

# Income Fund

Interim Financial Report  
as at 31 December 2022



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# Directors' Report

# Directors' Report

For the half-year ended 31 December 2022

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Income Fund ("the Scheme") present the directors' report together with the financial statements and notes to the financial statements of the Scheme for the half-year ended 31 December 2022 and the accompanying independent auditor's report.

## RESPONSIBLE ENTITY

Australian Ethical Investment Limited (ABN 47 003 188 930) serves as the Responsible Entity for the Scheme.

The 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:

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

## PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activity of the Scheme is to pool investors' savings to invest in interest-bearing investments, 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 short-dated deposits, high grade mortgage-backed securities, State and Commonwealth Government bonds, and bank and corporate bonds. 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.

In November 2022, the Australian Ethical successfully managed and completed the Christian Super successor fund transfer (SFT). This resulted in the Scheme receiving a net inflow of \$88.5m inflow from the SFT, of which \$32.2m was received in cash and \$56.3m was in-specie assets.

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

## REVIEW OF OPERATIONS

2022 was the year when both Australians and the economy swung back into action, and we started to settle into the "new normal" following several extraordinarily disrupted years of the Covid-19 pandemic. Our borders reopened, and many were reunited with friends and family for the first time in too long.

However, the economic backdrop has been far from normal, with the Russian invasion of Ukraine continuing to cause global supply chain disruptions, pushing up inflation to levels not seen in decades and resulting in a rebound in energy stocks. And the reopening of China later in the year then saw mining stocks also outperform in the market. Pure-play investors like Australian Ethical have been negatively impacted by the exclusion of much of the resources and energy sectors that have driven most of the market performance during this period.

But signs are pointing to a shift, the International Energy Agency has forecast that the security and price stability of domestically produced renewable energy has become so attractive to governments that it will become the world's top source of electricity in the next three years. And of course, there is an ever-more-urgent need for Australia to

switch to more renewable forms of energy if we are as a nation going to meet our 2030 targets in line with the Paris Agreement.

Consumer sentiment is also shifting. In May, we elected a new Federal Government that is taking a more consultative approach, while working to push forward a more progressive agenda.

As the climate crisis grows ever more urgent, so too will our voice in calling for others across the industry to listen to what Australians are telling us they want – their money invested in sectors and companies that are good for people, animals, and the planet.

## Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 30 September 2022.

## Results

Both cultural and economic shifts have continued over the past six months. Russia's invasion of Ukraine in February brought the world's reliance on fossil fuels into sharp focus, with the war in Ukraine seeing energy and mining stocks soaring. Returns from short-dated fixed income products had a long period of suppression after the cash rate was moved to near-zero in response to the pandemic. In the six-month period to 31 December 2022, with the cash rate now normalising, there has been a welcome return to form.

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 Returns. The Scheme achieved the following total returns for the period:

- Retail class 1.22% (December 2021: -0.01%); and
- Wholesale class 1.22% (December 2021: -0.01%).

Both the wholesale class and the retail class returned 1.22% for the six-month period to 31 December 2022 sitting 0.05% ahead of the return from the benchmark, the Bloomberg AusBond Bank Bill Index.

Early 2022 saw 1-year yields rising in anticipation of increases from the RBA, and credit spreads widening in anticipation of increased issuance from banks returning to credit markets for funding. With spreads stabilising, and the RBA operating largely as expected, the Scheme has benefited from a rising 3 month-bank bill swap rate on floating rate instruments, with term deposit maturities similarly enjoying rolling into higher resets. There were no credit defaults among the Scheme's assets though the half.

The Scheme seeks to provide an income stream consistent with prevailing short-term interest rates while minimising the risk of capital loss and supporting the Australian Ethical Charter. The recommended minimum investment timeframe is 1 year.

## 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 2 the interim distributions of \$3,129,232 (December 2021: \$574,721) were as follows:

- Retail class of 0.81 (December 2021: 0.08) cents per unit;
- Wholesale class of 0.81 (December 2021: 0.08) cents per unit; and
- Zero class of 0.77 (December 2021: 0.16) cents per unit.

The prior year final distribution \$1,432,342 was paid in July 2022.

## Net assets

The value of the Scheme's net assets attributable to unitholders as at 31 December 2022 was \$398,197,105 (30 June 2022: \$379,268,585).

## Fees

Responsible Entity fees charged for the period were as follows:

- 0.20% for the retail class (December 2021: 0.20%);
- 0.20% for the wholesale class (December 2021: 0.20%); and
- Nil for the zero class (December 2021: Nil).

## Climate change

### GOVERNING CLIMATE-RELATED DECISION MAKING

2022 ended with some mixed results from the COP27 United Nations Climate Conference and COP15 United Nations Biodiversity Conference. A Global Biodiversity Framework was adopted with twenty-three 2030 targets, including to conserve at least 30% of the world's land, coasts, and oceans, to restore 30% of land and marine ecosystems, and to halve food waste. There was agreement to establish a fund to financially support nations most vulnerable to the climate crisis, though with limited details about sources of the funding. Countries signalled support for more renewables and phasing out of coal, though they were less clear about the need to phase out oil and gas. Our ethical investing and stewardship will leverage the growing global consensus on what is needed to limit warming and preserve and restore biodiversity. We will also use our influence to focus on progress in areas like transitioning away from fossil fuels where we see gaps in global consensus and action.

Our approach to ethical investment is governed by our Ethical Charter, and our Investment Team and Head of Ethics Research are responsible for its implementation across our investment activities.

The Charter's 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 Investment Team and Head of Ethics Research are also responsible for approving new and updated ethical frameworks, which include our climate-related ethical screening criteria for emissions intensive sectors. The Board 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 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 main 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. 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.

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.

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.

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

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

#### ROUNDING OF AMOUNTS

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

## AUDITOR'S DECLARATION

The auditor's independence declaration is included on page 10 of this report and forms part of the directors' report for the half-year ended 31 December 2022.

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



John McMurdo  
Managing Director  
Australian Ethical Investment Limited  
21 February 2023



# Lead Auditor's Independence Declaration



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

To the Directors of Australian Ethical Investment Limited, The Responsible  
Entity for the Australian Ethical Income Fund

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Ethical  
Income Fund for the half-year ended 31 December 2022 there have been:

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

KPMG

Andrew Reeves  
*Partner*

Sydney  
21 February 2023

# Financial Statements

# Financial Statements

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2022

	Note	Dec-22 \$'000	Dec-21 \$'000
<b>Investment income</b>			
Interest		6,332	4,087
Net change in fair value of financial assets		(1,212)	(3,785)
<b>Net investment income</b>		<b>5,120</b>	<b>302</b>
<b>Operating expenses</b>			
Management fees		13	11
<b>Operating expenses before finance costs</b>		<b>13</b>	<b>11</b>
<b>Profit/(loss) from operating activities</b>		<b>5,107</b>	<b>291</b>
<b>Finance costs</b>			
Distributions paid and payable to unitholders of the Scheme	2	(3,129)	(575)
<b>Change in net assets attributable to unitholders (total comprehensive income)</b>	<b>4</b>	<b>1,978</b>	<b>(284)</b>

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	Dec-22 \$'000	Jun-22 \$'000
<b>Assets</b>			
Cash and cash equivalents		34,315	27,957
Receivables		3,477	1,728
Financial assets held at fair value through profit or loss	5	363,535	351,017
<b>Total assets</b>		<b>401,327</b>	<b>380,702</b>
<b>Liabilities</b>			
Payables		1	1
Distribution payable	2	3,129	1,432
<b>Total liabilities</b>		<b>3,130</b>	<b>1,433</b>
<b>Net assets attributable to unitholders</b>	<b>4</b>	<b>398,197</b>	<b>379,269</b>
<b>Represented by:</b>			
Net assets attributable to unitholders at net asset value price		401,476	380,814
Distribution payable to unitholders of the Scheme	2	(3,129)	(1,432)
Adjustments arising from different unit pricing and accounting valuations		(150)	(113)
<b>Total net assets attributable to unitholders</b>	<b>4</b>	<b>398,197</b>	<b>379,269</b>

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

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## STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2022

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

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

## STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2022

	Dec-22 \$'000	Dec-21 \$'000
<b>Cash flows from operating activities</b>		
Interest received	5,087	3,972
Management fees paid	(13)	(10)
<b>Net cash provided by operating activities</b>	<b>5,074</b>	<b>3,962</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	239,021	109,857
Purchase of investments	(196,398)	(163,558)
<b>Net cash used in investing activities</b>	<b>42,623</b>	<b>(53,701)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of units	84,208	72,399
Payments for redemption of units	(125,535)	(27,466)
Distributions paid to unitholders	(12)	(6)
<b>Net cash provided by financing activities</b>	<b>(41,339)</b>	<b>44,927</b>
Net increase/(decrease) in cash and cash equivalents	6,358	(4,812)
Cash and cash equivalents at 1 July	27,957	28,116
<b>Cash and cash equivalents at 31 December</b>	<b>34,315</b>	<b>23,304</b>

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

# Notes to the Financial Statements



# Notes to the Financial Statements

For the half-year ended 31 December 2022

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

The Australian Ethical Income 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's Constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the half-year ended 31 December 2022.

### Statement of compliance

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

### BASIS OF PREPARATION

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

This interim financial report is a general-purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The interim financial report covers Australian Ethical Income Fund ("the Scheme") as an individual entity. The Responsible Entity of the Scheme is Australian Ethical Investment Limited (the "Responsible Entity"). The registered office is Boardroom Pty Limited, Grosvenor Place, Level 12, 225 George Street, Sydney, NSW, 2000. The interim financial report is presented in Australian dollars, which is the Scheme's functional currency.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Scheme since the last annual financial statements as at and for the year ended 30 June 2022. The interim financial report does not include all of the information required for full annual financial reports and should be read in conjunction with the annual financial report of the Scheme as at and for the year ended 30 June 2022, and any public announcements made in respect of the Scheme during the reporting period in accordance with continuous disclosure requirements of the Corporations Act 2001.

### 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.

## **FAIR VALUE MEASUREMENT PRINCIPLES**

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

The Scheme can invest into a variety of assets, including short-dated deposits, high grade mortgage-backed securities, State and Commonwealth Government bonds, bank, and corporate bonds. 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; and
- quoted 'bid' prices on securities.

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

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

## **Classification**

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

## **Recognition and initial measurement**

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

## **Measurement**

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

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

## **Derecognition**

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

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

### Impairment of financial assets held at amortised cost

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

### STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET ADOPTED

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2022 reporting period and have not been early adopted by the Scheme. Management have assessed that none of these are expected to have a material impact on the financial statements of the Scheme.

### NOTE 2 – DISTRIBUTIONS PAID AND PAYABLE

	<b>Dec-22</b>	Dec-21
	<b>\$'000</b>	\$'000
<b>Distributions payable</b>	<b>3,129</b>	575

The Scheme's interim distributions for the period were as follows:

- Retail class of 0.81 (December 2021: 0.08) cents per unit;
- Wholesale class of 0.81 (December 2021: 0.08) cents per unit; and
- Zero class of 0.77 (December 2021: 0.16) cents per unit.

The prior year final distribution \$1,432,342 was paid in July 2022.

### NOTE 3 – ISSUED UNITS

Each unit represents a right to an individual share in the Scheme per the Constitution. Zero class units are issued to other schemes managed by the Responsible Entity and the Australian Ethical Retail Superannuation Fund (AERSF). All rights attached to zero class units are the same as those of the other classes.

	<b>Dec-22</b>	Dec-21
	<b>Units</b>	Units
<b>Retail class</b>		
On issue at beginning of period	<b>1,581,042</b>	1,528,500
Issued	<b>202,028</b>	306,353
Reclassified to wholesale class	<b>(160,848)</b>	(40,787)
Redeemed	<b>(56,235)</b>	(190,779)
<b>On issue at period end</b>	<b>1,565,987</b>	1,603,287

	Dec-22 Units	Dec-21 Units
<b>Wholesale class</b>		
On issue at beginning of period	11,472,846	8,521,603
Issued	1,704,892	2,025,045
Reclassified from retail class	160,798	40,775
Redeemed	(1,180,434)	(722,188)
<b>On issue at period end</b>	<b>12,158,102</b>	<b>9,865,235</b>
<b>Zero class</b>		
On issue at beginning of period	375,703,129	317,092,865
SFT investment	89,774,014	-
Other issued	44,578,767	72,530,635
Redeemed	(117,763,997)	(27,033,651)
<b>On issue at period end</b>	<b>392,291,913</b>	<b>362,589,849</b>

## NOTE 4 – 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.

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to generate an income stream consistent with prevailing short-term interest rates while minimising the risk of capital loss.

	Dec-22 \$'000	Dec-21 \$'000
Opening balance	379,269	321,213
SFT investment	88,463	-
Other issued	44,124	72,399
Distributions reinvested	1,420	1,171
Redeemed	(117,058)	(27,466)
Change in net assets attributable to unitholders	1,978	(284)
<b>Net assets attributable to unitholders</b>	<b>398,197</b>	<b>367,033</b>

## NOTE 5 – FAIR VALUES

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

In November 2022, the Australian Ethical successfully managed and completed the Christian Super successor fund transfer (SFT). This resulted in the Scheme receiving a net inflow of \$88.5m inflow from the SFT, of which \$32.2m was received in cash and \$56.3m was in-specie assets.

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

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

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

	<b>Dec-22</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000
<b>Designated at fair value through profit or loss</b>				
<b>Interest-bearing securities</b>				
Government securities	167,548	-	-	167,548
Notes/debt instruments unsecured	1,512	194,475	-	195,987
<b>Financial assets at fair value through profit or loss</b>	<b>169,060</b>	<b>194,475</b>	<b>-</b>	<b>363,535</b>

	<b>Jun-22</b>			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Designated at fair value through profit or loss</b>				
<b>Interest-bearing securities</b>				
Government securities	194,078	-	-	194,078
Notes/debt instruments unsecured	1,002	155,937	-	156,939
<b>Financial assets at fair value through profit or loss</b>	<b>195,080</b>	<b>155,937</b>	<b>-</b>	<b>351,017</b>

The Scheme does not hold any Level 3 assets. During the period there were no transfers between levels.

### CARRYING AMOUNTS VERSUS FAIR VALUE

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

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## **NOTE 6 - CONTINGENCIES**

There are no contingent assets or liabilities as at 31 December 2022 (June 2022: Nil).

## **NOTE 7 - EVENTS OCCURRING AFTER THE REPORTING DATE**

As the investments in the Scheme are measured at their 31 December 2022 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

During the period from 31 December 2022 and the date of this report, there were no items, transactions, or events of a material and unusual nature likely in the opinion of the Responsible Entity, to significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial periods.

# Directors' Declaration

# Directors' Declaration

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

- a) The financial statements and notes to the financial statements that are set out in this report are in accordance with the Corporations Act 2001, including:
  - i. Giving a true and fair view of the Scheme's financial position as at 31 December 2022 and of its performance for the six-month period ended on that date; and
  - ii. Complying with Australian Accounting Standards and Corporations Regulations 2001;
- b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable; and
- c) The Scheme has operated during the half-year ended 31 December 2022 in accordance with the provisions of the Scheme's Constitution.

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



John McMurdo  
Managing Director  
Australian Ethical Investment Limited  
21 February 2023



# Independent Auditor's Report



# Independent Auditor's Review Report

To the unitholders of Australian Ethical Income Fund

## Conclusion

We have reviewed the accompanying **Interim Financial Report** of Australian Ethical Income Fund (the Scheme).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Australian Ethical Income Fund does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 31 December 2022 and of its performance for the Interim Period ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Statement of financial position as at 31 December 2022;
- Statement of profit or loss and other comprehensive income for the Interim Period ended on that date;
- Statement of changes in equity and Statement of cash flows for the Interim Period ended on that date;
- Notes 1 to 7 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

## Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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



## Responsibilities of the Directors for the Interim Financial Report

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

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Scheme's financial position as at 31 December 2022 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Andrew Reeves  
Partner

Sydney  
21 February 2023