

Retail Superannuation Fund

Financial Statements
for the year ended 30 June 2023



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Trustee's Statement

Trustee's Statement to the members of Australian Ethical Retail Superannuation Fund

For the year ended 30 June 2023

The Trustee of the Australian Ethical Retail Superannuation Fund ("the Fund") present the trustee statement together with the financial statements and notes to the financial statements of the Fund for the financial year ended 30 June 2023 and the accompanying independent auditor's report.

RESPONSIBLE ENTITY

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

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

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

- Steve Gibbs (Chairman)
- Kate Greenhill
- Mara Bun
- Michael Anderson (appointed 1 December 2022)
- Michael Monaghan (departed 31 March 2023)

REVIEW OF OPERATIONS

Year in review

Soaring energy and food prices, spiralling inflation and the monetary tightening policies meted out by central banks in response, were the economic hallmarks of FY23. Sanctions by the West on Russia, one of the largest fossil fuel producers in the world, drought in Europe and China, along with broader supply chain disruptions amplified by protracted Covid-zero lock-downs in China, made food and energy harder to access and more expensive. This contributed to burgeoning inflation across much of the globe. Central Banks around the world responded to this challenging environment with the fastest monetary tightening in recent history. In Australia, after increasing rates in May 2022 for the first time since November 2010, the Reserve Bank of Australia raised interest rates 10 times in the 2023 financial year from 0.85% to 4.10%. Similarly, as it battled to stabilise prices, the US Federal Reserve raised rates from near zero (0.08%) in February 2022 to 5.08% by the end of FY23, the highest level in 16 years.

Significantly higher food and energy prices, along with the ratcheting up of mortgage and rent payments, placed great stress on households and communities in Australia and internationally. To add insult to injury, many of these citizens were also dealing with the destruction of their homes and communities through the impact of war, floods or wildfires.

The year was also a demanding one for investors as the ballooning interest rates impacted equity valuations and dampened the bond market. Of all sectors, fossil fuels and resources performed better than others, making the first half of the year a challenging one for ethical investors. The recovery of China after Covid Zero proved slower than expected, interest rates continued to bite and by March there were concerns of recession and of more banking failures in the US and Europe.

We maintain our long-held view that the transition to renewable energy is a compelling economic as well as ethical proposition. Indeed, by its illegal actions, Russia has served to highlight that dependence on fossil fuel imports is an untenable security risk for many countries, and it has helped to supercharge investment in renewable energy around the world. The International Energy Agency (IEA) tells us that 2023 will be remembered as a tipping point: the year global investment in renewables exceeded that of fossil fuels for the very first time.

In the second half of the year – and in particular the last three months – market sentiment demonstrated an increased appetite for risk assets, especially the Artificial Intelligence (AI) and specialist technology sector. This positive sentiment flowed on to other industries aligned with our Ethical Charter and as a result, we were able to deliver positive performance for all our investment options over the full year.

Greenwashing, the practice of misleading consumers by promoting environmentally friendly initiatives or products that do not fully deliver on those claims, is a growing global concern for the financial services industry as a whole, and responsible investors in particular. Not only does greenwashing erode consumer confidence in responsible investment products but it means money is supporting investments with less beneficial outcomes for people, the planet, and animals.

ASIC issued stricter guidelines on how to avoid greenwashing when communicating financial products and has carried out 35 interventions this financial year to 31 March 2023, including initiating civil penalty proceedings.

As a pure-play ethical fund operating under strict frameworks reflecting our Ethical Charter, we are mindful of the need to carefully explain our ethical approach to prospective and existing members. We work hard to continuously improve the quality of our communications and the transparency of our disclosure.

Climate change

Climate change awareness is contributing to growth in responsible and ethical investing, leading also to both competition and regulation accelerating. There is also rapid growth in climate investment opportunities both in decarbonisation and adaptation. Imperfect information on climate attributes creates challenges to investment management as well as opportunities for outperformance.

All of our investments are made considering our Ethical Charter, which is embedded in our Constitution and overseen by our Board. The Charter's 23 principles are applied using our ethical frameworks, policies, and measurement systems. These ensure we prioritise action to avoid dangerous climate change and its serious impacts on the planet, people, and animals. This priority is pursued through the way we invest, including through negative and positive screening, engagement and advocacy, and climate performance measurement and reporting.

Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit climate change consistent with the global goals set out in the Paris Agreement. We believe these investments are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. Our approach can also strengthen specialist investment capabilities to navigate technological change associated with climate disruption and transition.

While our investment approach focuses on the need to reduce emissions to limit dangerous climate change, we also recognise it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

Our Chief Investment Officer and Head of Impact & Ethics are responsible for implementation of our Ethical Charter across our investment activities. They approve new and updated ethical frameworks, which include our climate-related ethical screening criteria.

We report quarterly to the Board, via the investment committee, of changes to frameworks and critical ethical issues. Climate change related topics are regular agenda items, and the Board includes members with climate change expertise.

Our ethics research team applies our Ethical Charter on a day-to-day basis in our investment processes. The team includes members with expertise in climate change. Using diverse company, industry, government, responsible investment, scientific, civil society and news sources, the team monitors developments in:

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

Through our investments and stewardship, we are working towards the emissions reduction needed to limit temperature increase to 1.5°C - consistent with the most ambitious aims of the Paris Agreement.

We report on the action we are taking to pursue our climate ambition, including indicators of progress, in our annual sustainability report, which is developed with reference to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Action in pursuit of our climate ambition includes:

- Engagement and advocacy to help stop finance for expansion of the fossil fuel sector; to help stop and reverse land clearing and deforestation for animal agriculture; to help increase the development and use of low carbon building materials supporting the net zero transition of the real estate sector;
- Seeking to leverage the collective power of aligned investors by leading and participating in collaborative engagements with high emissions companies, including through the global initiative Climate Action 100+;
- Work to encourage better government climate policy, including contributing to the policy engagement and advocacy of the Investor Group on Climate Change; and
- Applying and communicating our climate-related Ethical Criteria for investment in key sectors including the energy, finance, food, transport, and mining sectors.

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

Trustee Declaration

Trustee Declaration

In the opinion of the Trustee of the Fund:

- a) The financial statements of the Australian Ethical Retail Superannuation Fund as set out on pages 10 to 40 are drawn up as to present fairly the financial position of the Fund as at 30 June 2023 and the results of its operations and its cash flows for the year ended on that date; and
- b) The operation of the Australian Ethical Retail Superannuation Fund has been carried out in accordance with the Trust Deed dated 15 July 1998, as amended, and in compliance with:
 - i. the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations;
 - ii. applicable sections of the *Corporations Act 2001* and Regulations; and
 - iii. the requirements under Section 13 of the *Financial Sector (Collection of Data) Act 2001*.
- c) The financial statements have been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other mandatory professional reporting requirements and the provisions of the Trust Deed dated 15 July 1998, as amended; and
- d) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733) as Trustee for the Australian Ethical Retail Superannuation Fund.



Steve Gibbs
Director

Dated at Sydney this 19th day of September 2023

Financial Statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Assets			
Cash and cash equivalents	4	50,859	33,218
Investments	5	7,185,871	4,081,374
Receivables			
Receivables	6	110,768	184,266
Other assets			
Deferred tax assets	12	680	331
Total assets		7,348,178	4,299,189
Liabilities			
Payables	7	25,857	6,800
Current tax liabilities	13	14,519	21,659
Deferred tax liabilities	12	80,559	27,661
Derivative liabilities	18	433	-
Total liabilities (excluding member benefits)		121,368	56,120
Net assets available to pay benefits		7,226,810	4,243,069
Member benefits			
Allocated to members		7,202,543	4,227,635
Unallocated to members	14	5,152	5,704
Total member benefits		7,207,695	4,233,339
Total net assets		19,115	9,730
Equity			
Operational risk reserve		19,115	9,730
Total equity		19,115	9,730

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

INCOME STATEMENT

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Superannuation activities			
Distributions		153,572	216,524
Interest		1,211	22
Movement in fair value of investments	8	486,770	(586,685)
Other income		4,467	306
Net revenue/(loss)		646,020	(369,833)
Expenses			
Investment expenses		43,980	34,019
Administration expenses		18,777	16,091
Other expenses		75	53
Total expenses		62,832	50,163
Profit/(loss) from operating activities before income tax expense		583,188	(419,996)
Less: Income tax expense/(benefit)	11	42,251	(55,768)
Profit/(loss) from operating activities after income tax expense		540,937	(364,228)
Less: Net benefits/(loss) allocated to members' accounts		536,365	(365,110)
Profit after income tax		4,572	882

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

STATEMENT OF CHANGES IN MEMBER BENEFITS

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Opening balance of member benefits		4,233,339	3,908,174
Employer contributions		481,669	306,663
Member contributions		110,705	107,254
Transfers from other superannuation funds		331,918	497,322
Government contributions		4,702	3,101
Successor fund transfer	1	1,924,245	-
Income tax on contributions		(77,579)	(50,496)
Net after tax contributions		7,008,999	863,844
Benefit payments		(329,626)	(167,051)
Insurance premiums charged to members' accounts		(14,927)	(9,695)
Death and disability benefits credited to members' accounts		6,884	3,177
Benefits allocated to members' accounts, comprising;			
Net investment income/(losses)		541,788	(360,017)
Net direct administration fees		(5,423)	(5,093)
Closing balance of member benefits		7,207,695	4,233,339

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

STATEMENT OF CHANGES IN RESERVES

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Opening balance of operational risk reserve		9,730	8,848
Net funding to reserves		2,934	2,059
Successor fund transfer*		4,813	-
Movement in fair value of investments		1,638	(1,177)
Closing balance of operational risk reserve	3	19,115	9,730

* Transfer from Christian Super and does not form part of the Income Statement.

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Interest		1,209	22
Distributions		7,543	1,338
Death and disability benefits received		6,884	3,177
Successor fund transfer – administration and tax reserves	1	17,539	-
Insurance premiums paid		(13,743)	(9,556)
Investment, administration, and other expenses		(62,127)	(50,161)
Other income		4,451	388
Income tax paid		(2,291)	(6,613)
Net cash flows from operating activities	10	(40,535)	(61,405)
Cash flows from investing activities			
Proceeds from sale of investments		401,111	186,926
Payments for purchase of investments		(874,635)	(828,090)
Net cash flows from investing activities		(473,524)	(641,164)
Cash flows from financing activities			
Employer contributions		481,669	306,663
Member contributions		110,705	107,254
Transfers from other superannuation funds		331,918	497,322
Government contributions		4,702	3,101
Successor fund transfer	1	2,544	-
Benefit payments		(327,709)	(166,238)
Income tax paid on contributions received		(72,129)	(46,228)
Net cash flows from financing activities		531,700	701,874
Net increase/(decrease) in cash and cash equivalents		17,641	(695)
Cash at the beginning of the period		33,218	33,913
Cash at the end of the period	4	50,859	33,218

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

Notes to the Financial Statements

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 1 – REPORTING ENTITY

Australian Ethical Retail Superannuation Fund (the "Fund") is a defined contribution superannuation fund domiciled in Australia. The Fund is constituted by a Trust Deed dated 15 July 1998. The address of the Fund's registered office is Level 8, 124-130 Pitt St, Sydney, NSW, 2000. The Trustee of the Fund is Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733).

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

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

On 13 July 2022, Australian Ethical entered into a successor fund transfer (SFT) deed with Christian Super. The SFT was completed on 25 November 2022 where 28,253 Christian Super members and \$1,925 million of assets were transferred into the Fund of which \$2 million was received in cash and \$1,923 million of in-specie assets. The ex-Christian Super members continue to be administered by AAS.

In addition, the Christian Super administration and tax reserves were transferred to the Fund. The reserve balances totalling \$18 million comprising of funds relating to the Christian Super final tax liability payable to the Australian Taxation Office (ATO) and to provide for outstanding administration related expense payments that had not been invoiced to Christian Super prior to the SFT. An excess tax reserve balance had been identified by Australian Ethical and was distributed back to the Fund's members by processing the excess amount into the Fund's unit prices as at 30 June 2023. The excess administration reserve balance will be determined and disbursed back to the ex-Christian Super members before 30 June 2024 once all Christian Super related expense payments have been settled.

NOTE 2 – BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The financial statements were approved by the Board of Directors of the Trustee on 19 September 2023.

ESTIMATES AND JUDGEMENTS

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

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

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

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

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Australian currency and are for the period from 1 July 2022 to 30 June 2023 (the reporting period).

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

STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET ADOPTED

Management have assessed there are no new accounting standards, interpretations or amendments to existing standards that are effective for the period beginning 1 July 2022 that would be expected to have a material impact on the Fund.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

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

Fair value in an active market

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

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

Fair value in an inactive or unquoted market

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

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

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

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

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

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

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

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

Offsetting

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

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

Foreign currency transactions and balances

Assets and liabilities denominated in foreign currency are translated at the rates of exchange ruling at the reporting date. Unrealised foreign exchange gains or losses, arising on translation of assets and liabilities denominated in foreign currency at reporting date, are recognised as part of the 'Movement in fair value of investments' in the Income Statement.

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Realised foreign exchange gains or losses, arising on the sale of assets denominated in foreign currency, are brought to account as part of 'Movement in fair value of investments' in the Income Statement.

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

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

Derivative financial instruments

In accordance with the Fund's investment strategy, the Fund may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. After initial recognition, derivatives are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement.

CASH AND CASH EQUIVALENTS

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

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

REVENUE

Interest

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

Distributions

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

Movement in fair value of investments

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

EXPENSES

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

CONTRIBUTIONS REVENUE AND TRANSFERS IN

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

INCOME TAX

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

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

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

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

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

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

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

GOODS AND SERVICES TAX

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

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

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

RECEIVABLES

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

PAYABLES

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

BENEFITS PAYABLE

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

OPERATIONAL RISK FINANCIAL RESERVE

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

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

The Trustee has assessed a target ORFR balance of 0.25% of funds under management as appropriate for the Fund, with a 0.20% to 0.33% range to allow for changes in market movements. As at 30 June 2023 the ORFR balance equates to 0.27% (2022: 0.23%) of funds under management.

On the 25 November 2022 the Christian Super ORFR balance of \$4.8m was transferred into the Fund's ORFR. The balance was equal to 0.25% of the Christian Super funds under management.

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

NOTE 4 – CASH AND CASH EQUIVALENTS

	2023	2022
	\$'000	\$'000
Cash and cash equivalents	50,859	33,218

NOTE 5 – INVESTMENTS

	2023 \$'000	2022 \$'000
Super options		
Balanced	4,203,176	2,248,825
Conservative	699,971	105,337
High Growth	645,916	204,132
Australian Shares	581,965	518,273
Growth	252,378	549,011
Defensive	158,180	109,779
International Shares	139,266	94,005
Total investments in super options	6,680,852	3,829,362
Pension options		
Balanced	237,244	135,312
Defensive	81,677	10,270
Conservative	78,283	36,024
Growth	31,982	27,312
Australian Shares	19,607	24,071
International Shares	9,820	5,594
Total investments in pension options	458,613	238,583
Cash held for investment purposes*		
Cash	27,291	3,699
Total cash held for investment purposes	27,291	3,699
Operational Risk Financial Reserve		
Cash	98	33
Balanced	19,017	9,697
Total held in operational risk financial reserve	19,115	9,730
Total investments	7,185,871	4,081,374

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

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

NOTE 6 – RECEIVABLES

	2023 \$'000	2022 \$'000
Recoverable within 12 months		
Investment income	108,699	182,709
GST	1,338	880
Member fee rebates	729	677
Interest	2	-
Total receivables	110,768	184,266

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

NOTE 7 – PAYABLES

	2023 \$'000	2022 \$'000
Due within 12 months		
Benefit payments	3,214	1,264
Insurance premiums	2,035	852
Investment management fees	1,546	634
Administration fees*	687	591
Trustee administration fees	477	284
Unsettled investments	264	3,048
PAYG tax	96	127
Christian Super tax	10,232	-
Christian Super administration expenses	7,306	-
Total payables	25,857	6,800

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

On 25 November 2022 the Christian Super payables and reserve balances were transferred to the Fund as part of the SFT. The payables include Christian Super's final tax liability which will be settled with the Australian Taxation Office by 31 January 2024. The administration expenses payable relates to expense payments that had not been invoiced prior to the SFT. After settlement of all outstanding administration expenses, any excess will be disbursed to ex-Christian Super members by 30 June 2024.

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

NOTE 8 – MOVEMENT IN FAIR VALUE OF INVESTMENTS

	2023	2022
	\$'000	\$'000
Unrealised gains/(losses)	481,666	(583,531)
Realised gains/(losses)	6,811	(3,154)
Effects of changes in foreign exchange rates	(1,707)	-
Total movement in fair value of investments	486,770	(586,685)

NOTE 9 – AUDITOR'S REMUNERATION

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

	2023	2022
	\$'000	\$'000
Audit of the financial statements of the entity	47	37
Successor fund transfer assurance review	31	-
Other regulatory audits	74	69
Tax compliance and advisory	88	9
Total auditor's remuneration	240	115

NOTE 10 – RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2023	2022
	\$'000	\$'000
Profit/(loss) after income tax	540,937	(364,228)
Adjustments for:		
Movement in fair value of investments	(486,770)	586,685
Decrease/(increase) in receivables	73,498	(23,116)
Insurance premiums paid	(14,927)	(9,695)
Death and disability benefits proceeds	6,884	3,177
Increase in payables	19,923	444
Increase/(decrease) in income tax payable and deferred tax	39,959	(62,381)
Distribution reinvested	(220,039)	(192,291)
Net cash flows from operating activities	(40,535)	(61,405)

The SFT with Christian Super included \$1,923 million of in specie assets and do not form part of the Statement of Cash Flows. \$2m was received in cash and has been presented in the Statement of Cash Flows. Additionally, \$18m of Christian Super administration and tax reserve balances were transferred to the Fund and has been presented in the Statement of Cash Flows.

NOTE 11 – INCOME TAX EXPENSE/(BENEFIT)

a) Recognised in the income statement

	2023 \$'000	2022 \$'000
Current tax expense/(benefit)		
Current year	(10,308)	2,474
Adjustment for prior year	(182)	70
Deferred tax expense		
Movement in deferred tax	52,741	(58,312)
Total income tax expense/(benefit)	42,251	(55,768)

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

	2023 \$'000	2022 \$'000
Net change for the year before tax	583,188	(419,996)
Prima facie income tax thereon at 15%	87,478	(62,999)
Increase in income tax expense due to:		
Net expenses allocated to member benefits	813	764
Non assessable investment losses	-	25,551
Decrease in tax expense due to:		
Non assessable investment income	(19,019)	-
Pension exemption	(966)	(835)
Imputation, foreign and early-stage venture capital tax offsets	(25,873)	(18,319)
Adjustment for prior year	(182)	70
Income tax expense/(benefit)	42,251	(55,768)

In addition to the above, \$77,578,692 (2022: \$50,496,401) is recognised in the Statement of Changes in Member Benefits relating to tax on contributions deducted from member accounts.

NOTE 12 – DEFERRED TAX ASSETS AND LIABILITIES

The balance comprises temporary differences attributable to:

	Assets	Liabilities	Total
	\$'000	\$'000	\$'000
2023			
Payables - investment management and administration fees	275		275
Unrealised gains on financial assets held at fair value through profit or loss	-	(80,559)	(80,559)
Net investment tax assets/(liabilities)	275	(80,559)	(80,284)
Payables – direct member administration fees	405	-	405
Net tax assets/(liabilities)	680	(80,559)	(79,879)
	Assets	Liabilities	Total
	\$'000	\$'000	\$'000
2022			
Payables - investment management and administration fees	118	-	118
Unrealised gains on financial assets held at fair value through profit or loss	-	(27,661)	(27,661)
Net investment tax assets/(liabilities)	118	(27,661)	(27,543)
Payables – direct member administration fees	213	-	213
Net tax assets/(liabilities)	331	(27,661)	(27,330)

Movement in temporary differences during the year:

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

	Opening Balance	Recognised in Income Statement	Closing Balance
2022	\$'000	\$'000	\$'000
Payables - investment management and administration fees	96	22	118
Unrealised gains on financial assets held at fair value through profit or loss	(85,951)	58,290	(27,661)
Net investment tax assets/(liabilities)	(85,855)	58,312	(27,543)
Payables – direct member administration fees	182	31	213
Net tax assets/(liabilities)	(85,673)	58,343	(27,330)

NOTE 13 – CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the Fund of \$14,519,330 (2022: \$21,658,842) represents the amount of income taxes payable in respect of the current financial period.

NOTE 14 – MEMBER BENEFITS

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

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

At 30 June 2023 amounts unallocated to members was \$5,152,047 (2022: \$5,703,965).

Funding arrangements

All contributions are made at rates determined by the employers and members to which they relate. During the financial reporting review period the superannuation guarantee contribution rate was 10.5% (2022: 10%). From 1 July 2023, the rate has increased to 11%.

Guaranteed benefits

No guarantees have been made with respect to the liability for accrued benefits (2022: Nil).

NOTE 15 – INSURANCE ARRANGEMENTS

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

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

NOTE 16 – RELATED PARTIES

(a) Trustee

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

(b) Key management personnel

The Fund does not employ personnel in its own right. However, it is required to have a Trustee to manage the activities of the Fund and the Directors of the Trustee are considered the key management personnel.

Subsequent to the completion of the Christian Super SFT, Ross Piper joined as Chief Executive Superannuation. Ross had previously held the position of Chief Executive Officer at Christian Super before joining Australian Ethical. Ross has end-to-end responsibility for Australian Ethical's superannuation business.

(c) Trustee directors

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

- Steve Gibbs (Chairman)
- Kate Greenhill
- Mara Bun
- Michael Anderson (appointed 1 December 2022)
- Michael Monaghan (departed 31 March 2023)

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

- Steve Gibbs
- Mara Bun
- Michael Anderson

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

(d) Directors' remuneration

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

(e) Related party transactions

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

Australian Ethical Superannuation Pty Ltd

Transactions between Australian Ethical Superannuation Pty Ltd and the Australian Ethical Retail Superannuation Fund during the year consisted of:	2023 \$'000	2022 \$'000
Member administration fee	5,270	4,857
Investment management fee	43,725	34,055
Trustee administration fee*	12,864	10,692

* The Trustee administration fee expense in accordance with the Product Disclosure Statement (PDS) is net of \$2,934k (2022: \$1,711k) paid directly to the Operational Risk Financial Reserve (ORFR).

Amounts (payable to)/receivable from Australian Ethical Superannuation Pty Ltd	2023 \$'000	2022 \$'000
Member administration fee**	100	140
Investment management fee	(1,426)	(634)
Trustee administration fee	(410)	(203)

** The Member administration fee is net of eligible large account balance rebates in accordance with the PDS of \$69k (2022: \$40k) and net of \$644k (2022: \$639k) fees refunded as part of the Protecting Your Super (PYS) package. Effective 1 July 2019, fees are capped at 3% p.a. for accounts with balances under \$6,000 at the time of full withdrawal or as at 30 June.

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

For the year ended 30 June 2023

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

For the year ended 30 June 2022

Australian Ethical Managed Investment Scheme	Number of units held	Interest held %	Fair value of investment \$'000	Number of units acquired	Number of units disposed	Distributions received/ receivable \$'000
Balanced Fund	1,305,373,910	83.18	2,357,897	270,949,040	8,899,950	110,510
High Growth Fund	109,630,519	75.89	204,132	32,756,296	1,667,641	18,724
Income Fund	187,480,455	48.23	182,962	82,578,868	45,460,155	939
Australian Shares Fund	230,842,358	39.15	530,314	29,709,428	13,728,442	47,899
High Conviction Fund	21,950,248	15.84	19,496	21,950,248	-	337
Fixed Interest Fund	163,614,613	18.43	158,690	38,443,486	12,821,740	1,865
Global Credit Fund	-	0.00	-	-	-	-
Alternatives Fund	16,786,687	23.01	17,722	20,979,800	4,193,113	-
International Shares Fund	164,008,131	18.25	230,136	38,884,692	14,315,818	12,246
Defensive Alternatives Fund	-	0.00	-	-	-	-
Diversified Shares Fund	99,749,441	17.96	287,328	15,274,443	5,413,236	21,338
Unlisted Property Fund	-	0.00	-	-	-	-
Total	2,299,436,362		3,988,677	551,526,301	106,500,095	213,858

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

NOTE 17 – FINANCIAL INSTRUMENTS

Overview

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

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

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

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

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

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

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

Accounting policies

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

a) Operational risk

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

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

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, currency risk, and interest rate risk. Market risk is managed and monitored using sensitivity analysis and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

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

b) (i) Price risk

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

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

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

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

	Change in variable	Profit after tax		Net assets available for member benefits	
		2023	2022	2023	2022
		\$'000	\$'000	\$'000	\$'000
Unit trusts	+10%	606,855	345,775	606,855	345,775
Unit trusts	-10%	(606,855)	(345,775)	(606,855)	(345,775)

b) (ii) Currency risk

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

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

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

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

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

	Carrying amount	Profit after tax		Net assets available for member benefits	
		+10%	-10%	+10%	-10%
	AUD	\$'000	\$'000	\$'000	\$'000
30 June 2023	\$'000	\$'000	\$'000	\$'000	\$'000
US dollars	138,294	12,103	15,938	12,103	15,938
Total currency risk		12,103	15,938	12,103	15,938
30 June 2022					
US dollars	-	-	-	-	-
Total currency risk		-	-	-	-

b) (iii) Interest rate risk

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

Investment strategy	Weighted average effective interest rate		Net assets available for member benefits	
	2023	2022	2023	2022
	%	%	\$'000	\$'000
Cash held for operating purpose	2.7	0.04	50,859	33,218
Cash held for investment purpose	2.8	0.07	27,291	3,699
Cash held for operational risk financial reserve	2.8	0.07	98	33
Total cash held			78,248	36,950

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

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

	Change in variable		Profit after tax		Net assets available for member benefits	
	2023	2022	2023	2022	2023	2022
Floating rate	%	%	\$'000	\$'000	\$'000	\$'000
Interest rate risk	+2.5	+1.0	1,663	314	1,663	314
Interest rate risk	-2.5	-1.0	(1,663)	(314)	(1,663)	(314)

(c) Credit risk

Credit (or counterparty) risk is the risk that a counterparty to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position. At the balance sheet date, cash and investment income receivables was held with Westpac Banking Corporation and National Australia Bank, which both carry a Standard & Poor's rating of AA- as at 30 June 2023 (2022: AA-). The derivatives are entered into with Macquarie Bank Limited which carry a Standards & Poor's rating of A+ as at 30 June 2023 (2022: A+). Except for investments in the Australian Ethical Trusts and investment income receivables, the Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics.

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund manages liquidity risk by the continuous monitoring of actual cash flows and the investment or liquidation of Fund investment holdings as appropriate in accordance with the Fund's investment strategy. Other financial liabilities of the Fund comprise other payables which will be settled within 12 months of 30 June 2023.

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

	Less than 3 months	3 months to 1 year	1 to 5 years	Total
30 June 2023	\$'000	\$'000	\$'000	\$'000
Member benefits	7,207,695	-	-	7,207,695
Accounts payable	15,625	10,232	-	25,857
Tax payable	-	14,519	-	14,519
Derivative liabilities – foreign exchange contracts	-	433	-	433
Total	7,223,320	25,184	-	7,248,504

30 June 2022	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Total \$'000
Member benefits	4,233,339	-	-	4,233,339
Accounts payable	6,800	-	-	6,800
Tax payable	-	21,659	-	21,659
Derivative liabilities – foreign exchange contracts	-	-	-	-
Total	4,240,139	21,659	-	4,261,798

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

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

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

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

(e) Estimation of fair values

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

(f) Fair value hierarchy

CLASSIFICATION OF FINANCIAL INSTRUMENTS UNDER THE FAIR VALUE HIERARCHY

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
30 June 2023	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	50,859	-	-	50,859
Cash held for investment purpose	27,389	-	-	27,389
Unlisted unit trusts	-	6,808,047	56,466	6,864,513
Unlisted property trusts	-	122,592	-	122,592
Unlisted infrastructure	-	-	46,384	46,384
Unlisted equity	-	-	116,364	116,364
Early-stage venture capital partnerships	-	-	8,629	8,629
Derivative liabilities – foreign exchange contracts	-	(433)	-	(433)
Total financial assets	78,248	6,930,206	227,843	7,236,297

	Level 1	Level 2	Level 3	Total
30 June 2022	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	33,218	-	-	33,218
Cash held for investment purpose	3,732	-	-	3,732
Unlisted unit trusts	-	3,970,955	17,722	3,988,677
Unlisted property trusts	-	79,423	-	79,423
Unlisted infrastructure	-	-	1,738	1,738
Unlisted equity	-	-	-	-
Early-stage venture capital partnerships	-	-	7,804	7,804
Derivative liabilities – foreign exchange contracts	-	-	-	-
Total financial assets	36,950	4,050,378	27,264	4,114,592

VALUATION TECHNIQUE

Unlisted unit trusts

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

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

Valuation process for Level 2 and 3 valuations

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

Asset type	Valuation technique	Interest held by the Fund
Derivative assets and liabilities	Derivative financial instruments are stated at fair value based on foreign currency exchange rates in active markets.	Direct investment in forward foreign exchange contracts.
Unlisted Australian Ethical trusts	The prices used to value the underlying investments include but is not limited to independent prices obtained for each security, quoted 'bid' prices on securities and for investments into unlisted unit trusts, redemption prices published by the Responsible Entity.	Direct investment in units issued by the Australian Ethical trusts.
Unlisted property trust	The valuation measurement is market value as defined by the International Valuation Standards Council and adopted by the Australian Property Institute. The fair value of direct property assets is based on independent external valuations. A variety of established valuation techniques are used by valuers in determining the value of direct property investments. These include, discounted cashflows, capitalisation of rental income and analysis of comparable recent sale transactions.	Direct investment in units issued by the trusts and indirectly held through the Australian Ethical Unlisted Property Fund and Australian Ethical High Growth Fund.
Early-stage venture capital partnerships and unlisted equity	Valuation techniques are in accordance with International Private Equity and Venture Capital (IPEV) valuation principles endorsed by the Australian Investment Council (AIC). In estimating Fair Value of investments, the valuation techniques that are appropriate in light of the nature, facts and circumstances of the investment are applied. Consistent valuation techniques for investments with similar characteristics, industries and/or geographies is considered and used. There are a number of different techniques applied, including 'Price of Recent Investment', 'Multiples', 'Net Assets', 'Discounted Cash Flows or Earnings'.	Direct investment in limited partnership interests and private equity funds and indirectly held through the Australian Ethical Alternatives Fund and Australian Ethical Defensive Alternatives Fund.
Unlisted infrastructure	Third-party experts apply valuation techniques to determine fair value. Valuers use accepted valuation methodologies that are most appropriate for each asset, considering factors such as asset size, characteristics, and domicile. The assumptions within the valuation techniques applied to infrastructure assets can include income capitalisation, discounted cash flow, trading and transaction earnings multiples or direct sales comparison. The assumptions are determined by the valuer and adjusted to reflect the current consensus view of economic conditions and asset specific drivers.	Direct investment in units issued by the trusts and indirectly held through the Australian Ethical Alternatives Fund and Australian Ethical Defensive Alternatives Fund.

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

	2023	2022
	\$'000	\$'000
Opening balance at 1 July	27,264	19,836
Acquisition of externally managed Level 3 assets	200,649	1,233
Acquisition of units in Australian Ethical Alternatives Fund	18,198	16,891
Acquisition of units in Australian Ethical Defensive Alternatives Fund	20,083	-
Disposals	(47,093)	(14,410)
Net fair value profit	8,743	3,714
Closing balance at 30 June	227,844	27,264

No transfers between levels have occurred in the reporting periods ended 30 June 2023 and 30 June 2022.

The sensitivity analysis below has been performed on the Fund's exposure to changes in unobservable inputs used to value financial instruments categorised as level 3 in the fair value hierarchy. The sensitivity analysis demonstrates the effect on net assets available for member benefits which could result from a change in alternative assets' fair valuation. In the analysis, it is assumed that the amount of financial assets exposed to fluctuations in unobservable inputs as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

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

	2023	2022
	\$'000	\$'000
Increase in alternative assets fair valuation by 10% (2022: 10%)	22,784	2,726
Decrease in alternative assets fair valuation by 10% (2022: 10%)	(22,784)	(2,726)

NOTE 18 – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

	Gross amounts recognised	Offset in Statement of Financial Position	Net amount recognised
30 June 2023	\$'000	\$'000	\$'000
Derivative assets			
Foreign exchange contracts	133,742	(133,742)	-
Total derivative assets	133,742	(133,742)	-
Derivative liabilities			
Foreign exchange contracts	134,175	(133,742)	433
Total derivative liabilities	134,175	(133,742)	433

	Gross amounts recognised	Offset in Statement of Financial Position	Net amount recognised
30 June 2022	\$'000	\$'000	\$'000
Derivative assets			
Foreign exchange contracts	-	-	-
Total derivative assets	-	-	-
Derivative liabilities			
Foreign exchange contracts	-	-	-
Total derivative liabilities	-	-	-

NOTE 19 – STRUCTURED ENTITIES

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

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

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

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

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

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

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

	Fair value as at		Ownership interest	
	2023 \$'000	2022 \$'000	2023 %	2022 %
Investment schemes				
Australian Ethical Balanced Fund	4,252,767	2,357,897	92.08	83.18
Australian Ethical High Growth Fund	569,296	204,132	88.33	75.89
Australian Ethical Income Fund	257,038	182,962	56.29	48.23
Australian Ethical Australian Shares Fund	660,142	530,314	39.35	39.15
Australian Ethical High Conviction Fund	64,349	19,496	25.97	15.84
Australian Ethical Fixed Interest Fund	200,175	158,690	22.48	18.43
Australian Ethical Global Credit Fund	117,777	-	19.31	-
Australian Ethical Alternatives Fund	35,647	17,722	16.94	23.01
Australian Ethical International Shares Fund	348,078	230,136	16.85	18.25
Australian Ethical Defensive Alternatives Fund	20,819	-	14.79	-
Australian Ethical Diversified Shares Fund	338,364	287,328	14.33	17.96
Australian Ethical Unlisted Property Fund	17,454	-	12.83	-
Brightlight Real Estate Impact Fund	28,243	-	100.00	-
Siguler Guff Small Buyout Opportunities Fund III	25,135	-	49.99	-
Siguler Guff Small Buyout Opportunities Fund IV	23,118	-	49.99	-
Stafford Sustainable Capital Fund	2,196	-	13.57	-
Wollemi Co Investment Fund	30,672	-	10.14	-
Australian Unity Specialist Disability Accommodation Fund	3,575	3,358	2.88	4.65
Dexus Healthcare Property Trust	38,680	39,101	2.63	4.40
LGT Crown Secondaries Special Opportunities II B	4,428	-	2.07	-
IFC Catalyst Fund	3,352	-	1.38	-
LGT Crown Asia Pacific Private Equity IV	14,735	-	0.83	-
Investa Property Group	34,640	36,964	0.73	0.71
Morrison & Co Growth Infrastructure Fund	1,747	1,738	0.64	0.64
LGT Crown Secondaries Special Opportunities II	12,728	-	0.59	-
IFM Australia Infrastructure Fund	44,637	-	0.45	-
Shenkman Capital	61	-	0.00	-
Early-stage venture capital partnerships				
Right Click Capital Growth Fund	4,940	5,395	9.66	9.66
Artesian Clean Energy Seed Fund	3,689	2,409	7.75	7.65
Total	7,158,482	4,077,642		

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

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

NOTE 20 – CAPITAL COMMITMENTS

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

Asset	Investment period	2023 \$'000	2022 \$'000
Siguler Guff Small Buyout Opportunities Fund IV	2 years	5,580	-
LGT Crown Secondaries Special Opportunities II	8 years	3,050	-
Siguler Guff Small Buyout Opportunities Fund III	2 years	2,060	-
Wollemi Co Investment Fund	7 years	1,899	-
Morrison & Co. Growth Infrastructure Fund	2 years	1,826	2,237
LGT Crown Asia Pacific Private Equity IV	7 years	1,650	-
LGT Crown Secondaries Special Opportunities II B	8 years	1,319	-
IFC Catalyst Fund	3 years	399	-
Right Click Capital	1 year	278	428
Artesian Clean Energy	1 year	156	311

NOTE 21 – EVENTS OCCURRING AFTER THE REPORTING DATE

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

Independent Report by Approved Auditor to the Trustee



Independent Auditor's Report

Australian Ethical Retail Superannuation Fund ABN 49 633 667 743 (RSE)

Report by the RSE Auditor to the *trustee and members*

Opinion

I have audited the financial statements of Australian Ethical Retail Superannuation Fund (the Fund) for the year ended 30 June 2023 comprising the Statement of Financial Position, Income Statement, Statement of Changes in Member Benefits, Statement of Changes in Reserves, Statement of Cash flows and accompanying notes 1 to 21 as set out on pages 16 to 40 attached.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of Australian Ethical Retail Superannuation Fund as at 30 June 2023 and the results of its operations, cash flows, changes in reserves and changes in members' benefits for the year ended 30 June 2023.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the entity in accordance with the auditor independence 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 my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustee for the Financial Statements

The RSE's *trustee is* responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The *trustee is* also responsible for such internal control as the *trustee determines* is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the

RSE or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, I exercised professional judgement and maintained professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RSE's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the *trustee*;
- concluded on the appropriateness of the *trustee's* use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my audit opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the RSE to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and



- communicated with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'A.R.', followed by a horizontal line.

Andrew Reeves

Partner

Sydney

19 September 2023