Australian Ethical Balanced Fund

ARSN 089 919 255

Annual Financial Report for the year ended 30 June 2019

Australian Ethical Balanced Fund

Annual Financial Report for the year ended 30 June 2019

Contents	Page

Directors' Report
For the year ended 30 June 2019

The directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Balanced Fund ("the Scheme") present the directors' report together with the financial report of the Scheme for the year ended 30 June 2019 and the accompanying independent auditor's report.

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

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

Principal place of business is:
Level 8, 124 - 130 Pitt St
Sydney, NSW 2000

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

Phil Vernon (resigned 31 August 2019)
Kate Greenhill
Stephen Gibbs
Mara Bun
Michael Monaghan
Julie Orr

Principal activities and state of affairs
The principal activity of the Scheme is to pool investors' savings to invest in a diversified portfolio of securities, in accordance with the investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's Constitution. The Constitution of the Scheme authorises investments in a range of assets which may include properties, capital stable interest bearing securities and equity investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

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

Review of operations
Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 2 October 2018.

Directors' Report
For the year ended 30 June 2019

Results
Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance Calculation of Return. The Scheme achieved the following total returns for the year:
- Retail class 10.02% (2018: 6.50%); and
- Wholesale class 11.19% (2018: 3.00% non annualised return from inception 29 March 2018).

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

As per note 11 the Scheme paid interim distributions to the classes as follows:
- Retail class 0.50 (December 2017: nil) cents per unit;
- Wholesale class 1.47 (December 2017: nil) cents per unit; and
- C class of 1.99 (December 2017: 1.53) cents per unit.

The year end distribution payable is as follows:
- Retail class of 3.08 (June 2018: 0.74) cents per unit;
- Wholesale class of 4.08 (June 2018: 1.45) cents per unit; and
- C class of 4.83 (June 2018: 3.02) cents per unit.

An interim distribution of $14,043,533 was paid in January 2019 and a final distribution of $38,667,561 was paid in July 2019.

The prior year final distribution of $19,500,175 was paid during the period.

Net Assets
The value of the Scheme's net assets attributable to unitholders as at 30 June 2019 was $1,434,952,888 (30 June 2018: 1,129,801,757).

Fees
Responsible Entity per annum fees charged for the period were as follows:
- 2.42% reduced to 1.75% for the retail class effective 2 October 2018 (June 2018: 2.42%); and
- 0.85% for the wholesale class (June 2018: 0.85%); and
- Zero for the C class (June 2018: Zero).

Under ASIC Regulatory Guide 97 (RG 97) issuers of managed investment products, such as interests in registered managed investment schemes issued to retail investors, must meet certain requirements for disclosing fees and costs in Product Disclosure Statements and periodic statements. The intention of the enhanced fee disclosure regulations is to allow the definition of ‘management costs’ to capture the costs of investing through interposed vehicles. Fees and costs for external asset managers have been incurred by the Balanced Fund in the year under review. The indirect costs incurred during the year equated to 0.06%.

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

Directors' Report
For the year ended 30 June 2019

Events occurring after the reporting date
As the investments in the Scheme are measured at their 30 June 2019 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However the current value of investments is reflected in the current unit price.

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

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

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

Related party disclosures
Fees paid to the Responsible Entity and its associates out of Scheme assets is shown in note 14 of the attached financial statements.

Environmental regulation
The operations of the Scheme are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory legislation.

Auditor’s declaration
The auditor’s independence declaration is included on page 4 of the annual report and forms part of the Directors' report for the financial year ended 30 June 2019.

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

Stephen Gibbs
Director
Australian Ethical Investment Limited
24 September 2019

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

To the Directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical Balanced Fund:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Balanced Fund for the financial year ended 30 June 2019 there have been:

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

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

KPMG

KPMG

Andrew Reeves
Partner
Sydney
24 September 2019

Independent Auditor's Report

To the unitholders of Australian Ethical Balanced Fund

Opinion

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

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

- giving a true and fair view of the Scheme's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2019
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

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Andrew Reeves
Partner
Sydney
24 September 2019

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Investment income			
Interest	2	**130**	222
Dividends and distributions		**60,094**	40,687
Net change in fair value of financial assets	3	**92,704**	46,000
Rent from investment property	9	**5**	7
Other income		**853**	-
Net investment income		**153,786**	86,916
Operating expenses			
Management fees	14	**2,241**	2,817
Investment property expenses	9	**77**	90
Operating expenses before finance costs		**2,318**	2,907
Profit from operating activities		**151,468**	84,009
Finance costs			
Distributions paid and payable to unitholders of the Scheme	11	**(52,712)**	(28,275)
Change in net assets attributable to unitholders (total comprehensive income)	5	**98,756**	55,734

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Fund

Statement of Financial Position as at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	6	**16,155**	17,632
Receivables	7	**43,505**	29,988
Term deposits		**-**	250
Financial assets held at fair value through profit or loss	8	**1,414,157**	1,099,777
Investment property held for sale	9	**-**	1,670
Total assets		**1,473,817**	1,149,317
Liabilities			
Payables	10	**196**	15
Distribution payable	11	**38,668**	19,500
Total liabilities		**38,864**	19,515
Net assets attributable to unitholders	5	**1,434,953**	1,129,802
Represented by:			
Net assets attributable to unitholders at Net Asset Value price		**1,475,160**	1,150,278
Distribution payable to unitholders of the scheme		**(38,668)**	(19,500)
Adjustments arising from different unit pricing and accounting valuation		**(1,539)**	(976)
Total net assets attributable to unitholders	5	**1,434,953**	1,129,802

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2019

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

Statement of Cash Flows for the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Interest received		**214**	213
Dividends and distributions received		**1,360**	586
Rental and other income received		**858**	7
Management fees paid		**(2,214)**	(2,853)
Investment property expenses paid		**(77)**	(90)
Net cash provided by operating activities	13	**141**	(2,137)
Cash flows from investing activities			
Proceeds from sale of investments		**49,090**	42,950
Purchase of investments		**(223,361)**	(346,885)
Net cash used in investing activities		**(174,271)**	(303,935)
Cash flows from financing activities			
Proceeds from issue of units		**209,925**	304,233
Payments for redemption of units		**(36,690)**	(20,177)
Distributions paid to unitholders		**(582)**	(99)
Net cash provided by financing activities		**172,653**	283,957
Net decrease in cash and cash equivalents		**(1,477)**	(22,116)
Cash and cash equivalents at 1 July		**17,632**	39,748
Cash and cash equivalents at 30 June	6	**16,155**	17,632

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2019

Note 1 - Significant accounting policies

Reporting entity

The Australian Ethical Balanced Fund ("the Scheme"), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 2 November 1999 and will terminate on 1 November 2079 unless terminated earlier in accordance with the provisions of the Scheme constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the year ended 30 June 2019.

Statement of compliance

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

The financial statements were approved by the Board of Directors of the Australian Ethical Investment Limited on 24 September 2019.

Basis of preparation

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

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

The Statement of Financial Position is prepared on a liquidity basis. All balances including investments are readily converted to cash, except for investment properties and unlisted alternative assets (classified as financial assets) held at fair value.

Estimates and judgements

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

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

The areas involving estimates or judgements is the assessment of fair value of early stage venture capital partnerships and unlisted infrastructure assets (note 8).

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

Refer to note 16 Investment in unconsolidated subsidiaries which contains information about judgements made in relation to whether the Scheme meets the definition of an investment entity.

Cash and cash equivalents

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

Financial instruments

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 1 - Significant accounting policies - continued

Financial instruments - continued

Recognition and initial measurement

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

Financial assets and liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Statement of Profit or Loss and Other Comprehensive Income. Financial assets and liabilities not at fair value through profit or loss are initially recognised at fair value plus any directly attributable transaction costs.

Derecognition

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

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

The Scheme derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Classification

Policy applicable until 30 June 2018

Financial assets and financial liabilities that are classified as fair value through profit or loss are further categorised as either held for trading or are designated at fair value through profit or loss. Financial assets and liabilities held for trading include derivative financial instruments. Financial assets and liabilities designated at fair value through profit or loss include equity securities, investments in unit trusts and fixed interest securities.

Policy applicable from 1 July 2018

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

Measurement

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

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

Fair value measurement principles

The Scheme can invest into a variety of assets, including cash, equities, fixed and floating rate interest securities, unit trusts and derivative contracts. Generally, valuation information is obtained from third party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

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

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 1 - Significant accounting policies - continued

Financial instruments - continued

Impairment of financial assets held at amortised cost

Policy applicable until 30 June 2018

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Policy applicable from 1 July 2018

AASB 9 replaces the 'incurred loss' model in AASB 139 with an ‘expected credit loss’ model. The new 'expected credit loss' model applies to financial assets measured at amortised cost, contract assets and debt instruments, but not equity instruments held at fair value through profit or loss. Under AASB 9 credit losses are recognised earlier than under AASB 139. The financial assets at amortised cost consists of trade receivables and cash and cash equivalents.

Offsetting

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

Derivative financial instruments

In accordance with the Investment Mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

Receivables

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC).

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Investment property actively marketed for sale is classified as held for sale and measured at fair value.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Payables

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

Distributions paid and payable

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 1 - Significant accounting policies - continued

Distributions paid and payable - continued

From 1 July 2017 the Scheme elected into the new tax regime for managed investment trusts (MITs). Responsible Entity's of eligible MITs who elect into the new attribution managed investment trust (AMIT) regime are required to calculate the income entitlements of unitholders on an ‘attribution’ basis, which will be reflected in the AMIT member annual (AMMA) statement. The AMMA statement (previously the tax statement) is provided to each person or entity who received a distribution from the Scheme during the income year. This event has no impact on the classification of net assets attributable to unitholders as liabilities in the financial statements.

Change in net assets attributable to unitholders

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

Revenue

Interest income

income is recognised on a gross basis, including withholding tax, if any. Interest is measured using the effective interest rate method.

Dividend and distribution income

Comprehensive Income on the ex-dividend date. Income distributions from other managed investment schemes are recognised in the Statement of Comprehensive Income as dividend income in accordance with the declaration set out in their Constitutions.

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

Rental income

Rental income from operating leases are recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

In the event that lease incentives are paid to enter into operating leases, such incentives are recognised as an asset. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Income tax

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

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

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 1 - Significant accounting policies - continued

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

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

Standards and interpretations on issue but not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Scheme.

Standards and interpretations on issue recently adopted
The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

AASB 9 Financial Instruments (effective for reporting periods beginning on or after 1 July 2018)

AASB 9 replaces existing guidance on classification and measurement of financial assets and introduces additions related to the classification and measurement of financial liabilities (as part of the project to replace AASB 139 Financial Instruments: Recognition and Measurement). It has also introduced new hedge accounting requirements and revised certain requirements for impairment of financial assets. The Responsible Entity is satisfied this standard does not have any impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The de-recognition rules have not been changed from previous requirements and the Scheme does not apply hedge accounting.

AASB 15 Revenue from Contracts with Customers (effective for reporting periods beginning on or after 1 July 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Scheme's main sources of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Responsible Entity is satisfied the adoption of the new revenue recognition rules does not have any impact on the recognition and measurement of the Scheme's revenue.

Notes to the Financial Statements for the year ended 30 June 2019

Note 2 - Interest income

	2019 $'000	2018 $'000
Interest income from financial assets carried at amortised cost:		
Cash and cash equivalents	**126**	197
Term deposits	**4**	25
	130	222

Note 3 - Net change in fair value of financial assets

	2019 $'000	2018 $'000
Unrealised gain arising on financial assets designated as at fair value through profit or loss	**93,147**	44,224
Realised gain/(loss) on the disposal of investments	**(443)**	1,776
Net change in fair value of financial assets	**92,704**	46,000

Note 4 - Issued units

Each unit represents a right to an individual share in the Scheme per the Constitution. C-class units are issued to other schemes managed by the Responsible Entity, the Australian Ethical Retail Superannuation Fund (AERSF), and institutional investors. Institutional investors are not charged a direct fee through the Scheme but are subject to separate fee arrangements. All other rights attached to C-class units are the same as those of the other classes.

	2019 Units	2018 Units
Retail class		
On issue at beginning of period	**60,177,458**	74,619,315
Issued	**7,872,627**	13,520,527
Transferred to other classes	**(1,943,260)**	(21,180,785)
Redeemed	**(6,575,375)**	(6,781,599)
On issue at period end	**59,531,450**	60,177,458
Wholesale class		
On issue at beginning of period	**20,391,094**	-
Issued	**9,914,816**	813,723
Transferred from other classes	**1,937,474**	21,177,502
Redeemed	**(2,986,840)**	(1,600,131)
On issue at period end	**29,256,544**	20,391,094
C class		
On issue at beginning of period	**621,764,156**	432,082,039
Issued	**128,587,341**	194,091,328
Redeemed	**(12,778,101)**	(4,409,211)
On issue at period end	**737,573,396**	621,764,156

Note 5 - Net assets attributable to unitholders

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 5 - Net assets attributable to unitholders - continued

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to provide investors with a balance between capital growth and a moderate level of income through a diversified portfolio of assets. The Scheme is not subject to any externally imposed capital requirements.

	2019	2018
	$'000	$'000
Opening balance	**1,129,802**	769,849
Issued	**210,123**	304,057
Distributions reinvested	**32,962**	20,339
Redeemed	**(36,690)**	(20,177)
Change in net assets attributable to unitholders	**98,756**	55,734
Total net assets attributable to unitholders	**1,434,953**	1,129,802

Note 6 - Cash and cash equivalents

Cash at bank	**16,155**	17,632
	16,155	17,632

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

Note 7 - Receivables

Interest	**14**	98
Dividends and distributions	**43,198**	29,786
Applications	**249**	51
GST	**44**	53
	43,505	29,988

Note 8 - Financial assets at fair value through profit or loss

	Note		
Designated at fair value through profit or loss			
Unit Trusts			
Unlisted		**1,391,950**	1,096,239
Unlisted infrastructure		**15,188**	-
Limited partnership interests		**7,019**	3,538
	15	**1,414,157**	1,099,777

The Scheme's accounting policy on fair value measurements is disclosed in note 1. The Limited Partnership interests represent investments in two alternative assets held at fair value.

Note 9 - Investment property held for sale

During the period the investment property held for sale was sold for $1,625,000.

At Fair Value	Note		
Opening balance at 1 July		**-**	2,230
Transfers to Assets held for sale		**-**	(2,230)
Net loss on property revaluation		**-**	-
Closing balance at 30 June		**-**	-

Assets held for sale		
Opening balance at 1 July	**1,670**	-
Transfers from Investment property held at fair value	**-**	2,230
Disposals	**(1,597)**	-
Net loss on revaluation/realisation	**(73)**	(560)
Closing balance at 30 June	**-**	1,670

Notes to the Financial Statements for the year ended 30 June 2019

Note 9 - Investment property held for sale - continued

	2019	2018
(a) Amounts recognised in profit and loss for	**$'000**	$'000
Rental income	**5**	7
Direct operating expenses from investment property	**(77)**	(90)
	(72)	(83)

(b) Leasing arrangements

The property was unoccupied for the entire period under review although ancillary income was received via car park licence agreements.

(c) Investment property realisation

The current year accounting loss on sale of the property was $72,622, the net sales proceeds being $1,597,378 against the opening carrying value of the property $1,670,000.

Note 10 - Payables

Management fees	**33**	15
GST	**163**	-
	196	15

Note 11 - Distributions paid and payable

Distributions paid during the year	**14,044**	8,775
Distributions payable	**38,668**	19,500
	52,712	28,275

The Scheme paid interim distributions to the classes as follows:

- Retail class 0.50 (December 2017: nil) cents per unit;
- Wholesale class 1.47 (December 2017: nil) cents per unit; and
- C class of 1.99 (December 2017: 1.53) cents per unit.

The year end distributions payable are as follows:

- Retail class of 3.08 (June 2018: 0.74) cents per unit;
- Wholesale class of 4.08 (June 2018: 1.45) cents per unit; and
- C class of 4.83 (June 2018: 3.02) cents per unit.

The prior year final distribution of $19,500,175 was paid during the period.

Notes to the Financial Statements for the year ended 30 June 2019

Note 12 - Auditor's remuneration

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

	2019	2018
	$	$
Financial statements audit fees	**38,192**	35,096
Compliance plan audit	**4,569**	4,371
Tax compliance service	**4,724**	3,984
	47,485	43,451

Note 13 - Reconciliation of profit for the period to net cash provided by operating activities

	2019	2018
	$'000	$'000
Net profit from operating activities	**151,468**	84,009
Adjustments for:		
Net (gains)/losses on disposal of investments	**443**	(1,776)
Net gains on revaluation of investments	**(93,147)**	(44,224)
Dividends and Distributions reinvested	**(59,113)**	(39,635)
Changes in assets and liabilities:		
Increase in trade and other receivables	**(356)**	(519)
Increase in other payables	**18**	8
Net cash provided by operating activities	**(687)**	(2,137)

Non-cash financing and investing activities

During the year Dividends and Distributions received totalling $59,112,869 (2018: $39,635,083) were reinvested for additional units.

During the year income distributions totalling $32,961,818 (2018: $20,338,687) were reinvested by unitholders for additional units in the Scheme.

Note 14 - Related party disclosures

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

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

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 indicated:

Phil Vernon (resigned 31 August 2019)
Kate Greenhill
Stephen Gibbs
Mara Bun
Michael Monaghan
Julie Orr

None of the directors have an investment in the Scheme.

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 14 - Related party disclosures - continued

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

- 2.42% reduced to 1.75% for the retail class effective 2 October 2018 (June 2018: 2.42%); and
- 0.85% for the wholesale class (June 2018: 0.85%); and
- Zero for the C class (June 2018: Zero).

	2019	2018
	$	$
Management fees	**2,240,821**	2,817,141
	2,240,821	2,817,141

Fees earned by the Responsible Entity are net of any non-reclaimable GST. Fees payable to the Responsible Entity at 30 June 2019 were $33,379 (2018: $15,458) and are included in payables.

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 14 - Related party disclosures - continued

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

30 June 2019	**Units held opening**	**Units held closing**	**Interest held**	**Units acquired**	**Distributions paid/payable by the Scheme**
	$	**$**	**%**	**$**	**$**
AERSF	**846,933,291**	**1,095,349,739**	**76.33%**	**173,460,286**	**41,921,589**
30 June 2018	Units held opening	Units held closing	Interest held	Units acquired	Distributions paid/payable by the Scheme
	$	$	%	$	$
AERSF	657,004,243	846,933,291	74.96%	151,034,210	23,356,749

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

The Scheme held investments in the following related parties:

30 June 2019	**Units held opening**	**Units held closing**	**Interest held**	**Units acquired**	**Distributions paid/payable by the Scheme**
	$	**$**	**%**	**$**	**$**
Australian Ethical Fixed Interest Fund	**262,342,891**	**340,140,420**	**73.62%**	**60,053,887**	**9,632,018**
Australian Ethical International Shares Fund	**195,475,187**	**251,971,226**	**34.63%**	**38,730,593**	**13,486,069**
Australian Ethical Income Fund	**46,496,556**	**69,839,195**	**39.95%**	**23,573,493**	**2,074,770**
Australian Ethical Diversified Shares Fund	**381,131,479**	**498,273,319**	**47.33%**	**72,040,070**	**20,095,386**
Australian Ethical Property Trust	**5,427,790**	**5,857,345**	**50.00%**	**-**	**-**
Australian Ethical Australian Shares Fund	**83,505,257**	**84,539,944**	**9.78%**	**399,447**	**8,544,730**
Australian Ethical Emerging Companies Fund	**18,959,053**	**26,432,419**	**32.02%**	**5,086,214**	**2,270,202**
30 June 2018	Units held opening	Units held closing	Interest held	Units acquired	Distributions paid/payable by the Scheme
	$	$	%	$	$
Australian Ethical Fixed Interest Fund	174,287,478	262,342,891	72.87%	89,226,773	8,476,073
Australian Ethical International Shares Fund	138,875,931	195,475,187	33.66%	43,792,426	8,526,288
Australian Ethical Income Fund	21,393,382	46,496,556	33.12%	25,204,743	1,117,486
Australian Ethical Diversified Shares Fund	221,944,494	381,131,479	45.32%	132,199,741	10,844,508
Australian Ethical Property Trust	5,430,095	5,427,790	50.00%	-	-
Australian Ethical Australian Shares Fund	79,901,387	83,505,257	10.52%	1,608,446	6,977,579
Australian Ethical Emerging Companies Fund	16,609,367	18,959,053	31.92%	920,554	1,295,002

Distributions paid/payable to the Scheme represent those distributions that accrued during the current financial year.

The Australian Ethical Property Trust was deregistered on 11 September 2017.

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments

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

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

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

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

(a) Categories of financial instruments	**2019**	2018
Financial assets	**$'000**	$'000
Cash and cash equivalents	**16,155**	17,632
Financial assets at fair value through profit or loss	**1,414,157**	1,099,777
Term deposits held at amortised cost	**-**	250
Receivables	**43,505**	29,988
	1,473,817	1,147,647
Financial liabilities		
Other financial liabilities		
Payables	**196**	15
Distribution payable	**38,668**	19,500
Net assets attributable to unitholders	**1,434,953**	1,129,802
	1,473,817	1,149,317

(b) Operational risk

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

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments - continued

(b) Operational risk - continued

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

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

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

All of the assets of the Scheme are held by external custodian National Australia Bank Limited Asset Servicing (NAS). The Fund Accounting team monitors the credit ratings and capital adequacy of its custodian on a quarterly basis.

(c) Financial risk management objectives

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

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

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

(d)(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and this will affect the Scheme's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's Constitution and Product Disclosure Statement. The Scheme's investment mandate is to invest in a range of assets, which may include properties, capital stable interest bearing securities and equity investments, both domestic and international. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments - continued

(d)(ii) Interest rate risk management

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

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

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

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 1% (2018: 1%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance sheet date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

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

	2019	2018
	$'000	$'000
Increase in interest rate by 1%	**162**	179
Decrease in interest rate by 1%	**(162)**	(179)

(d)(iii) Price risk

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

The Scheme's portfolio managers aim to manage the impact of market price risk through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Investments (including derivatives) are only purchased when they meet investment criteria. The Responsible Entity aims to reduce risk by diversifying investments across several asset managers, markets, regions and different asset classes.

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

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk (i.e. redemption value for investments in early stage venture capital partnerships and unlisted trusts) at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unitholders which could result from a change in market prices of 10% (2018: 10%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in market prices as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

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

Increase in redemption prices by 10%	**141,416**	109,978
Decrease in redemption prices by 10%	**(141,416)**	(109,978)

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments - continued

(e)(i) Credit risk management
Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is predominately exposed to credit risk through its interest bearing securities, deposits at banks and trade and other receivables.

The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trade within 3 business days, and other receivables on a monthly basis.

In order to manage the exposure to risk, limitations are imposed on the level of unrated securities that can be held (no more than 2.5%) and the total value of securities rate with a rating of less than BBB (no more than 20%). The Scheme's exposure to interest bearing securities, loans and receivables is primarily through its investment in unlisted unit trusts.

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2019 (2018: AA-).

No financial assets carried at amortised cost were past due or impaired at 30 June 2019 (2018: nil).

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

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

	2019	2018
	$'000	$'000
Cash and cash equivalents	**16,155**	17,632
Receivables	**43,505**	29,988
Term deposit	**-**	250
Total	**59,660**	47,870

(e)(ii) Investments in interest bearing securities, loans and receivables
At 30 June 2018 the Scheme was directly invested in an interest bearing security (term deposit) which was not rated.

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments - continued

(f) Liquidity risk management

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

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

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

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

			2019			
	Weighted average interest rate	**0-3 months**	**3 months to 1 year**	**1 to 5 years**	**5+ years**	**Total**
	%	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Variable interest-bearing assets						
Cash and cash equivalents	**1.38**	**16,155**	**-**	**-**	**-**	**16,155**
Interest bearing security	**N/A**	**-**	**-**	**-**	**-**	**-**
Non-interest bearing						
Financial assets	**N/A**	**1,391,950**	**-**	**-**	**22,207**	**1,414,157**
Receivables	**N/A**	**43,505**	**-**	**-**	**-**	**43,505**
Total financial assets		**1,451,610**	**-**	**-**	**22,207**	**1,473,817**
Non-interest bearing						
Payables	**N/A**	**196**	**-**	**-**	**-**	**196**
Distribution payable	**N/A**	**38,668**	**-**	**-**	**-**	**38,668**
Amounts payable to unitholders	**N/A**	**1,412,746**	**-**	**-**	**22,207**	**1,434,953**
Total financial liabilities		**1,451,610**	**-**	**-**	**22,207**	**1,473,817**

			2018			
	Weighted average interest rate	0-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000
Variable interest-bearing assets						
Cash and cash equivalents	1.40	17,632	-	-	-	17,632
Interest bearing security	7.00	-	250	-	-	250
Non-interest bearing						-
Financial assets	N/A	1,096,239	-	-	3,538	1,099,777
Receivables	N/A	29,988	-	-	-	29,988
Total financial assets		1,143,859	250	-	3,538	1,147,647
Non-interest bearing						
Payables	N/A	15	-	-	-	15
Distribution payable	N/A	19,500	-	-	-	19,500
Amounts payable to unitholders	N/A	1,126,264	-	-	3,538	1,129,802
Total financial liabilities		1,145,779	-	-	3,538	1,149,317

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments - continued

(g) Fair values

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

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

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

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

		2019		
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**$'000**	**$'000**	**$'000**	**$'000**
Designated at fair value through profit or loss				
Unit Trusts				
Unlisted	**-**	**1,391,950**	**-**	**1,391,950**
Unlisted Infrastructure			**15,188**	**15,188**
Limited partnership interests	**-**	**-**	**7,019**	**7,019**
Investment Properties held for sale	**-**	**-**	**-**	**-**
Total	**-**	**1,391,950**	**22,207**	**1,414,157**

		2018		
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	$'000	$'000	$'000	$'000
Designated at fair value through profit or loss				
Unit Trusts				
Unlisted	-	1,096,239	-	1,096,239
Limited partnership interests	-	-	3,538	3,538
Investment Properties held at fair value	-	-	1,670	1,670
Total	-	1,096,239	5,208	1,101,447

The fund does not hold any level 1 assets. During the year there was no transfers between levels.

Investments classified within level 3 include an investment in a property which is held for sale and three alternative assets being two limited partnership interests' in early stage venture capital and an unlisted infrastructure.

The property investment is carried at fair value based on an annual assessment by an external valuation company (refer note 9).

Notes to the Financial Statements for the year ended 30 June 2019

Note 15 - Financial risk management and financial instruments - continued

(g) Fair values - continued

The alternative assets represent interests in early stage venture capital and unlisted infrastructure. The directors have determined fair value by internal valuation methodology (referencing specialist asset manager valuation techniques) which has regard to the original transaction price, subsequent follow on investments, and other underlying assets and liabilities of the partnerships (refer note 8).

In prior year management performed a sensitivity analysis of the Scheme's exposure to changes in unobservable inputs used to value property investments at the balance sheet date. This sensitivity analysis demonstrated the effect on prior year results and net assets attributable to unitholders which could result from a change in valuation by 10%. The property was sold in the year ended 30 June 2019.

For limited partnership interests' internal valuation have been adjusted by 10% (2018: 10%).

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

At balance date, the effect on net assets attributable to unitholders as a result of changes defined above with all other variables remaining constant would be as follows:

	2019	2018
	$'000	$'000
Decrease in value by 10%	**-**	(167)
Increase in value by 10%	**-**	167
Increase in limited partnership interests by 10%	**702**	354
Decrease in limited partnership interests by 10%	**(702)**	(354)

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

Assets held at fair value		
Opening balance at 1 July	**5,208**	5,030
Acquisition of new level 3 assets	**18,708**	860
Disposals	**(1,597)**	-
Net fair value losses	**(39)**	(122)
Net loss on property revaluation/realisation	**(73)**	(560)
	22,207	5,208

Carrying amounts versus fair value

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

Notes to the Financial Statements for the year ended 30 June 2019

Note 16 - Investment in unconsolidated structured entities

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

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

Type of structured entity	**Nature and purpose**	**Interest held by the Scheme**
Investment Schemes	To pool investors’ savings and invest in a diversified portfolio of securities.	Investments in units issued by the Schemes.
Early stage venture capital partnerships	To manage assets on behalf of third party investors. These vehicles are financed through the issue of partnership interests to investors.	Limited partnership interest

	Fair value as at		**Ownership interest**	
	30-Jun-19	30-Jun-18	**30-Jun-19**	30-Jun-18
Investment Schemes	**$**	$	**%**	%
Australian Ethical International Shares Fund	**251,971,226**	195,475,187	**34.63%**	33.66%
Australian Ethical Income Fund	**69,839,195**	46,496,556	**39.95%**	33.12%
Australian Ethical Diversified Shares Fund	**498,273,319**	381,131,479	**47.33%**	45.32%
Australian Ethical Property Trust	**5,857,345**	5,427,790	**50.00%**	50.00%
Australian Ethical Australian Shares Fund	**84,539,944**	83,505,257	**9.78%**	10.52%
Australian Ethical Fixed Interest Fund	**340,140,420**	262,342,891	**73.62%**	72.87%
Australian Ethical Emerging Companies Fund	**26,432,419**	18,959,053	**32.02%**	31.92%
Investa Property Group	**70,388,851**	61,583,938	**1.53%**	1.43%
Healthcare Wholesale Property Trust	**44,506,708**	41,316,868	**22.30%**	22.30%
Morrison & Co Growth Infrastructure Fund	**15,188,310**	-	**36.17%**	-
Early Stage Venture Capital Partnerships				
Artesian Clean Energy ESVCLP ILP	**1,225,849**	1,327,553	**22.47%**	22.47%
Right Click Capital Growth Fund	**5,793,370**	2,210,482	**29.62%**	19.72%

Each of the above structured entities is incorporated in Australia.

The maximum exposure or loss is limited to the total fair value of the investment as at the reporting date. The fair value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed. The unconsolidated structured entities are managed in accordance with the investment strategy with the respective underlying investment managers. The investment decisions of the structured entities are based on the analysis conducted by the investment manager. The return of the structured entities is exposed to the variability of the performance of the underlying investment strategies. The investment managers receive a management fee for undertaking the management of these investments. Income is received from non-related structured entities in accordance with Constitutions or Partnership Agreements.

The Scheme does not have current commitments (except as per Note 17) or intentions or a contractual obligation to provide financial or other support to unconsolidated structured entities and has no intention of providing financial or other support.

Notes to the Financial Statements for the year ended 30 June 2019

Note 16 - Investment in unconsolidated structured entities - continued

Unconsolidated subsidiaries

The Scheme has determined that it is an investment entity under the definition in AASB 10 as it meets the following criteria:

(a) It obtains funds from one or more investors for the purpose of providing those investors with investment management;

(b) Its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) It measures and evaluates the performance of all of its investments on a fair value basis.

Accordingly, the Scheme applied the investment entity exemption to consolidation and measured the following subsidiaries at fair value through profit or loss.

	Fair value as at		**Ownership interest**	
	30-Jun-19	30-Jun-18	**30-Jun-19**	30-Jun-18
Subsidiary and associates	**$**	$	**%**	%
Australian Ethical Fixed Interest Fund	**340,140,420**	262,342,891	**73.62%**	72.87%
Australian Ethical Property Trust	**5,857,345**	5,427,790	**50.00%**	50.00%

Each of the above subsidiaries and associates is incorporated in Australia.

The Scheme does not have current commitments, intentions or a contractual obligations to provide financial or other support to the unconsolidated subsidiaries. There are no loans or advances currently made to these entities. There are no significant restrictions on the ability of an unconsolidated entities to transfer funds to the Scheme in the form of cash distributions.

Note 17 - Commitments

As at 30 June 2019 the Scheme has outstanding unpaid commitments to two early stage venture capital funds being Right Click Capital of $6,916,916 (June 2018: $5,100,307) and Artesian Clean Energy of $4,425,000 (June 2018: $4,425,000). The investment period within which the commitments may be called is within 1-3 years from reporting date. The Scheme also has outstanding unpaid commitments to the Morrison & Co. Growth Infrastructure Fund of $42,209,552 (2018: $57,000,000) which may be called over an investment period of 6 years.

Australian Ethical Investment Limited has committed to $30,000,000 (2018: $30,000,000) into the Healthcare Wholesale Property Fund which is expected to be called within 6 months from reporting date. The commitment amount is allocated to the Scheme and the Australian Ethical Superannuation Retail Fund based on their strategic asset allocation as at the latest call date. The Scheme's additional investment as at 30 June 2019 has been determined to be a commitment of $27,938,304 (2018: $18,500,000).

Note 18 - Contingencies

There are no contingent assets or liabilities as at 30 June 2019 (2018: nil).

Note 19 - Events subsequent to the reporting date

As the investments in the Scheme are measured at their 30 June 2019 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However the current value of investments is reflected in the current unit price.

Other than disclosed in Note 17, during the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

Directors' Declaration

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

(a) The annual financial statements and notes that are set out on pages 7 to 30 are in accordance with the Corporations Act 2001, including:

i. Giving a true and fair view of the Scheme’s financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and

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

(c) The Scheme has operated during the year in accordance with the provisions of the Schemes constitution.

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

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

S. P. Gibbs

Stephen Gibbs
Director
Australian Ethical Investment Limited
24 September 2019