fostering a culture of innovation and high performance)

- Strategic investment in capability across the business
- Roll out of a new performance and remuneration framework aligned to our high-impact and high-performance culture
- Creation of an incubator team focused on innovation and new product development.

More updates are provided in the coming pages.

Profit

The net profit for the Group amounted to \$9.5 million.

The net profit attributable to shareholders amounted to \$9.6 million, compared with \$11.3 million for the 12 months to 30 June 2021.

Underlying profit after tax was \$10.3 million, down 7% compared with the prior corresponding period. Excluding the impact of performance fees, underlying profit increased 10%.

Pleasingly, Australian Ethical has been able to donate \$1.5 million to the Australian Ethical Foundation following our success during this financial year. This will allow the Foundation to continue its impactful philanthropic work delivering positive impact via the grant program and other associated initiatives.

Revenue

Revenue growth, including \$0.4 million (2021: \$2.9 million) performance fees, remains strong, with operating revenue increasing 21% to \$70.8 million, up from \$58.7 million for the year to 30 June 2021. This increase was driven by strong FUM growth in the first half of the year, underpinned by strong net flows. Volatile markets have impacted investment performance, and to a lesser extent, flows, particularly in the second half however, we believe the underlying growth drivers remain solid.

Ongoing fee reductions are a core part of our growth strategy as we aim to make investing in our products more accessible and competitive for current and future customers. Fee reductions in June 2021 as well as October 2021 have partially offset the FUM driven revenue growth

Average FUM growth for FY22 was 33%. During the year the average FUM based fee margin reduced from 1.04% to 0.99%.

Expenses

Expenses (excluding due diligence and transaction costs) increased by 28% as we execute on strategic initiatives to continue to drive long term growth. Key drivers of the cost increases include:

- New product launches, a new customer app, new general ledger and HR platforms, customer experience improvements and insourcing our strategic asset allocation process
- Deep investment in capability across the Investment, Customer Experience, Business Intelligence & Technology and People & Culture teams. Headcount increased by 22 during the year, which included 8 contractors to support strategic projects
- An increase in variable remuneration costs following the implementation of a new performance and remuneration framework introduced to identify and reward high performance across the business
- Further investment to grow our adviser channel and high net worth customer segments
- Investment in brand to drive greater brand awareness
- Higher fund-related costs predominantly driven by the increase in customer numbers

FY23 will see further focused investment in the business as we execute on our strategic roadmap, balancing market volatility with the growth opportunity.

Funds under management

At a time when other investment managers are experiencing significant declines in FUM, we are pleased to report net positive FUM growth during FY22. Despite the challenging market conditions, we have seen solid net flows of \$0.9 billion during the period. Excluding institutional, net flows were \$1.1 billion, which was 20% above prior year.

FUM growth was strong in the first half of FY22, driven by solid net flows and positive investment performance, reaching \$6.9 billion at 31 December 2021. During the second half, volatile markets impacted investment performance, and to a lesser extent, flows. FUM at the end of the year was \$6.2 billion, 2% higher than last year, with average FUM increasing 33% year on year.

Managed funds

Pleasingly, our higher margin retail and wholesale managed funds flows increased 16% year on year to \$0.4 billion despite challenging market conditions. Net flows into our managed fund products saw strong growth in the first half of the financial year before market volatility contributed to a slowdown in flows in the second half.

Institutional

Institutional net flows decreased in the current year after a large but low margin institutional client began the redemption of their investments following the internalisation of the management of their sustainable option due to their successor fund transfer into another fund. The opportunity with institutional clients remains attractive and as part of our high growth strategy we hired an Investment Director in FY22 to grow and diversify this channel.

Superannuation

During the period we saw record super flows of \$0.8 billion, an increase of 22% year on year – again a very pleasing result given the increasingly competitive superannuation market especially as competitors launch their own ‘ESG-style’ products.

Adviser

Our adviser channel continues to grow following our focused strategic investment. Flows in this important channel increased 46% year on year – again a solid result in the current environment.

The below table outlines FUM movements for the period:

\$bn	30 June 2022	30 June 2021	% change
Opening FUM	6.07	4.05	
Super net flows	0.75	0.61	
Managed Funds* net flows (excl Institutional)	0.39	0.34	
Total net flows (excl institutional)	1.14	0.95	20%
Institutional net flows	(0.20)	0.08	
Total net flows	0.94	1.03	(8%)
Investment performance	(0.81)	0.99	
Closing FUM	6.20	6.07	2%
Average FUM	6.58	4.96	33%

* Includes Managed Funds (retail, wholesale and institutional) and SMA

Investment performance

Short-term performance this financial year has not been immune from the broader market pressure, though we remain pleased with the long-term performance of our investment strategies.

The first half of FY22 saw many of our funds tracking on or above benchmark for the six-month period. However, many of the better performing ASX companies in the second half of FY22 were in the carbon intensive resources sector, in which we are and always will be underweight, which impacted our relative performance. Meanwhile, our allocation to smaller growth-oriented companies also impacted on our recent investment performance.

The recent rising bond yields presented a difficult environment for equity investors and are a reminder of the inherent volatility of share markets. Though we remain pleased with the long-term performance of our investment strategies, our short-term performance has not been immune from the broader market pressure.

For the year to 30 June 2022 our Australian Shares Fund (ASF) underperformed its benchmark² over one-year, but remained above benchmark for all periods of three years or greater. The ASF (wholesale) has achieved top quartile returns for three-, five- and ten-year time periods.³ Our Emerging Companies Fund outperformed its benchmark⁴ for all periods including one-year, resulting in a performance fee of \$0.4 million for FY22. This fund achieved top quartile returns across three and five-year periods.⁵

For our super members, our Balanced option underperformed over one- and two-year periods, but remained above benchmark⁶ for all periods of three years or greater. Finally, our Australian Shares option underperformed its benchmark⁷ over one year but outperformed for periods of two-years and above.

We believe the outlook for the long-term performance of our funds remains strong. Current geopolitical events and natural disasters only serve to underscore the importance of energy security and tackling climate change. Our ethical investment philosophy has a long-term and strategic vision, focusing on future-building companies that will thrive in a low-carbon future. This is what our customers expect, and we remain committed to this approach.

Fee reductions

As ever, we remain committed to making ethical investing as accessible and competitive as possible, which includes making strategic fee reductions as we pass the benefits of our growing scale onto our customers.

In June 2021, we reduced the fees on the Australian Shares and International options for our super members. For managed fund customers, fees were reduced on the Balanced, International, Diversified, Advocacy, Australian Shares and Emerging Companies retail funds, and the Balanced and International wholesale funds. In October 2021, we repositioned our Advocacy Fund as the High Growth Fund with a reduction in fees for our super and wholesale managed fund customers.

Our revenue margin has reduced from 1.0% at 30 June 2021 to 0.97% at 30 June 2022. Average revenue margin for FY22 was 0.99%.

While ensuring we have competitive fees is important for our customers, we think returns and impact are even more important. Our fee reduction strategy focuses on ensuring there is an equitable share in the success of our growing company between shareholders and customers, while delivering competitive returns and meaningful real-world outcomes for people, planet and animals.

² Benchmark is composite S&P/ASX Small Industrials Accumulations Index till 12 August 2019 & S&P/ASX 300 Accumulation Index thereafter.

³ For the wholesale funds in their respective Mercer surveys as at 30 June 2022.

⁴ Benchmark is S&P/ASX Small Industrials Accum Index.

⁵ For the wholesale funds in their respective Mercer surveys as at 30 June 2022.

⁶ Benchmark changed from Morningstar Multisector Growth - Superannuation to SuperRatings SR50 Balanced (60-76) Index from 1 Dec 2019.

⁷ Benchmark changed from S&P/ASX Small Industrials (Net of tax and admin fees) to ASX 300 Monthly Index (Accum.) (Net of tax and admin fees) on 1 Dec 2019.

Operational excellence & compelling client experience

Over the past year, we have continued to build on previous customer experience improvements, delivering further initiatives that enhance the interactions with our customers.

Initiatives include:

- Launching our first app for managed fund customers with an interactive platform for customers to engage with us
- Redesigning multiple online forms to make it easier for customers and to streamline processes
- Implementing a new telephony system for our contact centre, which, together with other process improvements, has lifted the contact centre's customer service metrics, most notably, the abandonment rate which is now better than the industry standard, and a commendable NPS score of 52⁸

Our already industry leading customer experience scores^{9,10} improved even further during the period:

No.1 NPS for Super⁹

No.1 High Net Worth NPS¹⁰

Continuing channel growth

Investing ethically must be easy and the most natural choice for all investors if we're going to realise our purpose of investing for a better world. As such, we've continued to invest in our adviser channel where we're seeing some encouraging results. Advisers providing advice on ESG investments has increased to 1 in 2 advisers, up from 1 in 5 in 2016.¹¹ Increasingly advisers are embracing ethical investing as an opportunity to enhance their value proposition and build better rapport with clients and looking to Australian Ethical for support. During the period we have added capability in our sales

team and broadened our brand reach through education and events. We're seeing the benefits of this investment in the growing adviser channel flows, which are up 46% year on year to \$0.3 billion, as well as our Adviser NPS rank which moved from 16th to 13th during the year¹¹.

In late FY22 we launched a new channel to Australian Ethical by partnering with employer platforms to acquire new superannuation customers. By engaging with people as part of their onboarding journey to new roles, we can continue to build our superannuation business with our unique ethical offering in a competitive market. Further investment is planned for FY23 to continue to build on these partnerships and realise their potential.

In our investment team, we further expanded capability with the addition of an Investment Director to build out our institutional channel where we see significant opportunity for growth in both the institutional and mezzanine channels.

And through the launch of our High Conviction ETF, we expanded into the listed channel, increasing the accessibility of our ethical product set.

Other improvements

Our continued investment in our brand is also paying off. Familiarity with our brand has increased over the past year as we are reaching more Australians. We're now the most recognised responsible investment brand amongst current ESG investors.¹¹

Meanwhile in the background, but very much critical to our future success, we have invested in upgrading our back-office systems. A new cloud-based general ledger system together with a new payroll and HR system have created scalable back-office infrastructure in readiness for our growth aspirations.

⁸ Internal customer surveys.

⁹ Investment Trends Super Member Engagement Report 2022 – Independent research with 23 major super funds surveying over 7,500 Australians.

¹⁰ Investment Trends High Net Worth Investor Report – November 2021.

¹¹ Investment Trends ESG Report 2022.

Our culture

Covid-19 put employee health and safety into the spotlight. After two years of challenging lockdowns, we're focusing on the holistic health of our people, supporting their wellbeing and the role Australian Ethical plays in their lives.

In addition to reintroducing popular wellbeing benefits, we've taken the opportunity to revisit our purpose through all-staff events and development opportunities. These initiatives have helped to bond people across different parts of the organisation, stimulate innovation, contribute to strategy, celebrate our diverse culture and refine what Australian Ethical is all about. We were particularly pleased by our continuing top quartile employee engagement score of 79%¹² and the quality of the new hires we are attracting to our business. This year we have added to our Investment Committee as well as our Investment, Distribution, Business Intelligence & Technology, People & Culture and Customer teams.

We remain committed to supporting our employees through seamless hybrid working and workplaces, expanded employee wellbeing initiatives and a new employee assistance provider. Our focus on cultivating a high-performance culture continues with a new performance and remuneration framework which was introduced to identify and reward high performance across the business.

Meanwhile, we continue to be a leader in gender diversity with 50% female representation on our Board, 44% on our Senior Leadership Team ('SLT') and 48% across all employees.

Covid-19

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

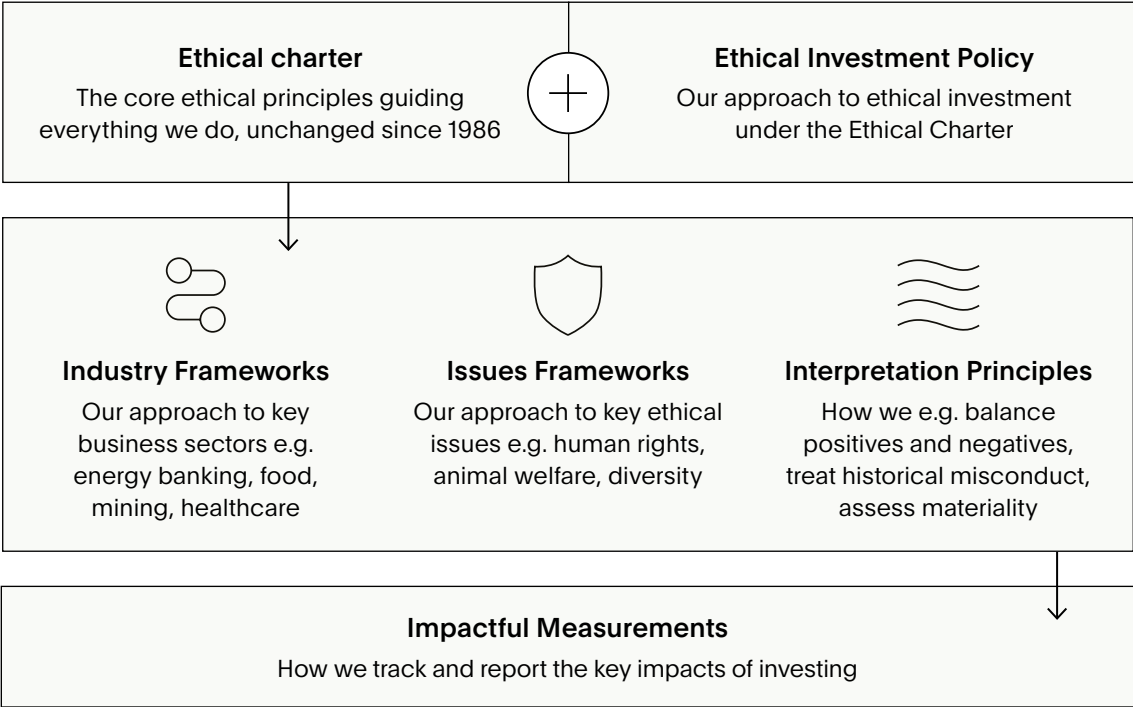
We're now at a turning point in our recovery process and ensuring we learn from the experience, while building these attributes into our culture and our organisational mindset.

A fundamental lesson from the pandemic is that resilience is as much about thinking ahead as it is about doing what it takes to respond and recover from a crisis. As such, we are continuing with the strategic and technology investments that enhance our resilience. This includes enabling 100% of our employees to perform their roles regardless of location by reviewing and uplifting our security capabilities in line with industry best practice. Meanwhile, our ongoing adoption of cloud services ensures the business can adapt quickly to a changing landscape as we grow.

Notwithstanding the continuing lockdowns during 2021 and into 2022, our business operations have remained efficient and effective. We have made significant progress on our strategic milestones and other business-as-usual deliverables, including growing customer numbers, retail and wholesale net flows and our positive impact for people, planet and animals.

¹² Culture Amp Survey, June 2022.

Climate change



Governing climate-related decision making

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

Our Chief Investment Officer and Head of Ethics Research are responsible for implementation of our Ethical Charter across our investment activities. They approve new and updated ethical frameworks, which include our climate-related ethical screening criteria for emissions intensive sectors. The Board of directors has oversight of our ethical frameworks, with quarterly reporting to the Board of changes to frameworks and critical ethical issues.

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

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

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

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

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

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

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

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

Investment portfolio management

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

Influencing companies

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

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

The resilience of our real estate and infrastructure investment

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

Targets

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

Measurement, transparency, accountability

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

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

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

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

Strategic update

Last year we announced an aggressive growth strategy to build upon our existing market share and expand capability and capacity where we saw the most potential. We identified four key investment pillars to strengthen our business for impact and leadership. These pillars were:

- Principled investment leadership (being a powerful proof point for ethical investing)
- Advocates for a better world (combining active engagement with people power to push for a better world)
- Compelling client experience (delivering a modern and seamless experience that engages customers with a better financial future)

- Impactful business (growing our scale to grow and amplify our positive impact)

It has been an extremely busy year as we have successfully executed against this strategic roadmap, despite ongoing Covid disruption and external market challenges.

FY22 saw a big lift in capability with strategic new hires and the introduction of new processes and offerings to better position our business to capture the large growth opportunity. Further detail of our progress is outlined below.

We are proud of the significant milestones achieved during the year and are already seeing the benefits of the strategic investments made.

Delivering on strategy in FY22

Strong momentum on delivering against our strategic pillars through FY22. We are investing now to support sustainable, long-term growth

1. Principled investment leadership	2. Advocates for a better world	3. Compelling client experience	4. Impactful business	+ Leadership & innovation
<p>New capability: Investment Director, Head of Investment Business Management & 3 new Investment Committee members</p> <hr/> <p>Minority stake in Sentient Impact Group</p> <hr/> <p>Momentum in product development: Launched High Growth & High Conviction funds (incl. first ETF) to reach new segments</p> <hr/> <p>Enhanced asset allocation through implementation of new strategic asset allocation model</p>	<p>Announced a more ambitious net zero target of 2040 for our private sector investments</p> <hr/> <p>Strong visibility through COP26 with 7,500 investors profiled on front page of Financial Times</p> <hr/> <p>\$1.6m allocated by the Foundation for impact initiatives including \$500k to new Visionary Grants supporting innovative climate solutions</p>	<p>#1 NPS for Super & HNW customers</p> <hr/> <p>Launch of new AE App to digitise, personalise and improve the managed fund investor experience</p> <hr/> <p>Continued to streamline the customer experience – launched new telephony system and automated key customer interactions; significant uptick in customer satisfaction metrics</p>	<p>Adviser channel gaining momentum: net flows up 46%</p> <hr/> <p>Launch of new channels – ‘employer platform’ channel to accelerate acquisition of super customers; and diversification into listed channel via launch of High Conviction ETF</p> <hr/> <p>SFT with Christian Super announced with potential to grow FUM by up to \$1.96bn</p> <hr/> <p>Backoffice digital transformation with new cloud based GL, integrated HR & payroll system</p>	<p>Deep investment in capability across the business</p> <hr/> <p>Top quartile employee engagement</p> <hr/> <p>New performance & remuneration framework aligned to high performance culture</p> <hr/> <p>Creation of new incubator team to underpin innovative new product development</p>

Outlook

Like all fund managers, we remain highly leveraged to financial markets. With the ongoing war in Ukraine, high inflation and aggressive interest rate rises, we expect market volatility to continue. Notwithstanding this, we remain steadfastly committed to our high growth investment strategy.

Despite short-term headwinds posing challenges in the near term, we remain convinced that the medium-term market opportunity remains bigger than ever. The regulatory and policy environment are particularly supportive with signs that the change in Federal government will accelerate efforts in Australia.

Our focus for FY23 will be on further enhancing our investment leadership via a multi-faceted program of work, further strengthening our underlying infrastructure, capabilities and processes to support a scaled business. We will further expand our product and service offering; diversify our distribution channels with focus on our institutional offering and new employer platform channel. We will embark on the next phase of digitising our business, capturing the seismic shift in preference for ethical investing generally (organically), and enhancing our ability and readiness to execute on appropriate M&A for both scale and capability.

We anticipate that the Christian Super successor fund transfer (SFT) will complete by early 2023, delivering FUM growth, scale, capability and portfolio diversification to our business.

In line with our fee strategy, further fee reductions will be implemented on 1 September 2022. The fixed super administration fee will reduce from \$97 to \$74 per annum – this equates to a 2-basis point reduction in overall revenue margin. Further, on completion of the Christian Super SFT, a further reduction in fees is anticipated.

And while we are well-positioned – with no debt, well-managed cashflows and positive momentum – we are mindful that in a constrained environment we will need to ensure even sharper focus. This includes a focused and agile approach on where we allocate our investment dollars to derive maximum returns, as well as carefully managing our business-as-usual cost base.

As such, our expense growth for FY23 will again reflect the investment we will make into our business to realise our ambitious growth aspirations. Though we expect to see continued strong growth in net flows, our profit outlook will reflect the higher growth in expenses versus revenue. We expect to see some scale benefits to start emerging in FY24 as we realise the anticipated benefits of investing in our business, however, the organisation will remain in growth phase for the medium term.

Any performance fees generated by the Emerging Companies and High Conviction Funds are not guaranteed year on year.

Financial performance – management analysis

	2022 \$'000	2021 \$'000	% Increase (Decrease)
Net Profit after tax (NPAT) including performance fee	9,511	11,118	(14%)
Add: Net loss attributable to The Foundation*	86	143	
Net profit after tax attributable to shareholders	9,597	11,261	(15%)
Adjustments:			
Due diligence costs in relation to mergers & acquisition activity	982	–	
Government grant income	–	(100)	
Payment of government grant to The Foundation	–	100	
Net proceeds from insurance settlement	–	(299)	
Tax on adjustments	(295)	90	
Underlying profit after tax (UPAT) including performance fee	10,284	11,052	(7%)
Performance fee (after tax and community grant)	(240)	(1,885)	
Net Profit after tax (NPAT) excluding performance fee	9,270	9,233	–
Underlying profit after tax (UPAT) excluding performance fee	10,044	9,167	10%
Basic EPS on NPAT (cents per share)	8.57	10.06	
Basic EPS on NPAT attributable to shareholders (cents per share)	8.64	10.19	
Diluted EPS on NPAT attributable to shareholders (cents per share)	8.55	10.02	
Basic EPS on UPAT attributable to shareholders (cents per share)	9.26	10.00	
Diluted EPS on UPAT attributable to shareholders (cents per share)	9.16	9.84	

* refer to Note 45 for additional details in relation to The Foundation's financial results.

Dividends

Dividends paid during the financial year were as follows:

	2022 \$'000	2021 \$'000
Final dividend for the year ended 30 June 2021 of 4.00 cents (2020: 2.50 cents) per ordinary share – fully franked	4,495	2,810
Special performance dividend for the year ended 30 June 2021 of 1.00 cents (2020: 1.00 cents) per ordinary share	1,124	1,124
Interim dividend for the year ended 30 June 2022 of 3.00 cents (2021: 3.00 cents) per ordinary share – fully franked	3,372	3,371
	8,991	7,305

Since year end the Directors have declared a final dividend of 3.00 cents per fully paid ordinary share (2021: 4.00 cents final dividend and 1.00 cents special dividend). The aggregate amount of the declared dividend expected to be paid on 15 September 2022 out of profits for the year ended 30 June 2022, but not recognised as a liability at year end, is \$3,372,000 (2021: \$5,619,000).

All dividends paid during the year were fully franked based on tax paid at 30.0%. The final dividend to be paid in September 2022 will be fully franked at 30.0%.

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

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

Details	Date	Shares	Weighted average issue price	\$'000
Balance	1 July 2021	112,387,138		10,676
Vesting of deferred shares in the Employee Share Plan (730,200 shares)	1 September 2021	–	\$1.32	962
Vesting of deferred STI shares for CEO (5,193 shares)	1 September 2021	–	\$4.53	23
Purchase of deferred shares in the Employee share plan – on-market (274,762 shares)	16 September to 2 February 2022	–	\$9.80	(2,692)
Balance	30 June 2022	112,387,138		8,969

No amounts are unpaid on any of the shares. Refer to Note 44 for additional information and a detailed breakdown of the shares vested during the year.

Significant changes in the state of affairs

On 9 December 2021, Australian Ethical acquired a minority equity stake (10%) in Sentient Impact Group Pty Ltd. ('Sentient'). The investment is \$5.2 million. The stake is part of Australian Ethical's high growth strategy by extending our capability in the impact investing arena and to drive further organic growth in our existing investment strategy.

Sentient is a Melbourne based impact investment manager. Australian Ethical is a strategic investor and has taken up a non-executive seat on the Sentient board from February 2022.

On 6 April 2022, Australian Ethical announced it had entered into an exclusive memorandum of understanding to explore a Successor Fund Transfer (SFT) that would see Christian Super members transfer into Australian Ethical

Super. The SFT deed was executed on 13 July 2022 after the due diligence process was completed. The SFT will see up to 30,000 members representing around \$1.96 billion in FUM transferring to Australian Ethical, adding both scale and capability to our business. We anticipate that the Christian Super SFT will complete by early 2023.

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

Matters subsequent to the end of the financial year

Apart from the Christian Super SFT mentioned above, and the dividend declared as disclosed in Note 34, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, of the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2022, and the number of meetings attended by each Director were:

	Full Board		People, Remuneration and Nominations Committee		Audit, Compliance and Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	11	11	7	7	6	6
Kate Greenhill	11	11	7	7	6	6
Mara Bûn	11	11	7	6	5	4
Michael Monaghan	11	11	7	7	2	2
Julie Orr	11	11	7	7	6	6
John McMurdo	11	10	-	-	-	-

	Product Disclosure Statement Committee		Investment Committee	
	Eligible	Attended	Eligible	Attended
Steve Gibbs	4	4	1	1
Kate Greenhill	-	-	1	1
Mara Bûn	-	-	5	4
Michael Monaghan	4	4	5	5
Julie Orr	-	-	5	5
John McMurdo	-	-	-	-

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 38 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in Note 38 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of KPMG

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

Rounding of amounts

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

Auditor's independence declaration

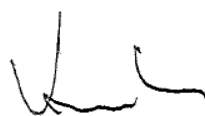
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

Auditor

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

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

On behalf of the Directors



JOHN McMURDO
Managing Director and Chief Executive Officer

25 August 2022
Sydney

Remuneration Report 2022

For the year ended 30 June 2022

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for the financial year ended 30 June 2022 (FY22).

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

Our strategic plan is to build a more impactful business and whilst market conditions have been challenging, we have continued to grow and invest for future success. We are also pleased to have achieved record new member and investor numbers along with record retail and wholesale net inflows. To ensure we have the right capacity to focus on growing our business with impact and purpose, we added 22 new team members (including 8 contractors supporting strategic projects) this year including welcoming Eveline Moos as our new Chief People & Culture Officer.

Our strong staff engagement has been maintained throughout the year, a testament to the shared purpose that underpins the strength of our business, and the commitment of our people.

The 2022 financial year has been challenging due to the ongoing impact of Covid-19 and extreme market volatility which has affected our performance in the second half of the year. Notwithstanding those challenges it would be fair to say that in FY22 our staff remained resilient and successfully achieved many milestone projects as we continue to implement our long-term growth strategies. We take a flexible approach to how our staff work, combining a hybrid model of working in the office and from home as it best suits the individual and the team.

Our remuneration policy aligns to the philosophy of the Company that sees our people as key stakeholders in the Company's success. Our remuneration framework aims to reward our management and employees fairly, competitively and provide a direct link between contribution and reward and alignment with the long-term performance of the Company.

FY22 remuneration

Our performance and remuneration framework is an important component of our high-performance culture where employees perform well because they are engaged, valued, and continually learning.

We undertook a review of our remuneration framework in FY21 including benchmarking our executive remuneration practices to ensure our framework and practices remain contemporary, fair and align with our transformational growth agenda through to 2025 and beyond. These changes foreshadowed in the FY21 remuneration report were implemented as planned from 1 September 2021 and are outlined in section 2 of our report.

The newly implemented short- and long-term incentive programs are expected to drive our growth aspirations which will amplify our impact and realise our purpose of better outcomes for all stakeholders, including people, planet and animals.

Looking forward

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

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



STEVE GIBBS

Chair

People, Remuneration & Nominations Committee

1. Key Management Personnel

Executive	Position	Term as KMP in FY22
John McMurdo	Managing Director & CEO	Full year
Marion Enander	Chief Strategy & Innovation Officer	Full year
Kim Heng	Chief Operating Officer	Departed 21 June 2022
Karen Hughes	Chief Risk Officer	Full year
Maria Loyez	Chief Customer Officer	Full year
David Macri	Chief Investment Officer	Full year
Tom May	General Counsel	Full year
Eveline Moos	Chief People & Culture Officer	Commenced 18 May 2022
Stuart Palmer	Head of Ethics Research	Full year
Mark Simons	Chief Financial Officer	Full year
Non-Executive Directors		
Steve Gibbs	Chairman	Full year
Katherine Greenhill	Non-Executive Director	Full year
Mara Bun	Non-Executive Director	Full year
Michael Monaghan	Non-Executive Director	Full year
Julie Orr	Non-Executive Director	Full year

Following the appointment of the new Chief People & Culture Officer, this triggered a review of the effectiveness of the current Senior Leadership Team structure and those designated as Key Management Personnel (KMPs). The CEO and Board assessed the roles that drive the strategic direction of the business, effective 1 July 2022. The executive KMP roles include Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Customer Officer, Chief Strategy and Innovation Officer, Chief Risk Officer, and Chief People & Culture Officer.

Our Remuneration Philosophy and Structure

The Company's remuneration philosophy is designed to create a high-performance environment where employees are motivated and engaged, and remuneration is aligned with the long-term strategies of the Company.

Remuneration principles

Australian Ethical's remuneration approach is designed to facilitate the attraction, retention and engagement of talent, within the organisations capacity to pay, to achieve Australian Ethical's corporate objectives.

Our remuneration approach is guided by the following principles:

- Pay fairly and equitably, and market competitive, 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
- Supports the long-term financial soundness of AEI Group

The remuneration philosophy is consistent with the principles of the Australian Ethical Constitution and Charter. It is designed to:

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

The remuneration framework is also designed to encompass the Group’s values of wisdom, authenticity, action, and empathy which are embedded in our culture. Adherence to these values is a gate to the payment of incentives.

In relation to bonus or incentive payments, the incentive structure meets the requirements of Rule 15.1(c) of the Company’s Constitution which provides a maximum amount payable as bonuses from profits each year. The Company’s constitution states that prior to recommending or declaring any dividend to be paid out of the profits of any one year, provision must be made for a bonus or incentive for employees to be paid of up to 30% of what the profit for that year would have been had not the bonus or incentive payment been deducted.

Diversity & Inclusion and Ethical Considerations of Income Inequality

AEI is committed to building a diverse and inclusive team. We strongly believe that an inclusive culture will enable growth and will deliver better outcomes for our shareholders, customers and employees.

We strive to achieve diversity within our workforce that reflects the diverse community around us. We provide equal opportunities to all, and this is embedded in our hiring practices and approach to setting remuneration as stipulated in our Diversity & Inclusion Policy, Remuneration Policy and Charter.

We are one of a few ASX listed companies that has a Board with 50:50 gender equality and we have 44% female representation on the SLT (target minimum 40% of each gender). Our overall workforce gender balance sits at 48% females (target 50%).

A key component of AEI’s gender equality strategy is the commitment to reduce the disparity in superannuation savings between men and women at retirement where women are retiring with significantly lower superannuation balances due to wage disparity and time out of the workforce. To address this, AEI have committed to continue to pay superannuation contributions for employees on parental leave, whether that leave is paid or unpaid, for up to 24 months.

Key diversity and inclusion achievements in FY22 are listed below:

- We have embraced a combination of in-office and from-home working (hybrid working), providing our people flexibility to get tasks done where best completed.
- Onboarded our new wellbeing partner, Allos, who manage our employee assistance program to empower our people to develop strategies to thrive at work and in life.
- Continued to foster an inclusive culture through awareness campaigns and celebrations, including:
 - International Women’s Day with an employee education session from Community Grant Recipient, One Girl
 - Wear it Purple Day, and the International Day against Homophobia, Biphobia, Intersexism and Transphobia (IDAHOBIT).
- Signatory to Financial Services Council Women in Investment Management Charter, committing to a target of 40% female representation in the investment management team.

2. Changes to the Remuneration Framework in FY22

Over the past few years, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, APRA, shareholders and media have put the spotlight on remuneration practices at financial service institutions. The main focus has been on the variable incentive assessment criteria driving the wrong behaviour and poor customer outcomes. We recognise the important role that remuneration can play in managing risk, driving good behaviour and emphasising a positive risk culture.

In line with this, our balanced scorecard and individual objectives combine both financial objectives and non-financial customer outcomes, balancing risk management, and ensuring adherence to our desired cultural values. All employees, including KMPs have objectives underpinned by the company's core values as well as incentivise ethical behaviour and positive customer outcomes. There are clear criteria determining how performance objectives are met and consequences where they are not met.

Each year, the Board reviews the remuneration framework and has had oversight of remuneration arrangements for all employees, setting key performance objectives to influence the work ethic and behaviour of employees and the remuneration outcomes.

In FY22, the Board implemented a new remuneration framework as outlined in the FY21 remuneration report.

The Board engaged AON Hewitt in FY21 to carry out a comprehensive review of our remuneration structure, including industry benchmarks and incentives, considering the company's current market position and aspirational strategic growth targets to 2025 and beyond. This review also considered the upcoming proposed changes to the regulatory environment on remuneration to ensure we continued to comply with prudential and regulatory requirements as well as meet our own high ethical standards.

The review concluded that long-term award incentive opportunities for senior executive roles were below market comparable opportunities and that there had been an identifiable shift towards the deferment of short-term incentive awards where those awards exceeded a threshold along with long term incentive awards.

A summary of key changes to the remuneration structure that came into effect from 1 September 2021 following the review are listed below.

- The STI incentive framework for all staff changed from a maximum % to a target % which allows for increased opportunities to recognise individual employees where there is significant contribution and outperformance of goals. The new target STI is approximately 75% of the previous maximum bonus potential (based on % of fixed remuneration) and the new maximum is capped at 2 times the target for KMPs.
- All permanent staff presently participate in a Long-term Incentive (LTI) program ranging between 10%-33% of fixed annual remuneration, depending on role type and seniority. From FY22 onwards, this is now referred to as the Employee Share Plan (ESP), fixed at 10% of annual remuneration for all employees except for certain members of the Investments team. It remains subject to the same 3-year vesting timeframe and performance hurdle criteria. The ESP will be settled in shares. There are no changes to unvested shares granted in LTI awards in prior years.
- A new Executive Long-term Incentive (ELTI) program designed to retain key senior talent and provide reward for achieving aspirational targets by the period ending 30 June 2025. Specifically, where LTI for executives previously ranged from 10-33% of fixed remuneration annually depending on role, they now range from 20-60%, being a combination of ESP and ELTI at vesting in 2025.

- The base ELTI is issued in the form of hurdled performance rights to qualifying executives and has a 4-year vesting timeframe.
 - Vesting criteria includes achievement of stretch FUM and Cost to Income ratio targets, non-financial measures including customer satisfaction, employee engagement and risk management, and an ongoing commitment to our ethical expression, ESG leadership and excellence.
 - The FUM target includes a multiplier mechanism that provides a range of stretch targets for Australian Ethical's leadership team. 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. The multiplier mechanism applies only to the ELTI tranche vesting 1 September 2025.
 - Refer to below Elements of Remuneration table for additional details.
- The introduction of a deferred component of any STI paid to KMP's (excluding CIO) above \$100,000 in any given year to be paid in deferred shares. The CIO has a fixed percentage of STI awarded paid as deferred shares. A deferral component had already been in place for the CEO and the CIO in FY21.
 - No other material structural changes were made to fixed remuneration or annual Short-term Incentives (STI).

In considering the implementation of the ELTI opportunity, the Board has been cognisant of the remuneration philosophy remaining consistent with the Constitution and the Ethical Charter as set out in section 2 and ensuring that the structure of the new ELTI closely aligns the interests of Executives with those of shareholders. The ELTI opportunity was designed to drive greater business impact and purpose, and reward those key to that success.

The weighting of new potential remuneration towards long-term and deferred incentives is consistent with the best practice governance principles signalled in the foreshadowed Financial Accountability Regime (FAR) and APRA Prudential Standard CPS 511 Remuneration regulation.

FY23 considerations

The Board are in the process of considering a new FY23 ELTI grant with a vest date of 1 September 2026. It is expected to be based on a similar percentage of fixed remuneration for KMPs as in FY22. This is not expected to include a multiplier mechanism. The FY26 performance hurdles are yet to be determined.

Elements of Remuneration (financial year ended 30 June 2022)

The following framework applied to all employees of Australian Ethical Investment Limited (not including Non-Executive Directors and Investment Committee members) for the financial year ended 30 June 2022. Employees of Australian Ethical Superannuation Pty Limited are entitled to receive all the below elements of remuneration with the exception of long-term incentives linked to the performance of the Company.

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"> Reviewed annually, or on promotion. Benchmarked against market data¹ for comparable roles based on position, skills and experience brought to the role. Target remuneration is based around the median of the relevant comparator group for each job role, taking into consideration companies in a similar industry and of a similar size. 	Cash
Short-Term Incentive (STI)	An annual incentive aimed at rewarding employees for achievement of annual objectives. Applies to all employees who have satisfied the risk and values gate.	<ul style="list-style-type: none"> Maximum achievable for KMPs is two times target of Fixed Remuneration. For all other staff, the maximum STI is uncapped. Actual outcome is linked to performance and contribution against annual financial and non-financial KPIs. For KMPs (except CEO and CIO), STI in any given year that exceeds \$100,000 will be deferred for up to 3 years, is not subject to further hurdles and paid in shares. The CEO and CIO have other deferral components within their remuneration. On an annual basis the PRN will consider an additional discretionary bonus paid in deferred shares for specified members of the Investment team, connected to any performance fees achieved. The deferred shares are not subject to further hurdles and vest over the 3 years following the year in which the performance fee is earned. 25% of the performance fee revenue that crystallised as at 30 June 2021 was awarded to the investment team in FY22. Short term incentives are treated as follows in the following circumstances: <ul style="list-style-type: none"> – resignation – usually forfeited, subject to Board discretion; – termination for serious misconduct – forfeited; – retirement – at discretion of the Board; – death or total and permanent disablement – at discretion of the Board; and – redundancy – at discretion of the Board. 	Cash and Deferred Shares
Employee Share Plan (ESP) – (previously named Long-Term Incentive (LTI))	Aimed at fostering an interest in the long-term performance of the Company, to encourage participation in the affairs of the Company and to encourage the retention of employees. Applies to all employees who have satisfied the risk and values gate.	<ul style="list-style-type: none"> Awarded as percentage of Fixed Remuneration Shares are issued or purchased and held in trust for 3 years Vest in the name of the employee after 3 years, provided that: <ul style="list-style-type: none"> – employee remains employed; and – subject to 3-year compound annual growth in diluted earnings per Share (EPS) as follows: <ul style="list-style-type: none"> • 0 – 5% - nil vests • 5% - 10% - pro rata up to 100% • > 10% - fully vests. The Board has discretion to adjust EPS for items that do not reflect management and employee performance and day to day business operations and activities. Employees participate in dividends and have voting rights from the date of grant On cessation of employment, no unvested shares shall vest unless the Board in its absolute discretion determines otherwise. 	Shares

Element	Description	Quantum	Paid as
Executive Long-Term Incentive (ELTI)	Designed to align the business strategy with specific KPIs to drive long-term growth, personal interest in the future of AEI and the achievement of AEI's long-term strategic goals.	<ul style="list-style-type: none"> • Awarded as percentage of Fixed Remuneration, ranging from 10% to 50% for selected senior executives. • Issued as performance rights and vest as ordinary shares after 4 years, provided that: <ul style="list-style-type: none"> – employee remains employed; and – achievement of the below minimum measurement criteria: <ul style="list-style-type: none"> – financial measures: <ul style="list-style-type: none"> • \$15bn of FUM as at 30 June 2025, and with each incremental increase in FUM of \$2.5bn, a multiplier to the base award is applied ranging from 2 to a maximum of 7 times at \$30bn; • Operating costs to Income ratio of no more than 75%; – non-financial measures: <ul style="list-style-type: none"> • median NPS score for both super and managed funds to measure customer satisfaction, • median employee engagement score for financial services companies, and • ongoing compliance with our Ethical Charter. • The multiplier mechanism applies only to the ELTI tranche vesting 1 September 2025. • During the vesting period, ELTI participants are not entitled to receive dividends nor hold voting rights. • No award will vest if all targets are not attained. • On cessation of employment, all performance rights are forfeited unless the Board in its absolute discretion determines otherwise. 	Performance Rights
Other employee benefits	The Group also provides other benefits to all employees.	Benefits include: <ul style="list-style-type: none"> • an employee assistance program; • volunteer leave (2 days per annum); • self-education/study assistance; • professional association memberships, annual health checks and annual flu vaccinations; • flexible working arrangements; • subsidies of training and education costs; and • parental support including 18 weeks paid leave for primary carers and two weeks for secondary carers and superannuation contributions paid whilst on leave for up to 24 months. • support for parents returning to work after taking parental leave, we provide primary carers with one day of paid leave each week for the first 3 months. • salary continuance insurance for five years 	-

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

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

Performance measures for Short Term Incentives

Performance measures for Short Term Incentives are based on a Balanced Scorecard of financial and non-financial metrics, and an individual's specific performance objectives. Weightings vary with each individual and are based on their role. Employees have no contractual right to receive an STI award and the Board retains discretion to amend or withdraw the STI at any time. Adherence to the Company's values and risk culture are required to remain eligible for an STI award. The following table provides the overall Balanced Scorecard and the performance outcomes for these objectives for the financial year ended 30 June 2022. The following outcomes have been taken into account when assessing short-term incentives for KMPs.

Measure	Metric	Why this metric is appropriate	Incentive Award Achievement for FY21
Financial	- Net profit after tax attributable to shareholders (NPAT)	Provides alignment to the Group's financial performance. The target was set in context of investment required to underpin High Growth strategy outlined in August 2021.	Target: NPAT attributable to shareholders of \$9.1m Actual: NPAT attributable to shareholders of \$9.6m
	- Net inflows targets set based on prior year experience, budget expectations and stretch target. Key focus is on retail and wholesale netflows and improving advisor channel penetration.	Growth and scale will benefit our customers through lower fees and better products and service. It also allows us to deliver greater social and environmental impact.	Target: Net inflow year on year growth rate of 20% Actual: Net retail and wholesale inflows of \$1.1bn, up 20% on the prior year. Advisor net inflows up 46% and record super net inflows of \$0.8 bn. Total net inflow growth (including institutional redemption) of \$0.9bn.
Client experience	- Compelling client experience measured by Net Promoter Score (NPS) for super and managed fund clients.	Customer satisfaction with product and service is measured using customer surveys conducted by survey tools and independent industry consultants.	Target: - Super NPS – Top 3 - Managed Funds NPS (High Net Worth) – Top 3 - Adviser NPS: Top 10 Actual: - Super NPS – ranked 1st with a score of 45% - Managed Funds NPS (High Net Worth) – ranked 1st with a score of +50% - Adviser NPS: Top 10 – ranked 13th with a score of +7 2 out of 3 exceeded stretch targets <i>Source: Investment Trends data</i>

Measure	Metric	Why this metric is appropriate	Incentive Award Achievement for FY21
Strategic & regulatory initiatives and Business Plan Key Result Areas	<ul style="list-style-type: none"> - Strategy development - Delivery of agreed strategic & regulatory initiatives program as a team. - Delivery of Key Result Areas (KRAs) per the annual Business Plan which are linked to each strategic pillar - Brand familiarity 	Delivering priorities consistent with the long-term strategies of the Group	<p>Target:</p> <ul style="list-style-type: none"> - Achieve > 85% of KRAs - Achievements assessed by the Board - Brand familiarity of 10% of whole market and 11% ethical interested <p>Actual:</p> <ul style="list-style-type: none"> - Delivered all regulatory projects. On target. - Delivered on prioritised KRAs delivered some additional strategic initiatives. On target. Refer to Operating Financial Review for details of the projects completed in FY22.
Investment performance	<ul style="list-style-type: none"> - Balanced Fund (BF), Australian Shares Fund (ASF) & Emerging Companies Fund (ECF) performance against market benchmarks. - BF, ASF & ECF performance relative to peers. - Super Fund Balanced option (MySuper) relative to peers performance and Sharpe ratio. 	Delivering long term competitive investment returns for our customers is core to our offering.	<p>Target: ASF / ECF / BF vs Benchmark:</p> <ul style="list-style-type: none"> - Stretch target for BF is benchmark + 2%, ASF is benchmark + 3%, for ECF is benchmark +4%, over blended 1 and 3 year horizons. <p>Actual:</p> <ul style="list-style-type: none"> - 1 year: Below target - 3 year: Above target for ASF and ECF <p>Target: ASF / ECF / BF vs Peers:</p> <ul style="list-style-type: none"> - Measured in quartiles with stretch target being 2nd quartile, over blended 1 and 3 year horizons. <p>Actual:</p> <ul style="list-style-type: none"> - 1 year: Below target - 3 year: Above target <p>Target: MySuper Fund vs Peers Performance, and MySuper Fund vs Peers Sharpe Ratio:</p> <ul style="list-style-type: none"> - Measured in quintiles with stretch target being 2nd quintile, over blended 1 and 3 year horizons. <p>Actual:</p> <ul style="list-style-type: none"> - 1 year: Below target - 3 year: Below target

Remuneration Report

for the year ended 30 June 2022

Measure	Metric	Why this metric is appropriate	Incentive Award Achievement for FY21
Employee engagement	<ul style="list-style-type: none"> - Employee annual engagement score (as surveyed by Culture Amp). Assessed against market comparisons - SLT leadership and team development (application of leadership training, collaboration and 360^o feedback) - Adherence to the Company's values is treated as a gate to short term incentive awards. 	Providing a motivating and inspiring workplace and high employee engagement has been proven to drive better business outcomes for customers and shareholders.	<p>Target: Top quartile Employee Engagement across Financial Services organisations</p> <p>Actual: Engagement survey in June achieved a score of 79%, in the top quartile Finance Australia 2022 Industry Benchmark.</p>
Risk	<ul style="list-style-type: none"> - Managing incidents and risks out of tolerance back with Board approved risk appetite for business activities. - Risk management on strategic projects - Risk will also have a "detractor" measure, based on behaviour, risk culture in team, failure to meet requirements, or behaviour that results in AEI not acting or appearing not to act in the best interests of clients and of AERSF members. If triggered, the impact will be a reduction in total STI allocation for the person of at least 5% up to 100%, and/or for the company factor if considered an organisation wide concern. 	It is critical for our SLT to have a high degree of ownership for risk management.	<p>Target: Maintain strategic risk appetite and embed risk culture across the organisation</p> <p>Actual: Measurement was a combination of factual and subjective assessment. Achievements was discussed at PRN on an individual basis.</p> <p>No KMPs had a reduction in their STI due to risk.</p>

In assessing the performance of the business and the CEO, the Board acknowledges significant progress on a number of our long-term strategic projects. Whilst market conditions have been challenging and extreme market volatility has affected our performance in the second half of the year, we have continued to grow and invest for future success. We are pleased to have achieved record new member and investor numbers along with record retail and wholesale net inflows.

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

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

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

3. Senior Leadership Team Remuneration Outcomes

Corporate performance

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

	2018	2019	2020	2021	2022
Net inflows (\$ billion)	0.52	0.33	0.66	1.03	0.94
FUM at year end (\$ billion)	2.82	3.42	4.05	6.07	6.20
Operating Revenues (\$'000)	35,992	40,977	49,902	59,110	70,784
Net Profit After Tax attributable to shareholders (\$'000)	4,998	6,465	9,457	11,261	9,597
Underlying Profit After Tax (UPAT) (\$'000) ¹	4,998	6,540	9,279	11,052	10,284
NPAT excluding performance fees	4,998	5,949	7,206	9,377	9,356
UPAT excluding performance fees	4,998	6,024	7,028	9,167	10,044
Diluted Earnings Per Share (cents per share)	4.46	5.84	8.42	10.02	8.55
Diluted Earnings Per Share (EPS) growth (3 years) ²	35.2%	28.5%	47.3%	31.0%	14.0%
Diluted EPS growth excl performance fees (3 years)	35.2%	25.3%	36.4%	23.2%	16.2%
Share price at end of period (\$, restated for share split)	1.35	1.77	6.66	8.44	4.66
Dividends (cents per share, restated for share split)	4.00	5.00	5.00	7.00	6.00
Special performance fee dividend (cents per share) ³	–	–	1.00	1.00	–
Staff engagement scores	78%	71%	86%	82%	79%

¹ Underlying Profit After Tax is a non-IFRS measure and is not audited

² EPS growth over 3 years is shown to align with the performance hurdle period of the ESP

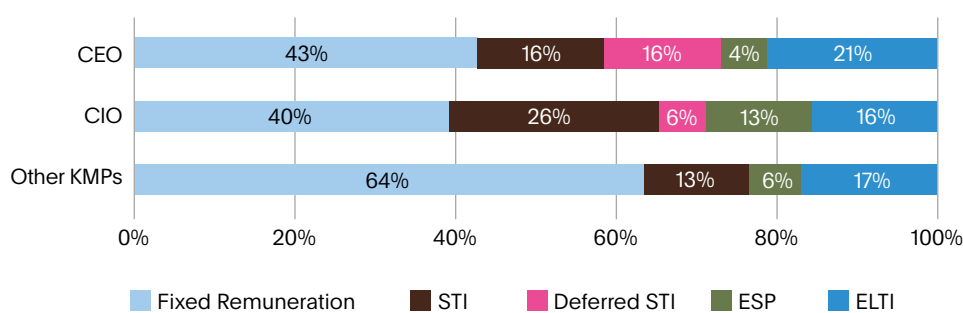
³ The Special performance fee dividend is linked to the performance fee achieved on the Emerging Companies Fund outperformance in FY20 and FY21

Weighting of remuneration components

The following are the weightings of the various components of target remuneration for the CEO, CIO and all other SLT members. Target remuneration is the remuneration that KMP expect to be paid if all of their strategic initiatives are achieved. Under Target remuneration, ELTI is valued at 1 times the base multiplier which is payable if \$15bn FUM is achieved (along with other metrics) by 2025.

The ELTI performance hurdles will only be assessed at the end of the 2025 year and accordingly not a component of the current year's remuneration. Opportunity for stretch targets and additional remuneration are available under certain conditions and these are outlined in the ELTI table below.

Target Remuneration by Component



STI bonus

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

Total STI Bonus (Cash and Deferred Shares)

Name	Opportunity as a % of fixed remuneration		Target Opportunity	Maximum Opportunity as a % of fixed remuneration (2 x Target)	Awarded	Achieved as % of Max Opportunity ¹
	Target %	Maximum %				
J McMurdo	75%	150%	375,000	750,000	562,500	75%
M Enander	25%	50%	87,500	175,000	131,250	75%
K Heng (dep 21 June)	25%	50%	93,750	187,500	–	–
K Hughes	15%	30%	45,000	90,000	72,000	80%
M Loyez	25%	50%	90,000	180,000	112,500	63%
D Macri	75%	150%	315,000	630,000	157,500	25%
T May	15%	30%	43,500	87,000	–	–
E Moos ²	25%	50%	80,000	160,000	–	–
S Palmer	15%	30%	49,500	99,000	68,000	69%
M Simons	25%	50%	100,000	200,000	180,000	90%

¹ Forfeiture %, in accordance with Corporations Regulation 2001 – Reg 2M.3.03 clause 12(f), is calculated as 100%.

² E Moos is not yet eligible for STI bonus.

ELTI - Performance Rights

Rights to ordinary shares under the Executive LTI program were granted on 1 December 2021. The number of performance rights allocated to each KMP was determined using an allocation price of \$10.34. 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, equating to \$13.54.

In FY22 the potential multiplier has been assessed as 1 times and statutory expense in the 'Remuneration Outcomes – Statutory Basis' table below has been calculated on this basis.

At this time, the performance hurdles for the Performance Rights to vest have not yet been met. The table below shows the number of rights granted and the fair value of those rights based on the assumption that the first performance hurdle of \$15bn is achieved (1 times multiplier). For each incremental FUM hurdle of \$2.5bn, a multiplier of 2 through to 6 would be applied. The maximum opportunity is 7 times the base number of rights granted which would only vest if \$30bn FUM is achieved along with other KPIs in 2025. Therefore, the maximum fair value of rights would be 7 times the fair value presented in the table below. Refer to Elements of Remuneration table above for detailed vesting requirements.

Name	Granted as a % of fixed remuneration	Potential Multiplier	No. of rights granted (based on 1 times multiplier)	Fair Value of Rights (based on 1 times multiplier) \$
J McMurdo	50%	1 to 7 times	24,178	327,369
M Enander	40%	1 to 7 times	13,540	183,327
K Hughes	10%	1 to 7 times	2,901	39,284
M Loyez	40%	1 to 7 times	13,926	188,565
D Macri	40%	1 to 7 times	16,248	219,992
T May	10%	1 to 7 times	2,805	37,975
E Moos	–	1 to 7 times	–	–
S Palmer	20%	1 to 7 times	6,383	86,426
M Simons	40%	1 to 7 times	15,474	209,516

Kim Heng was granted 14,507 rights but these were forfeited upon resignation and the statutory expense reversed.

The following two tables set out Senior Leadership Team remuneration.

- The table 'Senior Leadership Team Remuneration Outcomes – Statutory Basis' is aligned to the way the Company expenses the remuneration of the senior team under the accounting standards and the Corporations Act.
- The table 'Senior Leadership Team Remuneration Outcomes – Cash and Vesting Basis' shows amounts received by the senior leadership team in cash and shares vested during the financial year ended 30 June 2022.

The movement in the Senior Leadership Team remuneration outcomes (statutory basis) between FY21 and FY22 is explained in the following table:

- Chief Executive Officer (CEO) – the increase is attributable to an increased in salary in line with industry benchmarking and his performance-based bonuses
- Other KMP
 - increase in individual salaries in line with responsibilities and industry benchmarking to ensure reward remains competitive and fair
 - Changes in STI is based on individual performance
- Performance rights (ELTI) granted 1 December 2021
- New Chief People & Culture Officer (CPCO) commenced in June 2022. Amounts disclosed for the CPCO reflect the period of time in this role

Senior Leadership Team Remuneration Outcomes – Statutory Basis

The table below outlines senior leadership team remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements for the particular year based on the balanced scorecard.

2022 financial year	Short Term Benefits		Post-Employment Benefits		Long Term Benefits			Short Term Incentives as a % of Fixed Remuneration	Variable Remuneration as a % of Total Remuneration		
	Salary	Incentives – Cash ¹	Super-annuation ²	Termination Benefits	Long Service Leave	Deferred Short Term Incentives – Equity ³	Long Term Incentives – Equity ⁴			Long Term Incentives – Rights ⁵	Total
Current leadership team											
J McMurdo	466,532	281,250 ⁶	23,568	–	9,761	194,481	82,239	68,352	1,126,183	57.4%	55.6%
M Enander	319,332	100,000	23,568	–	7,555	15,624	21,667	38,277	526,023	29.2%	33.4%
K Heng (dep 21 June 2022)	365,197	–	23,568	–	(15,478)	–	(41,682)	–	331,605	–	–
K Hughes	275,103	72,000	23,568	–	6,394	–	29,000	8,202	414,267	24.1%	26.4%
M Loyez	331,934	100,000	23,568	–	7,447	6,250	22,240	39,371	530,810	28.1%	31.6%
D Macri	389,739	136,500	23,568	–	23,753	16,311	127,754	45,932	763,557	33.0%	42.8%
T May	265,062	–	23,568	–	12,570	–	28,000	7,929	337,129	–	10.7%
E Moos (app 18 May 2022)	29,837	–	2,984	–	631	–	–	–	33,452	–	–
S Palmer	304,373	68,000	23,568	–	11,009	–	31,667	18,045	456,662	20.7%	25.8%
M Simons	367,829	100,000	23,568	–	13,018	35,000	36,000	43,745	619,160	25.5%	34.7%
Total 2022	3,114,938	857,750	215,096	–	76,660	267,666	336,885	269,853	5,138,848	25.8%	33.7%
2021 financial year											
Current management team											
J McMurdo	411,173	219,300	21,694	–	7,369	23,532	65,572	–	748,640	56.1%	41.2%
M Enander (app 13 Jul 2020)	272,613	110,000	21,694	–	5,734	–	10,000	–	420,041	37.4%	28.6%
K Heng	299,835	110,000	21,694	–	6,446	–	27,762	–	465,737	34.2%	29.6%
K Hughes	265,206	58,000	21,694	–	6,442	–	29,592	–	380,934	20.2%	23.0%
M Loyez (app 20 Jul 2020)	290,889	100,000	21,694	–	6,089	–	10,240	–	428,912	32.0%	25.7%
D Macri	351,477	325,000	21,694	–	14,471	–	127,271	–	839,913	87.1%	53.8%
T May	255,139	40,000	21,694	–	10,985	–	28,375	–	356,193	14.4%	19.2%
S Palmer	290,541	60,000	21,694	–	9,301	–	32,217	–	413,753	19.2%	22.3%
M Simons	320,572	130,000	21,694	–	7,101	–	35,367	–	514,734	38.0%	32.1%
Total 2021	2,757,445	1,152,300	195,246	–	73,938	23,532	366,396	–	4,569,858	39.8%	33.8%

¹ The Short-term Incentive ('STI') expense is the amount accrued for performance during the respective financial year using agreed KPI's. The 2022 amounts were approved by the PRN. STI in excess of \$100,000 is paid in deferred shares (with exception CEO and CIO who have other deferral requirements).

² Superannuation payments are capped at the SG contributions cap for the year. Payments in excess of the cap are paid as salary.

³ The Deferred Short-term incentive ('DSTI') expense for 2022 includes the current year expense impact of deferred shares in the FY21 and FY22 grants. The cost of shares is fixed at the time of grant and expensed over the relevant vesting period.

⁴ The Long-term incentive ('ESP') expense for 2022 includes the relevant 2022 expense impact of each of the FY19, FY20 and FY21 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 FY19 tranche will vest at an individual level in September 2022.

⁵ The Long-term incentive rights expense includes the current year expense impact of the Executive LTI ('ELTI') based on the grant price of \$13.54 and a probability assessment of hurdles being achieved.

⁶ The CEO was awarded 75% of his maximum incentive by the Board. The maximum incentive is 2 times his fixed salary at 30 June 2022. 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 2023.

Senior Leadership Team 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.

2022 financial year	Short Term Benefits			Post-Employment Benefits			Long Term Benefits			Performance Related %
	Salary ¹ \$	Cash Bonus \$	Equity ² \$	Superannuation ¹ \$	Termination Benefits \$	Long Service Leave \$	Long Term Incentives – Equity ³ \$	Total \$		
Current leadership team										
J McMurdo	471,660	219,300	51,756	23,568	-	9,761	-	776,045	34.9%	
M Enander	319,968	110,000	-	23,568	-	7,555	-	461,092	23.9%	
K Heng (dep 21 June 2022)	367,607	110,000	-	23,568	-	(15,478)	-	485,697	22.6%	
K Hughes	276,759	58,000	-	23,568	-	6,394	225,125	589,846	48.0%	
M Loyez	332,587	100,000	-	23,568	-	7,447	-	463,601	21.6%	
D Macri	396,930	325,000	-	23,568	-	23,753	898,981	1,668,233	73.4%	
T May	266,660	40,000	-	23,568	-	12,570	196,341	539,138	43.8%	
E Moos (app 18 May 2022)	29,837	-	-	2,984	-	631	-	33,452	-	
S Palmer	306,174	60,000	-	23,568	-	11,009	227,237	627,988	45.7%	
M Simons	369,817	130,000	-	23,568	-	13,018	249,163	785,567	48.3%	
Total 2022	3,137,999	1,152,300	51,756	215,096	-	76,660	1,796,847	6,430,658		
2021 financial year										
Current leadership team										
J McMurdo	412,942	70,597	-	21,694	-	7,369	-	512,602	13.8%	
M Enander	272,812	-	-	21,694	-	5,734	-	300,240	0.0%	
K Heng (dep 21 June 2022)	301,454	92,000	-	21,694	-	6,446	-	421,594	21.8%	
K Hughes	267,615	50,000	-	21,694	-	6,442	150,004	495,755	40.3%	
M Loyez	291,093	-	-	21,694	-	6,089	-	318,876	0.0%	
D Macri	361,848	320,000	-	21,694	-	14,471	613,523	1,331,536	70.1%	
T May	257,433	35,000	-	21,694	-	10,985	122,238	447,350	35.1%	
S Palmer	293,165	54,000	-	21,694	-	9,301	147,432	525,592	38.3%	
M Simons	323,450	92,000	-	21,694	-	7,101	191,289	635,534	44.6%	
Total 2021	2,781,812	713,597	-	195,246	-	73,938	1,224,486	4,989,079		

¹ Fixed remuneration – includes base salary, payments made to superannuation funds and dividend income on unvested shares.

² Short term incentives – Equity represents 1/3 of the deferred STI shares granted to the CEO in FY20, which vested on 1 September 2021.

³ Long term incentives – Equity 2022 represents the market value of vested shares during the financial year relating to employee share plan shares granted in September 2018. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was \$9.97 (price at grant was \$1.32).

Long term incentives – Equity 2021 represents the market value of vested shares during the financial year relating to deferred shares granted in September 2017. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was \$4.67 (price at grant was \$0.89 (converted, post December 2018 share split)).

Unvested and Ordinary Shares, and Performance Rights holdings

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

Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2021	No. of shares/ rights granted	No. of shares/ rights forfeited	No. of shares vested	No. of shares sold	Balance at 30 June 2022
J McMurdo									
Unvested Deferred STI	1-Sep-20	1-Sep-21	4.53	5,193	-	-	(5,193)	-	-
Unvested Deferred STI	1-Sep-20	1-Sep-22	4.53	5,193	-	-	-	-	5,193
Unvested Deferred STI & ESP	1-Sep-20	1-Sep-23	4.53	48,602	-	-	-	-	48,602
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	5,102	-	-	-	5,102
Unvested Deferred STI	1-Sep-21	1-Sep-22	9.80	-	7,459	-	-	-	7,459
Unvested Deferred STI	1-Sep-21	1-Sep-23	9.80	-	7,459	-	-	-	7,459
Unvested Deferred STI	1-Sep-21	1-Sep-24	9.80	-	7,459	-	-	-	7,459
Ordinary shares Unvested				-	-	-	5,193	-	5,193
Performance rights	1-Dec-21	1-Sep-25	10.34	-	24,178	-	-	-	24,178
Total				58,988	51,657	-	-	-	110,645
M Enander									
Unvested ESP	1-Sep-20	1-Sep-23	4.53	6,620	-	-	-	-	6,620
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	3,571	-	-	-	3,571
Ordinary shares Unvested				-	-	-	-	-	-
Performance rights	1-Dec-21	1-Sep-25	10.34	-	13,540	-	-	-	13,540
Total				6,620	17,111	-	-	-	23,731
K Heng									
Unvested ESP	1-Sep-19	1-Sep-22	2.15	21,653	-	(21,653)	-	-	-
Unvested ESP	1-Sep-20	1-Sep-23	4.53	7,048	3,827	(7,048)	-	-	-
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	-	(3,827)	-	-	-
Ordinary shares Unvested				-	-	-	-	-	-
Performance rights	1-Dec-21	1-Sep-25	10.34	-	14,507	(14,507)	-	-	-
Total				28,701	18,334	(47,035)	-	-	-
K Hughes									
Unvested ESP	1-Sep-18	1-Sep-21	1.32	20,900	-	-	(20,900)	-	-
Unvested ESP	1-Sep-19	1-Sep-22	2.15	13,256	-	-	-	-	13,256
Unvested ESP	1-Sep-20	1-Sep-23	4.53	6,289	-	-	-	-	6,289
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	3,061	-	-	-	3,061
Ordinary shares Unvested				-	-	-	20,900	(15,321)	5,579
Performance rights	1-Dec-21	1-Sep-25	10.34	-	2,901	-	-	-	2,901
Total				40,445	5,962	-	-	(15,321)	31,086
M Loyez									
Unvested ESP	1-Sep-20	1-Sep-23	4.53	6,779	-	-	-	-	6,779
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	3,673	-	-	-	3,673
Ordinary shares Unvested				-	-	-	-	-	-
Performance rights	1-Dec-21	1-Sep-25	10.34	-	13,926	-	-	-	13,926
Total				6,779	17,599	-	-	-	24,378
D Macri									
Unvested ESP	1-Sep-18	1-Sep-21	1.32	90,200	-	-	(90,200)	-	-
Unvested ESP	1-Sep-19	1-Sep-22	2.15	56,898	-	-	-	-	56,898
Unvested ESP	1-Sep-20	1-Sep-23	4.53	26,995	-	-	-	-	26,995
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	14,143	-	-	-	14,143
Unvested Deferred STI	1-Sep-21	1-Sep-22	9.80	-	616	-	-	-	616
Unvested Deferred STI	1-Sep-21	1-Sep-23	9.80	-	616	-	-	-	616
Unvested Deferred STI	1-Sep-21	1-Sep-24	9.80	-	615	-	-	-	615
Ordinary shares Unvested				176,921	-	-	90,200	(122,256)	144,865
Performance rights	1-Dec-21	1-Sep-25	10.34	-	16,248	-	-	-	16,248
Total				351,014	32,238	-	-	(122,256)	260,996

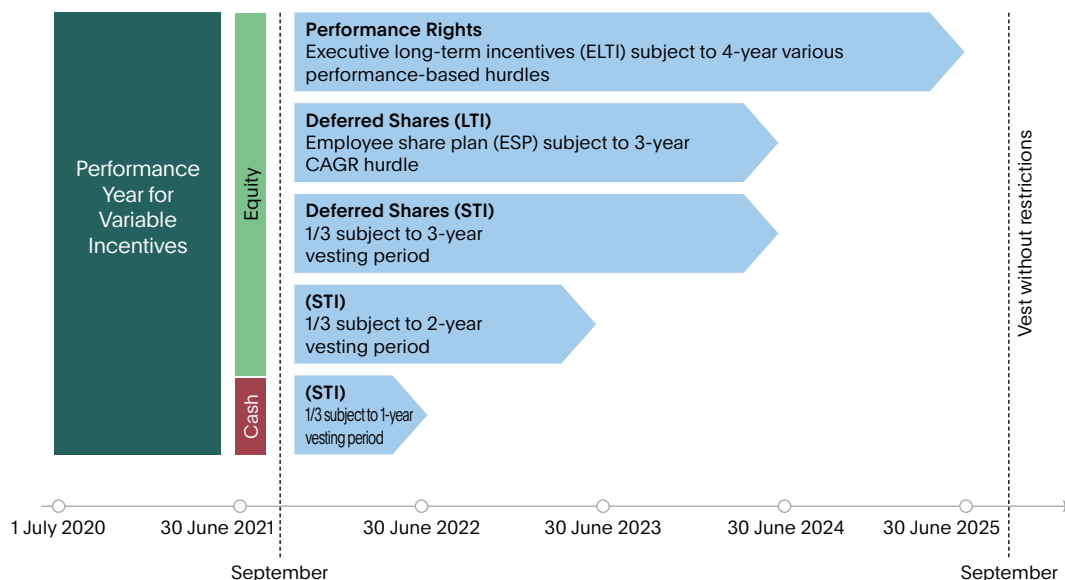
Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2021	No. of shares/ rights granted	No. of shares/ rights forfeited	No. of shares vested	No. of shares sold	Balance at 30 June 2022
T May									
Unvested ESP	1-Sep-18	1-Sep-21	1.32	19,700	-	-	(19,700)	-	-
Unvested ESP	1-Sep-19	1-Sep-22	2.15	12,791	-	-	-	-	12,791
Unvested ESP	1-Sep-20	1-Sep-23	4.53	6,068	-	-	-	-	6,068
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	2,959	-	-	-	2,959
Ordinary shares Unvested				26,192	-	-	19,700	(26,192)	19,700
Performance rights	1-Dec-21	1-Sep-25	10.34	-	2,805	-	-	-	2,805
Total				64,751	5,754	-	-	-	44,323
S Palmer									
Unvested ESP	1-Sep-18	1-Sep-21	1.32	22,800	-	-	(22,800)	-	-
Unvested ESP	1-Sep-19	1-Sep-22	2.15	14,419	-	-	-	-	14,419
Unvested ESP	1-Sep-20	1-Sep-23	4.53	6,841	-	-	-	-	6,841
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	3,367	-	-	-	3,367
Ordinary shares Unvested				-	-	-	22,800	(22,800)	-
Performance rights	1-Dec-21	1-Sep-25	10.34	-	6,383	-	-	-	6,383
Total				44,060	9,750	-	-	(22,800)	31,010
M Simons									
Unvested ESP	1-Sep-18	1-Sep-21	1.32	25,000	-	-	(25,000)	-	-
Unvested ESP	1-Sep-19	1-Sep-22	2.15	15,814	-	-	-	-	15,814
Unvested ESP	1-Sep-20	1-Sep-23	4.53	7,503	-	-	-	-	7,503
Unvested ESP	1-Sep-21	1-Sep-24	9.80	-	4,082	-	-	-	4,082
Ordinary shares Unvested				41,000	-	-	25,000	(26,000)	40,000
Performance rights	1-Dec-21	1-Sep-25	10.34	-	15,474	-	-	-	15,474
Total				89,317	19,556	-	-	(26,000)	82,873

Contract terms

All KMP's have formal contracts of employment and are permanent employees with a 12-week notice period. The Managing Director & CEO remuneration structure is outlined below:

Salary	Term	Notice period	STI	LTI	Malus Provision
Fixed salary from 1 September 2021 is \$500,000 inclusive of superannuation	No fixed term	6 months, however, could be terminated without notice due to negligence in carrying out responsibilities, dishonesty, breaching Company policies or criminal activity.	Target STI of 75% of fixed remuneration with a maximum STI of 2 times the target, based on a balanced scorecard of KPIs, specific objectives and Board discretion. Of the amount payable each year, 50% shall be paid in cash and 50% shall be deferred in the form of Company shares vesting as follows – one third one year after grant date, one third two years after grant date and one third three years after grant date.	Employee share plan – reducing from 33% to 10% of fixed remuneration effective 1 July 2021. The shares are subject to the rules and terms of the Employee Share Plan. Executive LTI – performance rights at 50% of fixed remuneration. In FY23, the ELTI rights is not expected to have a multiplier mechanism.	The Board has the discretion to reduce or cancel any STI or LTI for: <ul style="list-style-type: none"> Fraudulent or dishonest conduct; Material misstatements or omission in the financial statements; or Circumstances occur that the Board determines to have resulted in unfair or inappropriate benefit

The below graph summarises the structure and vesting schedules of the variable incentive compensation for the CEO in FY22.



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 Chairman of Australian Ethical Superannuation Ltd (AES) does not receive any additional fees for chairing this Board.

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

The following table sets out the agreed remuneration for NEDs by position for a full year, with effect from 1 November 2021. We note that this was the first adjustment to director fees since 1 December 2019. NEDs do not receive performance-related pay and are not provided with retirement benefits apart from statutory superannuation.

In total, directors' fees of \$785,000 was paid during the year out of the director fee pool approved at the 2021 AGM of \$1,000,000.

From 1 November 2021	AEI \$	AES \$	The Foundation \$
Base fees			
Chair	140,000	35,000	-
Other non-executive directors	80,000	35,000	-
Additional fees			
ARC – chair	26,250	17,500	-
ARC – member	15,000	10,000	-
Investment Committee (IC) – chair	26,250	-	-
Investment Committee (IC) – member	15,000	-	-
PDS Committee – chair	5,000	-	-
PDS Committee – member	5,000	-	-
Insurance Benefits Committee (IBC) – chair	-	5,000	-
Insurance Benefits Committee (IBC) – member	-	5,000	-
PRN – chair	-	-	-
PRN – member	-	-	-

Non-Executive Directors remuneration

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

Name	Board Fee \$	Audit, Risk & Compliance Committee \$	People, Remuneration & Nominations Committee \$	Investment Committee \$	PDS Committee \$	Insurance Benefits Committee \$	Super \$	Total \$
2022								
S Gibbs	141,961	20,835	-	3,044	3,657	3,971	17,304	190,772
K Greenhill	93,798	36,462	-	3,044	-	3,971	13,728	151,003
M Bün	93,798	14,111	-	12,135	-	-	12,005	132,049
M Monaghan	93,798	8,373	-	20,475	3,657	-	12,630	138,933
J Orr ¹	63,671	11,933	-	12,135	-	-	8,774	96,513
Total	487,026	91,714	-	50,833	7,314	7,942	64,441	709,270
2021								
S Gibbs	108,126	17,050	-	9,132	1,881	2,822	13,044	152,055
K Greenhill	72,304	29,839	-	9,132	-	5,174	11,063	127,512
M Bün	72,304	17,050	-	9,132	-	235	9,379	108,100
M Monaghan	72,304	17,050	-	13,699	1,881	-	9,969	114,903
J Orr ¹	45,557	8,525	-	9,132	-	-	6,005	69,219
Total	370,595	89,514	-	50,227	3,762	8,231	49,460	571,789

¹ J Orr is a director of AEI Limited and a member of AEI's PRN, ARC and Investment committee. She is not a director of AES Pty Limited.

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

- From 1 November 2021 Ms Greenhill and Mr Gibbs were no longer members of the AEI Investment Committee
- From 1 November 2021 Ms Bûn and Mr Monaghan were no longer members of the AEI ARC
- From 1 November 2022 Ms Bûn was no longer a member of the AES ARC
- From 15 February 2022 Ms Bûn rejoined the AEI ARC
- From 15 February 2022 Ms Bûn rejoined the AES ARC
- From 15 February 2022 Mr Monaghan was no longer a member of the AES ARC

The Investment Committee also includes Sandra McCullagh, Sean Henaghan and Steven Rankine who were appointed on 22 February 2022. Ms McCullagh, Mr Henaghan and Mr Rankine are not directors and are not KMP. Their remuneration is not paid from the Director fee pool.

Shares owned by Non-Executive Directors

Name	Purchase date	Balance at 1 July 2021	No. of shares purchased	No. of shares sold	Balance at 30 June 2022
Non-Executive Directors					
M Bûn					
AEF Ordinary shares	13-Nov-17	57,000	-	-	57,000
Total		57,000	-	-	57,000

5. Governance

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

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

The committee's charter includes oversight of remuneration as well as executive development, talent management and succession planning.

- Steve Gibbs (Chair);
- Mara Bûn;
- Kate Greenhill;
- Michael Monaghan; and
- Julie Orr

The PRN met seven times during the year. Attendance at these meetings is set out in the Directors' Report. At the PRN's invitation, the Managing Director, Chief Strategy & Innovation Officer 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 remuneration consultants. Annually, the PRN assesses the eligibility for vesting of deferred shares.

CEO and Senior Executives Performance

The CEO is responsible for reviewing the performance of senior executives 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 Chairman and is overseen by the Board, with input from the PRN. The review includes measurement of performance against agreed KPI's and Company performance. The PRN also has oversight of senior executives performance.

Malus Provisions

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

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

Hedging Policy

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

Trading Restrictions and Windows

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

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



STEVE GIBBS

Chair

People, Remuneration & Nominations Committee

25 August 2022



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

To the Directors of Australian Ethical Investment Limited

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

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

K Hopkins

Karen Hopkins

Partner

Sydney

25 August 2022

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Statements of comprehensive income

For the year ended 30 June 2022

	Note	Consolidated		Parent	
		2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Revenue					
Operating revenue	5	70,784	58,711	63,167	49,175
Other income	6	–	399	–	100
Total revenue		70,784	59,110	63,167	49,275
Expenses					
Employee benefits	7	(25,260)	(18,767)	(24,824)	(18,331)
Fund related	8	(10,194)	(9,840)	(4,034)	(3,261)
Marketing	9	(9,094)	(4,951)	(9,094)	(4,951)
IT expenses	10	(3,831)	(3,263)	(3,497)	(2,648)
External services	11	(2,842)	(2,335)	(2,301)	(2,057)
Community grants expense	12	(1,580)	(1,750)	(1,509)	(1,619)
Depreciation – property, plant & equipment	13	(578)	(554)	(578)	(554)
Depreciation – right of use assets	13	(627)	(615)	(627)	(615)
Other operating expenses	14	(1,646)	(1,224)	(1,313)	(946)
Occupancy	15	(335)	(258)	(335)	(258)
Finance costs	20	(41)	(57)	(41)	(57)
Due diligence & transaction costs	16	(982)	–	(982)	–
Total expenses		(57,010)	(43,614)	(49,135)	(35,297)
Profit before income tax expense		13,774	15,496	14,032	13,978
Income tax expense	17	(4,263)	(4,378)	(4,085)	(3,376)
Net profit for the year		9,511	11,118	9,947	10,602
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Gain/(Loss) on revaluation of investments	26	3	8	–	–
Other comprehensive income for the year, net of tax		3	8	–	–
Total comprehensive income for the year¹		9,514	11,126	9,947	10,602
		Cents	Cents		
Basic earnings per share	43	8.57	10.06		
Diluted earnings per share	43	8.47	9.90		

¹ Comprehensive income includes the results of The Foundation (refer to Note 45).

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

Financial Statements

for the year ended 30 June 2022

Statements of financial position**As at 30 June 2022**

	Note	Consolidated		Parent	
		2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Assets					
Current assets					
Cash and cash equivalents	18	27,387	27,813	24,313	23,143
Trade and other receivables	19	1,737	4,217	4,443	6,300
Prepayments		1,346	909	1,315	740
Right-of-use assets	20	626	626	626	626
Income tax refund due	17	249	–	249	–
Other receivables	21	–	465	–	465
Total current assets		31,345	34,030	30,946	31,274
Non-current assets					
Deferred tax	17	3,338	2,900	3,207	2,617
Property, plant and equipment	22	1,401	1,219	1,401	1,219
Right-of-use assets	20	46	672	46	672
Term deposit	23	504	504	504	504
Investments in subsidiary	24	–	–	316	316
Financial assets through profit or loss	25	5,200	–	5,200	–
Financial assets through other comprehensive income	26	106	141	1	2
Total non-current assets		10,595	5,436	10,675	5,330
Total assets		41,940	39,466	41,621	36,604
Liabilities					
Current liabilities					
Trade and other payables	27	8,568	7,250	9,403	5,988
Employee benefits	29	5,997	4,593	5,954	4,537
Deferred consideration	28	1,300	–	1,300	–
Income tax	17	–	1,364	–	1,364
Lease liabilities	20	787	740	787	740
Total current liabilities		16,652	13,947	17,444	12,629
Non-current liabilities					
Lease liabilities	20	47	834	47	834
Employee benefits	30	284	218	284	218
Provisions	31	258	252	258	252
Deferred tax	17	34	35	34	35
Total non-current liabilities		623	1,339	623	1,339
Total liabilities		17,275	15,286	18,067	13,968
Net assets		24,665	24,180	23,554	22,636
Equity					
Issued capital	32	8,969	10,676	8,969	10,676
Reserves	33	2,706	1,034	2,702	1,033
Retained profits		12,990	12,470	11,883	10,927
Total equity		24,665	24,180	23,554	22,636

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

Statements of changes in equity

For the year ended 30 June 2022

	Issued capital \$'000	Share-based payment reserve \$'000	FVOCI ¹ reserve \$'000	Retained profits \$'000	Total equity \$'000
Consolidated					
Balance at 1 July 2020	11,191	791	(7)	8,657	20,632
Profit after income tax expense for the year	–	–	–	11,118	11,118
Other comprehensive income for the year, net of tax	–	–	–	8	8
Total comprehensive income for the year	–	–	–	11,126	11,126
<i>Transactions with owners in their capacity as owners:</i>					
Dividends provided for or paid	–	–	–	(7,305)	(7,305)
Shares vested under deferred shares plan during the year	1,120	(1,120)	–	–	–
Employee deferred shares	–	1,362	–	–	1,362
Employee share plan – shares purchased on-market	(1,635)	–	–	–	(1,635)
Revaluation of investments	–	–	8	(8)	–
Balance at 30 June 2021	10,676	1,033	1	12,470	24,180

	Issued capital \$'000	Share-based payment reserve \$'000	FVOCI ¹ reserve \$'000	Retained profits \$'000	Total equity \$'000
Consolidated					
Balance at 1 July 2021	10,676	1,033	1	12,470	24,180
Profit after income tax expense for the year	–	–	–	9,511	9,511
Other comprehensive income for the year, net of tax	–	–	–	3	3
Total comprehensive income for the year	–	–	–	9,513	9,513
<i>Transactions with owners in their capacity as owners:</i>					
Dividends provided for or paid	–	–	–	(8,991)	(8,991)
Shares vested under deferred shares plan during the year	985	(985)	–	–	–
Employee deferred shares & rights	–	2,654	–	–	2,654
Employee share plan – shares purchased on-market	(2,692)	–	–	–	(2,692)
Revaluation of investments	–	–	3	(3)	–
Balance at 30 June 2022	8,969	2,702	4	12,990	24,664

¹ Fair value through other comprehensive income (FVOCI).

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

Statements of changes in equity

For the year ended 30 June 2022

	Issued capital \$'000	Share-based payment reserve \$'000	Retained profits \$'000	Total equity \$'000
Parent				
Balance at 1 July 2020	11,191	791	7,630	19,612
Profit after income tax expense for the year	–	–	10,602	10,602
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	10,602	10,602
<i>Transactions with owners in their capacity as owners:</i>				
Dividends provided for or paid	–	–	(7,305)	(7,305)
Shares vested under deferred shares plan during the year	1,120	(1,120)	–	–
Employee deferred shares	–	1,362	–	1,362
Employee share plan – shares purchased on-market	(1,635)	–	–	(1,635)
Balance at 30 June 2021	10,676	1,033	10,927	22,636
Parent				
Balance at 1 July 2021	10,676	1,033	10,927	22,636
Profit after income tax expense for the year	–	–	9,947	9,947
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	9,947	9,947
<i>Transactions with owners in their capacity as owners:</i>				
Dividends provided for or paid	–	–	(8,991)	(8,991)
Shares vested under deferred shares plan during the year	985	(985)	–	–
Employee deferred shares & rights	–	2,654	–	2,654
Employee share plan – shares purchased on-market	(2,692)	–	–	(2,692)
Balance at 30 June 2022	8,969	2,702	11,883	23,554

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

Statements of cash flows

For the year ended 30 June 2022

	Note	Consolidated		Parent	
		2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Cash flows from operating activities					
Receipts from customers		73,201	59,199	61,002	47,301
Payments to suppliers and employees		(50,731)	(37,878)	(40,946)	(31,892)
		22,470	21,321	20,056	15,409
Payments for strategic investments in insourcing the members' contact centre and building the CRM		–	(689)	–	(357)
Interest received		51	59	42	54
Community grants paid		(1,425)	(1,321)	(1,519)	(1,400)
Net proceeds from insurance settlement		–	299	–	–
Government grant income		–	100	–	100
Income taxes paid		(4,934)	(3,583)	(1,550)	(1,100)
Net cash from operating activities	42	16,162	16,186	17,029	12,706
Cash flows from investing activities					
Net proceeds from sale of investment property held for sale		504	–	504	–
Payments for property, plant and equipment	22	(764)	(92)	(764)	(92)
Return on investment in SVA unit trusts		36	–	–	–
Purchase of investment in Sentient Impact Group		(3,900)	–	(3,900)	–
Purchase of investment in August Investment Pty Limited		–	(28)	–	(28)
Dividends received from subsidiary		–	–	765	1,721
Net cash from investing activities		(4,124)	(120)	(3,395)	1,601
Cash flows from financing activities					
Purchase of employees' deferred shares		(2,692)	(1,635)	(2,692)	(1,635)
Dividends paid	34	(8,991)	(7,305)	(8,991)	(7,305)
Payments on lease liabilities		(781)	(740)	(781)	(740)
Net cash used in financing activities		(12,464)	(9,680)	(12,464)	(9,680)
Net increase in cash and cash equivalents		(426)	6,386	1,170	4,627
Cash and cash equivalents at the beginning of the financial year		27,813	21,427	23,143	18,516
Cash and cash equivalents at the end of the financial year	18	27,387	27,813	24,313	23,143

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

Notes to the financial statements

NOTE 1. ABOUT THIS REPORT

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

Australian Ethical Investment Limited is a listed public company limited by shares (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Group is a for-profit entity for the purposes of preparing financial statements. The Group's registered office is at Level 8, 130 Pitt Street, Sydney NSW 2000.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 August 2022. The directors have the power to amend and reissue the financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Ethical Investment Limited ('Company' or 'Parent Entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Current and non-current classification

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

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

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

Rounding of amounts

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these new standards did not have an impact on the financial statements. These include

- Interest Rate Benchmark Reform – Phase 2 (Amendments to AASBs 4, 7, 9, 16, 139 and 1060)
- Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment to AASB 16)

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

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Management have considered the impact from the ongoing Covid-19 pandemic and its impact on the financial statements. At this time, management have not adjusted any estimates or valuation of assets as a direct result from Covid-19.

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

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

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

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

Estimation of useful lives of assets – refer to Note 22

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

Lease term – Note 20

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

Employee benefits provision – refer to Note 29 and Note 30

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

Lease make good provision – refer to Note 31

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

Share-based payment transactions – refer to Note 44

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. At the date the shares are granted the fair value is determined as the on-market purchase price if the shares are purchased or a 90-day VWAP price if the shares are issued. Judgement is used in estimating the probability of performance hurdles being met in determining the value of equity instruments expensed in profit or loss.

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

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

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

NOTE 4. BUSINESS SEGMENTS

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

NOTE 5. REVENUE

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Operating revenue				
Management fees	55,188	43,185	48,470	37,870
Performance fees	375	2,895	375	2,895
Administration fees (net of Operational Risk Financial Reserve contributions)	10,424	8,431	9,220	6,638
Principal investment advisory fee	–	–	4,278	–
Member fees (net of rebates)	4,730	4,144	–	–
Interest income	67	56	59	51
Dividends	–	–	765	1,721
Revenue	70,784	58,711	63,167	49,175

Recognition and measurement

Management, administration and member fees

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

The parent entity earns investment management and administration fees from its subsidiary Australian Ethical Superannuation Pty Limited ('AES') in accordance with arms' length service agreements. From 1 July 2021, the parent entity entered into a principal investment advisory fee agreement with AES for the provision of services relating to developing, implementing and maintaining investment strategies including strategic advice and portfolio construction for the AERSF. The Group recognises these revenues as the services are provided.

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

The administration fee entitlement in accordance with the Product Disclosure Statement ('PDS') is net of \$1,711k (2021: \$787k) paid directly to the Operational Risk Financial Reserve ('ORFR') of the superannuation fund.

Performance fees

Performance fees in relation to the Emerging Companies Fund are dependent on fund performance per PDS and are recognised when it is highly probable that performance hurdles have been achieved and a reversal is unlikely.

Interest income

Interest revenue is recognised as interest accrues using the effective interest method.

Dividends

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

NOTE 6. OTHER INCOME

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Government grant income	-	100	-	100
Net proceeds from insurance settlement	-	299	-	-
	-	399	-	100

In the prior year, the Group was eligible for and received a grant of \$100,000 under 'Boosting Cash Flow for Employers' which was part of the Australian government's Covid-19 support program for employing entities. This grant was received by all entities with aggregate FY20 revenue of less than \$50m. The Group donated the entire grant income to The Foundation which in turn donated the funds to Pollinate Group. The Group was not eligible for and did not receive any JobKeeper payments from the Federal Government in the prior year.

Also in the prior year, the Parent Entity settled the insurance claim in respect of the unit pricing matter first disclosed in the 30 June 2017 annual report for \$525,000. These proceeds were, in turn, paid to its subsidiary, Australian Ethical Superannuation Pty Limited in settlement of a claim the subsidiary had lodged with the Company in relation to the same unit pricing matter. The subsidiary paid \$225,885 of the proceeds to the Operational Risk Financial Reserve of the Australian Ethical Retail Superannuation Fund to return the amount originally paid from reserve.

NOTE 7. EMPLOYEE BENEFITS

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Employee remuneration	22,136	16,733	21,914	16,491
Directors' fees	709	570	528	400
Strategic project contractors	729	-	729	-
Other committee member fees	53	-	53	-
Other employment costs	1,633	1,464	1,600	1,440
	25,260	18,767	24,824	18,331

Recognition and measurement

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

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

NOTE 8. FUND RELATED

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Administration and custody fees	7,822	7,790	2,597	2,176
Licence, ratings and platform fees	1,149	907	876	730
Regulatory & industry body fees	476	393	328	244
Ethical research	57	79	57	79
Regulatory projects	690	671	176	32
	10,194	9,840	4,034	3,261

In the prior year, administration fees includes implementation of the redesign of our insurance offering within the super fund of \$400k.

Regulatory projects includes costs incurred in numerous projects to upgrade systems and processes to ensure compliance with new regulatory requirements including implementing RG271 (Internal Dispute Resolution), RG97 (Disclosing Fees and Costs in PDSs and Period Statements), RG98 (Strengthening Breach Reporting), APRA reporting requirements and ATO superannuation streamlining projects (SuperStream and SuperMatch).

Recognition and measurement

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

NOTE 9. MARKETING

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Distribution costs	3,974	2,333	3,974	2,333
Brand awareness	3,535	1,196	3,535	1,196
Other	1,585	1,422	1,585	1,422
	9,094	4,951	9,094	4,951

Other marketing costs include events, sponsorships, marketing & public relations content, media agents' fees and annual & sustainability reports.

NOTE 10. IT EXPENSES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Front office IT systems	1,606	1,311	1,507	1,230
Support systems, infrastructure and security	1,153	1,011	1,153	1,011
Strategic projects	1,072	941	837	407
	3,831	3,263	3,497	2,648

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

In the prior year, strategic projects included internalising the superannuation members' contact centre, building the Client Relationship Management (CRM) system and implementing improvements to member engagement channels and member statements.

NOTE 11. EXTERNAL SERVICES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Internal & external audit and tax services	819	736	623	529
Consultants	1,133	1,018	833	950
Legal services	511	299	471	299
Other	379	282	374	279
	2,842	2,335	2,301	2,057

Consultants include advisory services in relation to strategic projects including a new strategic asset allocation model, implementation of the new finance general ledger, payroll and Human Resources reporting systems, strategy & innovation initiatives, and new product development.

NOTE 12. COMMUNITY GRANTS EXPENSE

The Group's constitution states that the Directors before recommending or declaring any dividend to be paid out of the profits of any one year must have first:

- paid or provisioned for payment to current employees, or other persons performing work for the Group, a work-related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30% of what the profit for that year would have been had the bonus or incentive payment not been deducted.
- gifted or provisioned for gifting an amount equivalent to 10% of what the profit for that year would have been had the above-mentioned bonus and amount gifted not been deducted.

Community grants amounting to \$1,509,000 (2021: \$1,619,000) have been expensed and gifted from the parent entity to The Foundation. The Foundation has committed to granting \$1,580,000 (2021: \$1,750,000) to community organisations through its gifts program, with the difference being funded from the Foundations own retained earnings.

NOTE 13. DEPRECIATION AND AMORTISATION

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Depreciation of property, plant and equipment	470	459	470	459
Amortisation of intangible assets – CMS website and mobile app	108	95	108	95
Total	578	554	578	554
Depreciation of right-of-use asset – Sydney office lease	580	580	580	580
Depreciation of right-of-use asset – IT infrastructure	47	35	47	35
Total	627	615	627	615
	1,205	1,169	1,205	1,169

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

NOTE 14. OTHER OPERATING EXPENSES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Insurance	768	509	498	252
Travel	231	170	227	170
ASX listing fees and registry costs	266	276	266	276
Printing and subscriptions	191	111	132	90
Other	190	158	190	158
	1,646	1,224	1,313	946

NOTE 15. OCCUPANCY

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Occupancy costs in relation to Sydney office	335	258	335	258

Included in occupancy costs are outgoings including cleaning services, utilities and repairs & maintenance costs. The lease on the Sydney office is recorded in accordance with AASB 16 and as such rent expense is included in depreciation of the right-of-use asset. Refer to Note 13 and Note 22.

NOTE 16. DUE DILIGENCE & TRANSACTION COSTS

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Consultants	266	–	266	–
Legal	655	–	655	–
Contractors	61	–	61	–
	982	–	982	–

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

NOTE 17. INCOME TAX

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Income tax expense				
Current tax	4,702	5,426	4,676	4,211
Deferred tax asset – temporary differences	(438)	(766)	(590)	(565)
Deferred tax liability – temporary differences	(1)	10	(1)	10
Adjustment due to change in income tax rate	–	(292)	–	(280)
Aggregate income tax expense	4,263	4,378	4,085	3,376
Deferred tax included in income tax expense comprises:				
Increase in deferred tax assets	(438)	(766)	(590)	(565)
Increase in deferred tax liabilities	(1)	10	(1)	10
Deferred tax – temporary differences	(439)	(756)	(591)	(555)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>				
Profit before income tax expense	13,774	15,496	14,032	13,979
Less: Tax exempt loss attributable to the Foundation	86	143	–	–
Taxable profit before income tax	13,860	15,639	14,032	13,979
Tax at the statutory tax rate of 30% (2021: 30%)	4,158	4,692	4,209	4,194
Tax effect amounts which are not deductible/ (taxable) in calculating taxable income:				
Non-taxable intercompany dividends from Australian Ethical Superannuation Pty Limited (AES)	–	–	(229)	(516)
Other non-taxable items	–	(22)	–	(22)
Other non-deductible items	105	–	105	–
Adjustment due to change in income tax rate	–	(292)	–	(280)
Income tax expense	4,263	4,378	4,085	3,376

The applicable weighted average effective tax rate for the consolidated group is 30.8% (2021: 28.0%) and for the parent entity is 29.1% (2021: 24.2%).

The increase in effective tax rate is due to the change in tax rate from 27.5% to 30% in the prior year, non-deductible expenses incurred in relation to due diligence activity. The parent entity effective tax rate is lower than the consolidated group due to the receipt of fully franked intercompany dividends from its subsidiary, Australian Ethical Superannuation Pty Limited.

NOTE 17. INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Employee benefits	1,111	892	1,104	881
Accruals	179	210	148	134
Community grants	453	456	453	456
Provision for employee leave	773	551	767	545
Provision for lease make-good	77	76	77	76
Other payables	696	633	609	442
Lease liabilities	49	82	49	83
Deferred tax asset	3,338	2,900	3,207	2,617
Movements:				
Opening balance	2,900	2,134	2,617	2,052
Charged to profit or loss	438	766	590	565
Closing balance	3,338	2,900	3,207	2,617
Deferred tax liability				
Deferred tax liability comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Property, plant and equipment	34	35	34	35
Deferred tax liability	34	35	34	35
Movements:				
Opening balance	35	25	35	25
Charged to profit or loss	(1)	10	(1)	10
Closing balance	34	35	34	35
Income tax refund due	249	-	249	-
Provision for income tax	-	1,364	-	1,364

Recognition and measurement

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

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

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

NOTE 17. INCOME TAX (CONTINUED)

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

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

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

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

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

NOTE 18. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Cash at bank	242	197	236	191
Term deposits	5,600	5,600	5,000	5,000
Deposits at call	21,545	22,016	19,077	17,952
	27,387	27,813	24,313	23,143

Recognition and measurement

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

NOTE 19. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Trade receivables	1,362	1,322	685	727
Receivable from subsidiary	–	–	3,383	2,678
Performance fee receivable	375	2,895	375	2,895
	1,737	4,217	4,443	6,300

Recognition and measurement

Trade receivables are initially recognised when they are originated and are measured at the transaction price. Subsequently, trade receivables are measured at amortised cost.

Specific consideration has been given to the impact of Covid-19 on the ability of customers to pay their debts when assessing the recoverability of trade receivables. Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables as at 30 June 2022 (2021: nil) and management have not identified any additional concerns regarding collectability of the receivables as the receivables are predominantly due from related parties. The performance fees were received on 18 July 2022.

NOTE 20. LEASES

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

The group entered a long-term lease for its Sydney office for a period of 7 years on 1 July 2016. The Group does not have an option to purchase the premises at the expiry of the lease period. A bank guarantee of \$504,000 has been provided by the Group to the property owners over the rental of building premises at 130 Pitt Street, Sydney. A right-of-use asset and a lease liability have been recognised in the Statement of Financial Position in relation to this lease including the remaining unamortised lease incentive.

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

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

Consolidated & Parent	Office premises \$'000	IT hardware & infrastructure \$'000	Total \$'000
Right-of-use assets			
Balance at 1 July 2020	1,261	36	1,297
Additions	479	137	616
Depreciation	(580)	(35)	(615)
Balance at 30 June 2021	1,160	138	1,298
Comprising of:			
Current	580	46	626
Non-current	580	92	672
	1,160	138	1,298

NOTE 20. LEASES (CONTINUED)

Consolidated & Parent	Office premises \$'000	IT hardware & infrastructure \$'000	Total \$'000
Right-of-use assets			
Balance at 1 July 2021	1,160	138	1,298
Additions	–	–	–
Depreciation	(580)	(47)	(627)
Balance at 30 June 2022	580	92	672
Comprising of:			
Current	580	46	626
Non-current	–	46	46
	580	92	672
	Consolidated	Parent	
	2022	2021	2022
	\$'000	\$'000	\$'000
	2022	2021	2021
	\$'000	\$'000	\$'000
Amounts recognised in profit or loss			
Interest on lease liabilities	41	57	41
Expenses relating to leases of low-value assets and variable lease components	426	559	426
	Consolidated	Parent	
	2022	2021	2022
	\$'000	\$'000	\$'000
	2022	2021	2021
	\$'000	\$'000	\$'000
Amounts recognised in statement of cash flows			
Total cash outflow for leases	781	740	781

Accounting policy for right-of-use assets

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

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

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

NOTE 20. LEASES (CONTINUED)

Consolidated & Parent	Office building \$'000	IT hardware & infrastructure \$'000	Total \$'000
Lease liabilities			
Balance at 1 July 2020	1,607	34	1,641
Additions	477	139	616
Payments	(705)	(35)	(740)
Interest on lease liabilities	56	1	57
Balance at 30 June 2021	1,435	139	1,574
Comprising of:			
Current	694	46	740
Non-current	741	93	834
	1,435	139	1,574
Balance at 1 July 2021			
Additions	–	–	–
Payments	(734)	(47)	(781)
Interest on lease liabilities	40	1	41
Balance at 30 June 2021	742	93	834
Comprising of:			
Current	742	45	787
Non-current	–	47	47
	742	92	834

Accounting policy for lease liabilities

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

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

NOTE 21. CURRENT ASSETS – OTHER RECEIVABLES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Other receivable	–	465	–	465

The prior year balance related to the discounted present value of the receivable on settlement of the fourth unit within the Canberra Property (Trevor Pearcey House) sold in June 2020. The sale of the property was settled on 22 June 2022.

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

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Leasehold improvements – at cost	2,332	2,294	2,332	2,294
Less: Accumulated depreciation	(1,900)	(1,531)	(1,900)	(1,531)
	432	763	432	763
Plant and equipment – at cost	364	309	364	309
Less: Accumulated depreciation	(284)	(187)	(284)	(187)
	80	122	80	122
Software development – at cost	1,140	477	1,140	477
Less: Accumulated depreciation	(251)	(143)	(251)	(143)
	889	334	889	334
	1401	1,219	1401	1,219

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Plant and equipment \$'000	Software development \$'000	Total \$'000
Balance at 1 July 2020	1,140	113	429	1,682
Additions	8	84	–	92
Disposals	–	(1)	–	(1)
Depreciation expense	(385)	(74)	–	(459)
Amortisation expense	–	–	(95)	(95)
Balance at 30 June 2021	763	122	334	1,219
Additions	39	62	663	764
Disposals	–	(4)	–	(4)
Depreciation expense	(370)	(100)	–	(470)
Amortisation expense	–	–	(108)	(108)
Balance at 30 June 2022	432	80	889	1,401

Recognition and measurement

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

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

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

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

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

Depreciation and amortisation

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

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

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

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

NOTE 23. NON-CURRENT ASSETS – TERM DEPOSIT

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Long-term deposit	504	504	504	504

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

NOTE 24. NON-CURRENT ASSETS – INVESTMENTS IN SUBSIDIARY

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Investment in Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	-	-	316	316

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

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Investment in Sentient Impact Group	5,200	-	5,200	-

On 9 December 2021, AEI acquired a minority equity stake (10%) in Sentient Impact Group Pty Ltd. The investment is \$5,200,000, payable in three instalments, with the first \$2,600,000 paid in December 2021, and the second \$1,300,000 paid in June 2022. The balance will be paid in December 2022 (\$1,300,000). In addition, Australian Ethical has three future dated call options equating to an additional 30% of the equity, exercisable over the next three years. Refer to Note 36 for further details.

Sentient is a Melbourne based impact investment manager. Australian Ethical is a strategic investor and has taken up a non-executive seat on the Sentient board from 7 February 2022.

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

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

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

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

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Investment in Social Impact programs	105	139	-	-
Listed shares in Advocacy program	1	2	1	2
	106	141	1	2

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	141	133	2	2
Additions	-	-	-	-
Return of capital	(37)	-	-	-
Revaluation increments/(decrements)	2	8	(1)	-
Closing fair value	106	141	1	2

Refer to Note 36 for further information on fair value measurement.

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

Recognition and measurement

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

- Unlisted unit trusts acquired by the Group's Foundation; and
- Equity securities acquired by the Group for advocacy purposes, which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considered this classification to be more relevant.

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

NOTE 27. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Trade payables and accruals	6,753	5,590	7,812	4,464
Payable to subsidiary	–	–	82	5
Community grant payable	1,815	1,660	1,509	1,519
	8,568	7,250	9,403	5,988

Refer to Note 35 for further information on financial instruments.

Recognition and measurement

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

NOTE 28. CURRENT LIABILITIES – DEFERRED CONSIDERATION

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Deferred consideration	1,300	–	1,300	–

This obligation relates to the remaining instalment payment for the acquisition in Sentient Impact Group. Payment is due December 2022. Refer to Note 25 for additional details.

NOTE 29. CURRENT LIABILITIES – EMPLOYEE BENEFITS

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Annual leave	1,224	842	1,215	829
Long service leave	1,070	777	1,059	770
Employee benefits	3,703	2,974	3,680	2,938
	5,997	4,593	5,954	4,537

Recognition and measurement

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

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

NOTE 30. NON-CURRENT LIABILITIES – EMPLOYEE BENEFITS

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Long service leave	284	218	284	218

Recognition and measurement

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

NOTE 31. NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Lease make-good	258	252	258	252

Recognition and measurement

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

NOTE 32. EQUITY – ISSUED CAPITAL

	Consolidated			
	2022 Shares	2021 Shares	2022 \$'000	2021 \$'000
Ordinary shares – fully paid	112,387,138	112,387,138	8,969	10,676

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2020	112,387,138		11,191
Vesting of deferred shares in the Employee Share Trust (43,466 shares)	17 August 2020	–	\$1.32	57
Vesting of deferred shares in the Employee Share Trust (14,768 shares)	17 August 2020	–	\$2.15	32
Vesting of deferred shares in the Employee Share Trust (109,800 shares)	17 August 2020	–	\$0.88	97
Vesting of deferred shares in the Employee Share Trust (893,900 shares)	1 September 2020	–	\$0.88	793
Vesting of deferred shares in the Employee Share Trust (34,473 shares)	7 September 2020	–	\$1.32	46
Purchase of deferred shares in the Employee share plan – on-market	7 September to 6 October 2020	–	\$4.53	(1,635)
Vesting of deferred shares in the Employee Share Trust (21,935 shares)	22 February 2021	–	\$1.32	29
Vesting of deferred shares in the Employee Share Trust (12,310 shares)	22 February 2021	–	\$2.15	27
Vesting of deferred shares in the Employee Share Trust (1,494 shares)	22 February 2021	–	\$4.53	7
Vesting of deferred shares in the Employee Share Trust (2,627 shares)	3 March 2021	–	\$1.32	3
Vesting of deferred shares in the Employee Share Trust (13,419 shares)	3 March 2021	–	\$2.15	29
Balance	30 June 2021	112,387,138		10,676
Vesting of deferred shares in the Employee Share Plan (730,200 shares)	1 September 2021	–	\$1.32	962
Vesting of deferred STI shares (5,193 shares)	1 September 2021	–	\$4.53	23
Purchase of deferred shares in the Employee share plan – on-market (274,762 shares)	16 September to 2 February 2022	–	\$9.80	(2,692)
Balance	30 June 2022	112,387,138		8,969

On 1 September 2020, 730,200 shares that were granted to employees on 1 September 2018 vested to employees as the performance hurdle had been met. 5,193 shares representing one third of the deferred STI shares granted to the CEO on 1 September 2020 vested as the time-based hurdle for those shares had been met. Between September 2021 and February 2022, 274,762 shares were purchased for allocation to employees under the FY21 ESP.

The Company measures the value of deferred shares at the price at which the shares were purchased on-market. The Company recognises these share purchases as a reduction in Issued Capital.

NOTE 32. EQUITY – ISSUED CAPITAL (CONTINUED)

Ordinary shares

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

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

Recognition and measurement

Ordinary shares are classified as equity.

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

Capital risk management

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

The capital risk management policy remained unchanged during the year.

(i) Regulatory capital requirements

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

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

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

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

(ii) Dividend policy

Dividends paid to shareholders are typically in the range of 80-100% of the Group's net profit after tax attributable to shareholders, which is in line with the historical dividend range paid to shareholders. In certain circumstances, the Board may declare a dividend outside that range. Refer also to Note 12 which discusses the provisioning of staff incentive payments and community grants prior to recommending or declaring a dividend under the Group's constitution.

NOTE 33. EQUITY – RESERVES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Share-based payment reserve	2,702	1,033	2,702	1,033
Fair value through other comprehensive income ('FVOCI') reserve	3	1	-	-
	2,705	1,034	2,702	1,033

Share-based payment reserve

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

Further information about share-based payments to employees is set out in Note 44.

Financial assets at FVOCI reserve

The Group has elected to recognise changes in the fair value of certain investments in equity financial instruments in OCI (refer to Note 2). These include listed shares held in the advocacy program and investment in the SVA unit trusts held by The Foundation. These changes are accumulated within the FVOCI reserve within Equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Movements in reserves

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

	Share-based payment reserve \$'000	FVOCI reserve \$'000	Total \$'000
Consolidated			
Balance at 30 June 2020	791	(7)	784
Shares vested under deferred share plan during the year	(1,120)	–	(1,120)
Employee deferred shares	1,362	–	1,362
Revaluation of investments	–	8	8
Balance at 30 June 2021	1,033	1	1,034
Shares vested under deferred share plan during the year	(985)	–	(985)
Employee deferred shares & rights*	2,654	–	2,654
Revaluation of investments	–	3	3
Balance at 30 June 2022	2,702	4	2,706

* Includes the employee share plan and ELTI rights

	Share-based payment reserve \$'000	FVOCI reserve \$'000	Total \$'000
Parent			
Balance at 30 June 2020	791	–	791
Shares vested under deferred share plan during the year	(1,120)	–	(1,120)
Employee deferred shares & rights	1,362	–	1,362
Balance at 30 June 2021	1,033	–	1,033
Shares vested under deferred share plan during the year	(985)	–	(985)
Employee deferred shares & rights	2,654	–	2,654
Balance at 30 June 2022	2,702	–	2,702

* Includes the employee share plan and ELTI rights

NOTE 34. EQUITY – DIVIDENDS

Dividends

Dividends paid during the financial year were as follows:

	2022 \$'000	2021 \$'000
Final dividend for the year ended 30 June 2021 of 4.00 cents (2020: 2.50 cents) per ordinary share – fully franked	4,495	2,810
Special performance dividend for the year ended 30 June 2021 of 1.00 cents (2020: 1.00 cents) per ordinary share	1,124	1,124
Interim dividend for the year ended 30 June 2022 of 3.00 cents (2021: 3.00 cents) per ordinary share – fully franked	3,372	3,371
	8,991	7,305

Since year end the Directors have declared a final dividend of 3.00 cents per fully paid ordinary share (2021: 4.00 cents final dividend and 1.00 cents special dividend). The aggregate amount of the declared dividend expected to be paid on 15 September 2022 out of profits for the year ended 30 June 2022, but not recognised as a liability at year end, is \$3,372,000 (2021: \$5,619,000). All dividends paid during the year were fully franked based on tax paid at 30.0%. The final dividend to be paid in September 2022 will be fully franked at 30.0%.

Franking credits

Dividends paid during the financial year were as follows:

	2022 \$'000	2021 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2021: 30%)	10,716	5,982

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

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

Accounting policy for dividends

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

NOTE 35. FINANCIAL INSTRUMENTS

Financial risk management objectives and framework

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

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

NOTE 35. FINANCIAL INSTRUMENTS (CONTINUED)

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

The Board is responsible for ensuring that management has appropriate processes in place for managing all types of risk. To assist in providing ongoing assurance and comfort to the Board, responsibility for risk management oversight has been delegated to the ARC. One of the main functions of the Committee is to identify emerging risks and determine treatment and monitoring of emerging and current risks. In addition, the Committee is responsible for seeking assurances from management that the systems and policies in place to assist the Group to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained. The Group is complying with its licences, and there is a structure, methodology and timetable in place for monitoring material service providers.

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Exposure

The Group's revenue is dependent on FUM which is influenced by equity market movements. Management calculates that a 10% movement in FUM linked to equity markets would change annualised revenue by approximately \$4,369,000 (2021: \$4,593,000).

Credit risk

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

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

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

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

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

NOTE 35. FINANCIAL INSTRUMENTS (CONTINUED)

Remaining contractual maturities

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

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

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated – 2021					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables and accruals	10,926	–	–	–	10,926
Income tax payable	1,364	–	–	–	1,364
Total non-derivatives	12,290	–	–	–	12,290

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

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Parent – 2021					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables and accruals	9,757	–	–	–	9,757
Income tax payable	1,364	–	–	–	1,364
Total non-derivatives	11,121	–	–	–	11,121

Fair value of financial instruments

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

NOTE 36. FAIR VALUE MEASUREMENT

Recognition and measurement

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

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

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

The following tables detail the group’s assets measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

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

There were no transfers between levels during the financial year.

NOTE 36. FAIR VALUE MEASUREMENT (CONTINUED)

On 9 December 2021, AEI acquired a stake in Sentient Impact Group Pty Limited (Sentient). Sentient was established following the in-specie transfer of management rights for \$200m of renewable infrastructure assets from Impact Investment Group. Sentient is a start-up entity with an Impact investing purpose aligned to AEI and is run by seasoned executives with capability in structuring and distributing products to High-Net-Worth families and Institutions. AEI subscribed for a 10% interest, paying fair value at acquisition of \$5,200,000.

The Directors are of the view that at 30 June 2022 there is no change to the fair value since the acquisition date. During the period to 30 June 2022, Sentient has progressed with the design and planning of two new funds, has secured consulting and advisory engagements in line with its established business plans and has not been adversely impacted by the economic uncertainties.

Sensitivity of fair value measurement

Although the Directors believe that the estimate of fair value is appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For the fair value measurement in Sentient, a 5% favourable (unfavourable) effect of using reasonably possible alternative methodologies for the valuation would increase (decrease) equity for the Group by \$260,000.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated – 2022				
<i>Financial assets measured at fair value</i>				
Investments	1	105	5,200	5,306
Total assets	1	105	5,200	5,306
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated – 2021				
<i>Financial assets measured at fair value</i>				
Investments	2	139	–	141
Total assets	2	139	–	141
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Parent – 2022				
<i>Financial assets measured at fair value</i>				
Investments	1	–	5,200	5,201
Total assets	1	–	5,200	5,201
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Parent – 2021				
<i>Financial assets measured at fair value</i>				
Investments	2	–	–	2
Total assets	2	–	–	2

NOTE 37. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

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

	Consolidated		Parent	
	2022 \$	2021 \$	2022 \$	2021 \$
Short-term employee benefits	4,914,352	4,432,079	4,749,673	4,276,365
Post-employment benefits	279,537	244,708	263,069	229,915
Long-term benefits	184,353	73,937	184,353	73,937
Share-based payments	336,883	389,926	336,883	389,926
	5,715,125	5,140,651	5,533,978	4,970,144

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

NOTE 38. REMUNERATION OF AUDITORS

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

	Consolidated		Parent	
	2022 \$	2021 \$	2022 \$	2021 \$
Audit services – KPMG				
Audit and review of financial statements – Group	110,617	88,884	83,958	63,735
Audit and review of financial statements – managed funds for which the Company acts as Responsible Entity*	173,450	149,127	173,450	149,127
Audit and review of financial statements – superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity*	37,310	35,199	–	–
	321,377	273,210	257,408	212,862
Assurance services – KPMG				
Regulatory assurance services – Group	40,089	42,312	44,852	42,312
Regulatory assurance services – managed funds and superannuation fund*	69,250	65,330	–	–
Assurance services in relation to the Sustainability Report	18,113	25,624	18,113	25,625
	136,452	133,266	62,965	67,937
Other services – KPMG				
Tax compliance and advisory services	122,198	69,664	113,588	45,920
Accounting advice	25,300	40,632	25,300	40,632
	147,498	110,296	138,888	86,552
Total remuneration of KPMG	605,327	516,772	459,261	367,351

* These fees are incurred by the Company and are effectively recovered from the funds via administration or management fees.

NOTE 38. REMUNERATION OF AUDITORS (CONTINUED)

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

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

NOTE 39. COMMITMENTS

As at 30 June 2022, the Group did not enter into any capital commitments other than as disclosed in Note 20.

NOTE 40. RELATED PARTY TRANSACTIONS

Parent entity

Australian Ethical Investment Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 41.

KMP remuneration

Disclosures relating to key management personnel are set out in Note 37 and the remuneration report included in the Directors' report.

Other related parties

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

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

- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Income Fund
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Emerging Companies Fund
- Australian Ethical Balanced Fund
- Australian Ethical High Conviction Fund (listed and unlisted)
- Australian Ethical Alternative Assets Fund – an unregistered Managed Investment Scheme

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

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

NOTE 40. RELATED PARTY TRANSACTIONS (CONTINUED)

On 17 December 2020, the Parent entity acquired 100% ownership of August Investment Pty Limited for \$27,501. This acquisition prevents the brand being acquired by a third party. As the entity owned no other assets or liabilities, the investment was recognised as goodwill and impaired to nil after the acquisition was completed.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	2022	2021	2022	2021
	\$	\$	\$	\$
Receipts from Australian Ethical Superannuation Pty Limited:				
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	–	–	9,219,458	6,637,628
Investment management fees	–	–	26,483,078	20,645,569
Principal investment advisory fee	–	–	4,278,309	–
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	–	–	3,357,440	1,001,705
Dividends from the subsidiary	–	–	764,982	1,721,210
Receipt from the Australian Ethical Managed Trusts:				
Provision of investment management services to the AETs as identified above in accordance with the Constitution and PDS				
	20,599,317	15,897,398	20,599,317	15,897,398
Performance fee	375,278	2,894,953	375,278	2,894,953
Receipts from Australian Ethical Retail Superannuation Fund:				
Provision of investment management / administration services to AERSF				
	43,625,200	34,391,528	–	–
Provision of member administration services to AERSF	4,729,633	4,143,696	–	–
Payments to Australian Ethical Foundation Limited:				
Community grants paid to The Foundation				
	–	–	1,509,368	1,299,759
Government grant paid to The Foundation	–	–	–	100,000

NOTE 40. RELATED PARTY TRANSACTIONS (CONTINUED)

Receivable from and payable to related parties

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

	Consolidated		Parent	
	2022 \$	2021 \$	2022 \$	2021 \$
Current receivables:				
Amounts receivable from the AETs	358,057	307,096	358,057	307,096
Amounts receivable from the AETs – performance fee	375,278	2,894,953	375,278	2,894,953
Amounts receivable from AES	–	–	9,767	1,397,761
Amounts receivable from AERSF	675,911	594,026	–	–
Current payables:				
Amounts payable to AES	–	–	(81,597)	(5,275)
Amounts payable to The Foundation	–	–	(1,509,368)	(1,519,353)

Terms and conditions

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

NOTE 41. INTERESTS IN SUBSIDIARIES

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
Australian Ethical Superannuation Pty Limited (AES) – Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%
Australian Ethical Foundation Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%
August Investment Pty Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%

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

Refer to Note 45 for further details about the Foundation's activities.

NOTE 42. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Profit after income tax expense for the year	9,511	11,118	9,947	10,602
Adjustments for:				
Depreciation and amortisation	1,205	1,169	1,205	1,169
Non-cash employee benefits expense - deferred shares & rights	1,321	1,157	1,321	1,157
Reclassification of PPE from investing activities	–	(253)	–	(253)
Dividend received from subsidiary	–	–	(765)	(1,721)
Change in operating assets and liabilities:				
(Increase)/Decrease in trade and other receivables	2,480	554	1,857	(90)
(Increase)/Decrease in lease assets	627	(1)	627	(1)
(Increase)/Decrease in prepayments	(437)	263	(575)	280
Increase in deferred tax assets	(437)	(766)	(589)	(565)
(Increase)/Decrease in other in current receivable	465	(25)	465	(25)
Increase in trade and other payables	1,316	1,820	3,412	1,039
Increase in employee benefits	1,470	689	1,483	653
Increase in other provisions	6	6	6	6
Increase/(Decrease) in current tax liability	(1,364)	512	(1,364)	512
Increase/(Decrease) in deferred tax liability	(1)	10	(1)	10
Net cash from operating activities	16,162	16,186	17,029	12,706

NOTE 43. EARNINGS PER SHARE

	Consolidated	
	2022 \$'000	2021 \$'000
Profit after income tax attributable to the owners of Australian Ethical Investment Limited and its Controlled Entities	9,511	11,118
	Cents	Cents
Basic earnings per share	8.57	10.06
Diluted earnings per share	8.47	9.90
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	111,013,492	110,485,465
Adjustments for calculation of diluted earnings per share:		
Deferred shares	1,276,329	1,857,910
Weighted average number of ordinary shares used in calculating diluted earnings per share	112,289,821	112,343,375

NOTE 43. EARNINGS PER SHARE (CONTINUED)

Recognition and measurement

Basic earnings per share

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

Diluted earnings per share

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

NOTE 44. SHARE-BASED PAYMENTS

In the current year, \$2,692,000 (2021: \$1,635,000) was paid to purchase deferred shares granted to employees. The Board continues to retain discretion to issue new shares if required.

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

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

2021						
Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
01/09/2017	31/08/2020	1,003,700	-	(1,003,700)	-	-
01/09/2018	31/08/2021	837,365	-	(102,500)	(4,665)	730,200
01/09/2019	31/08/2022	695,380	-	(40,497)	(18,645)	636,238
01/09/2020	31/08/2021	-	5,193	-	-	5,193
01/09/2020	31/08/2022	-	5,193	-	-	5,193
01/09/2020	31/08/2023	-	408,224	(1,494)	(10,420)	396,310
		2,536,445	418,610	(1,148,191)	(33,730)	1,773,134
						Unallocated treasury shares
						35,561
						Total deferred shares in the Employee Share Trust at 30 June 2021
						1,808,695

NOTE 44. SHARE-BASED PAYMENTS (CONTINUED)

Employee invested shares

As at 30 June 2022, the Employee Share Trust holds 1,348,064 shares (30 June 2021: 1,808,695 shares) on behalf of employees until vesting conditions are met.

Recognition and measurement

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

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

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

The following share-based payment arrangements existed as at 30 June 2022.

Deferred Shares - ESP

Under the long-term incentive employee share plan (ESP), participants are granted shares annually based on a fixed percentage of their fixed remuneration. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration with the shares having voting rights and employees receive dividends over the vesting period. The deferred shares are subject to 1- to 3-year vesting periods after which time, the shares vest to the employee as ordinary shares. Vesting is subject to meeting specified performance criteria over the performance period, service hurdles and Board approval.

Deferred Shares – STI

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

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is \$1,443,000 (2021: \$1,054,000) relating to the deferred shares granted under the long-term employee share plan, and \$845,000 (2021: \$163,000) relating to the deferred portion of the short-term incentive plan.

Executive Long-Term Incentives (ELTI)

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

The hurdles are measured in the year ending and as at 30 June 2025 with vesting after the release of the FY25 annual results, scheduled for 1 September 2025. The FUM target includes a multiplier mechanism that provides a stretch target for AEI's leadership team. Refer to the Remuneration Report for additional details.

The aggregate base hurdled performance share rights issued at 1 December 2021 was 136,510 rights. The ELTI expense is based on the grant date of 1 December 2021. Each share right was fair valued at \$13.54, being the share price on 1 December 2021 discounted for forecast dividend yield. These share rights will be equity settled at the end of the vesting period.

NOTE 44. SHARE-BASED PAYMENTS (CONTINUED)

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

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is \$339,000 (2020: nil) under the executive long-term incentives plan.

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

NOTE 45. RESULTS OF THE FOUNDATION

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

As at and for the year ended 30 June 2022, the impact of The Foundation before intercompany eliminations is noted below:

	2022 \$'000	2021 \$'000
Statement of comprehensive income		
Revenue from parent entity	1,509	1,619
Interest income	2	3
Community grants expense	(1,580)	(1,750)
Audit fees and other operating expenses	(17)	(15)
Profit for the year	(86)	(143)
Other comprehensive income		
Fair value adjustment of investment	1	6
Total comprehensive income for the year	(85)	(137)
	2022 \$'000	2021 \$'000
Statement of financial position		
<i>Assets:</i>		
Cash and cash equivalents	652	534
Receivables from parent entity	1,509	1,519
Other receivables	1	1
Financial assets at fair value through profit or loss	105	139
<i>Liabilities:</i>		
Community grant payables	(1,815)	(1,660)
Trade payables	(17)	(14)
Net assets	435	519
<i>Equity:</i>		
Retained earnings	434	520
FVOCI reserve	1	(1)
Total Equity	435	519

NOTE 46. EVENTS AFTER THE REPORTING PERIOD

On 13 July 2022, Australian Ethical entered into a successor fund transfer (SFT) deed with Christian Super that would see Christian Super members transfer into Australian Ethical Super. We anticipate that the Christian Super SFT will complete by early 2023.

Apart from the Christian Super SFT and the dividend declared as disclosed in Note 34, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' declaration

IN THE DIRECTORS' OPINION:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's and Group's financial position as at 30 June 2022 and of their performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



JOHN McMURDO

Managing Director and Chief Executive Officer
25 August 2022
Sydney



Independent Auditor's Report

To the shareholders of Australian Ethical Investment Limited

Report on the audits of the Financial Reports

Opinions

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

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

- giving a true and fair view of the **Group's** and the **Company's** financial position as at 30 June 2022 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2022;
- Statements comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinions

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

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

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



Key Audit Matters

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

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

Management Fees – (\$55.2m), Performance Fees – (\$0.4m) and Administration fees (\$10.4m) – Group; and Management Fees – (\$52.7m), Performance Fees – (\$0.4m), Administration fees (\$9.2m) and Principal Investment Advisory fee – (\$4.3m) - Company

Refer to Note 5 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audit
<p>Management, Performance, Administration and Principal Investment Advisory fees were a key audit matter due to the:</p> <ul style="list-style-type: none"> individual fee arrangements in place for each of the managed funds and the Australian Ethical Retail Superannuation Fund (the superannuation fund) which necessitated considerable audit effort; significance of the fees to the Group and Company, constituting 93% and 96% of total revenue, respectively; the complexity of the computation of performance fees involving comparison of actual performance to benchmark being the performance hurdle for revenue recognition defined in the arrangements outlined in the PDS. <p>Funds under management ("FUM") used in the calculation of fees is dependent on information sourced from a third party service organisation which is both the custodian and the administrator. This required us to understand and assess the key processes and controls in determining the FUM, including that of the third party service organisation.</p>	<p>Our procedures included:</p> <p>For Group and Company:</p> <ul style="list-style-type: none"> We assessed the appropriateness of the Group and Company's accounting policies against the requirements of the Australian Accounting Standards and our understanding of the business and industry practice. We read and understood the individual Management, Performance and Administration fee arrangements in the Product Disclosure Statements ("PDS") of each of the funds and the superannuation fund; We performed a recalculation of Management, Performance and Administration fees using the fee percentages and funds under management, obtained from each of the Product Disclosure Statements and underlying fund financial records respectively as a basis for revenue recognition in accordance with the Company's accounting policy. For Performance fees, we also evaluated their recognition by comparing actual fund performance with the benchmark as specified as the performance hurdle in the PDS. We compared the independently calculated Management, Performance and Administration fee revenue to those of the Group and Company and investigated significant differences; We assessed funds under management ("FUM") by:

	<ul style="list-style-type: none"> - testing key controls over the input of valuation data into the Group and Company's fund management system such as daily price movement checks performed by management; - reconciling daily FUM sent by the custodian to the FUM used by the Group and Company in the calculation of revenue; - Obtaining and reading the custodian service organisation's Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services) assurance reports to understand the processes and assess the controls relevant to the determination of the FUM. - checking the quantity of assets held to external custodian service provider reports at balance date; and - using valuation specialists, we tested the fair value of a sample of investments held by underlying funds by comparing the value to market data such as global and domestic equity prices. <ul style="list-style-type: none"> • We assessed the disclosures in the financial reports using our understanding obtained from our testing and against the requirements of the accounting standard. <p>For Company:</p> <ul style="list-style-type: none"> • We read and understood the Management and Administration fee arrangements in the Investment Management, Trustee Service Agreements and the Principal Investment Advisory Agreement (collectively referred to as Agreements) between the Company and its subsidiary, Australian Ethical Superannuation Limited (AES); and • We performed a recalculation of the Management, Administration and the Principal Investment Advisory fees between the Company and AES using the fee percentages obtained from the Agreements and the FUM as a basis for revenue recognition in accordance with the Company's accounting policy. We compared the independently calculated fee revenue to the fee revenue recorded by the Company and investigated significant differences.
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Other Information

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

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

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion. In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2022 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 22 to 43 in the Directors' report for the year ended 30 June 2022.

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

KPMG

Karen Hopkins

Partner

Sydney

25 August 2022

Shareholder information

Shareholder information as at 1 September 2022

Security	Number of holders	Number on issue	Voting rights
Fully paid ordinary shares	17,127	112,387,138	One vote per share

Top 20 shareholders of fully paid ordinary shares

Shareholders	Balance	%
HSBC Custody Nominees (Australia) Limited	8,311,712	7.40
J P Morgan Nominees Australia Pty Limited	6,183,062	5.50
James Andrew Thier	5,066,920	4.51
Ms Caroline Le Couteur	4,160,855	3.70
Citicorp Nominees Pty Limited	3,583,930	3.19
Mr Eric Yin Wang Tse & Mrs Patty Bik Yuk Tse	2,699,500	2.40
Mrs Judith Margaret Boag	2,300,000	2.05
Mr Trevor Roland Lee	2,250,000	1.91
Mrs Ann Marion McGregor & Mr Bruce Allan McGregor	2,014,827	1.79
National Nominees Limited	1,944,933	1.73
Mr Howard Pender	1,822,550	1.62
Daisy Thier	1,529,700	1.36
HB Sarjeant & Assoc Pty Ltd	1,507,000	1.34
Pacific Custodians Pty Limited	1,348,064	1.20
Mr Anthony Scott Cook	1,061,800	0.94
BNP Paribas Noms Pty Ltd	1,036,924	0.92
Mr Phillip Andrew Vernon	1,033,212	0.92
Mr Michel Beuchat & Mrs Ann Beuchat	966,700	0.86
Dr Judith Ingrouille Ajani	964,654	0.86
BNP Paribas Nominees Pty Ltd	807,519	0.72
Total	50,493,862	44.93
Balance of register	61,893,276	55.07
Grand total	112,387,138	100.00

Distribution of Holdings

Range	Securities	%	Holders
100,001 and Over	68,568,706	61.01	88
10,001 to 100,000	24,134,364	21.47	885
5,001 to 10,000	5,656,448	5.03	772
1,001 to 5,000	9,837,778	8.75	4,278
1 to 1,000	4,189,842	3.73	11,104
Total	112,387,138	100.00	17,127

On Thursday, 1 September 2022:

- AEF shares closed at \$6.06
- Accordingly, 83 or more shares constituted a marketable parcel
- The Company had 1,164 shareholders whose holding was not a marketable parcel, these shareholders owned a total of 66,978 shares

Company directory

AEI Group

Responsible Entity

Australian Ethical Investment Limited
ACN 003 188 930
AFSL Number 229949

Registrable Superannuation Entity

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

Australian Ethical Foundation Limited

ACN 607 166 503

Offices

Head Office

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

Registered office

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

Share Registry

Link Market Services Limited

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

Security Exchange Listing

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

Directors

Steve Gibbs (Chair)
Mara Bün (Non-Executive Director)
Kate Greenhill (Non-Executive Director)
Michael Monaghan (Non-Executive Director)
Julie Orr (Non-Executive Director)
John McMurdo (MD & CEO)

Company Secretaries

Karen Hughes
Tom May

Banker and custodian

National Australia Bank Limited

Level 3, 255 George Street
Sydney NSW 2000

Administrator

For superannuation

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

For managed funds

Boardroom Pty Ltd
GPO Box 3993
Sydney NSW 2001

Auditors and taxation

KPMG Australia

International Towers
300 Barangaroo Avenue
Sydney NSW 2000

Media enquiries

BlueChip Communication

Level 7, 333 George Street
Sydney NSW 2000

Contact us

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

More information

Investment exclusions

Our investment exclusions include some exceptions and tolerances. For more information on our ethical criteria including examples of revenue tolerances, visit: www.australianethical.com.au/why-ae/ethics/ethical-criteria/

Carbon intensity of our share investments

Carbon intensity (tonnes CO₂e per \$ revenue) of Australia Ethical share investments compared to blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Shareholdings as at 30 June 2022. Data and analysis tools provided by external sources (see below for more information).

Calculation of sustainable impact and investment in renewables & energy solutions

The Benchmark is a Blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Data and analysis tools provided by external sources (see below for more information). Comparison based on listed shares in those companies for which the relevant external parties provide the applicable data (88% of the companies we invest in).

External tool and data providers

MSCI ESG Research LLC

We have used data and tools provided by MSCI ESG Research when calculating the impact information in this report about sustainable impact revenue, carbon intensity, carbon footprint and investment in renewables and energy solutions. We used the MSCI tools and data for our calculations on 22 July 2022.

More information on MSCI carbon footprinting methodology and metrics is available here:

<https://www.msci.com/documents/10199/2043ba37-c8e1-4773-8672-fae43e9e3fd0>

The information relating to 'SDG impact' is based on links between MSCI's categories of sustainable impact solutions and selected Sustainable Development Goals (SDGs). We have determined these links based on our own assessment of how MSCI's criteria for their Sustainable Impact Solutions relates to SDGs. There is more information here:

https://www.msci.com/documents/1296102/1636401/ESG_ImpactMetrics-2016.pdf/0902a64f-af8d-4296-beaa-d105b7d74dc3

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reporting and use of their data; and (5) without limiting any of the foregoing, has no liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Carbon footprinting and impact measurement limitations

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

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

Some of the impact data we use is provided in US\$ terms, and some of this data has been converted to US\$ using exchange rates selected by the data provider. Where we report impact information in A\$ terms, we have used an average exchange rate as published by the Australian Taxation Office for the 2022 financial year.

Use of impact information

This 'impact' data is not the only basis upon which you should make an investment decision and this information should not be taken as a recommendation to buy, sell or hold a particular financial product. This information is of a general nature and is not intended to provide you with financial advice or take into account your personal objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Before acting on the information, consider its appropriateness to your circumstances and read the financial services guide (FSG) and product disclosure statement (PDS) on our website.

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For over three decades,
we have run our business
with purpose at its core.
The true power of that
head start lies in how we
now build on it to deliver
even greater impact.



Find out more

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