Australian Ethical | AE

ASX Announcement

Appendix 4D

For the half-year ended 31 December 2023

Australian Ethical Investment Limited and Controlled Entities
ABN 47 003 188 930

Results for Announcement to the Market

(All comparisons to half-year ended 31 December 2022)

	$ '000	up / down	% Movement
Revenues from ordinary activities	**48,493**	**up**	**33%**
Net Profit after tax	**6,316**	**up**	**534%**
Deduct net profit after tax attributable to The Foundation	(97)		
Net profit attributable to shareholders	**6,219**	**up**	**547%**
Integration & transformation costs	2,943		
Due diligence & transaction costs	289		
Tax on adjustments	(970)		
Underlying net profit after tax	**8,481**	**up**	**71%**

Dividend information	**Cents per share**	**Franked cents per share**	**Franking Level**
Final 2023 dividend per share (paid 21 September 2023)	5.00	5.00	100.0%
Interim 2024 dividend per share (to be paid 20 March 2024)	3.00	3.00	100.0%

Interim dividend dates	
Ex-dividend date	**4 March 2023**
Record date	**5 March 2023**
Payment date	**20 March 2023**

	31 December 2023	31 December 2022
Net tangible assets per security	**$0.20**	**$0.17**
Net asset value per security	**$0.24**	**$0.20**

This information should be read in conjunction with the 2023 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

This report is based on the Consolidated Interim Financial Report of Australian Ethical Investment Limited for the period ended 31 December 2023 which has been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the Interim Financial Report.

Australian Ethical Investment Limited and its Controlled Entities

Interim Financial Report
31 December 2023

ABN 47 003 188 930

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Directors' Report

Directors' Report

For the half-year ended 31 December 2023

The directors present their report, together with the consolidated interim financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Australian Ethical Investment Limited (referred to hereafter as 'Australian Ethical', the 'Company' or 'Parent Entity'), Australian Ethical Superannuation Pty Limited ('AES') and Australian Ethical Foundation Limited (the 'Foundation'), being the entities it controlled for the half-year ended 31 December 2023, (the interim period).

Directors

The following persons were directors of Australian Ethical Investment Limited during or since the end of the interim period:

Steve Gibbs	Chair
John McMurdo	Managing Director and CEO
Mara Bun	Non-Executive Director
Katherine Greenhill	Non-Executive Director
Julie Orr	Non-Executive Director
Sandra McCullagh	Non-Executive Director

Principal activities

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

Review of operations

Geopolitical turmoil escalated in the second half of 2023 as the events in Israel and Gaza dragged the world's gaze away from the ongoing war in Ukraine. These devasting conflicts had an immediate and tangible human impact, whilst at the same time the planet suffered bellwether milestones in the climate trajectory.

2023 marked the hottest year on Earth since records began in 1880. The annual average global temperature was close to 1.45 degrees above pre-industrial levels. Greenhouse gas levels were a record high. Sea level rise was a record high. Antarctic sea ice was a record low. In the words of World Meteorological Organisation (WMO) Secretary-General Prof. Petteri Taalas, "it's a deafening cacophony of broken records."[1]

The heat was particularly felt in the Northern summer, where warm oceans supercharged hurricanes in the US, and Storm Daniel in the Mediterranean, the latter an event which killed more than 4,300 people and 200,000 animals in Libya, Greece, Turkey and Bulgaria.[2] Record heat also led to severe drought in the Amazon, and in the US, where

[1] wmo.int/news/media-centre/wmo-confirms-2023-smashes-global-temperature-record
[2] undp.org/blog/satellite-view-understanding-impact-storm-daniel

there were wildfires in tropical Hawaii and citizens of Phoenix, Arizona experienced 31 consecutive days of temperatures over 43ºC.

Progress on climate action has been frustratingly slow but real momentum is emerging. Portugal ran on 100% renewables for six consecutive days in November.[3] Here at home, South Australia's rooftop solar generation has at times exceeded the entire State's electricity demand.[4] According to the International Energy Agency (IEA)[5], global renewable energy capacity in 2023 increased by 50% year on year – the fastest growth recorded in the last 20 years. The agency predicts that renewables are now on track to overtake coal as the largest source of global electricity generation by early 2025. These statistics offer hope that the world can triple its renewable energy capacity by 2030 as was pledged at COP28 in December 2023.[6]

While there is cause for optimism, we remain concerned about the dominance of the fossil fuel industry in climate policy engagement both here and abroad. Nearly 2,500 fossil fuel lobbyists were registered to attend an event on the sidelines of COP28 hosted by the president of the UAE's national oil company.[7] Though the COP28 headline agreement to 'transition away from fossil fuels' was welcome, the lack of urgency and detail may indicate the hand of these lobbyists.

In Australia, analysis published by Influence Map[8] on climate policy engagement with the Federal Government since it came to term indicates fossil fuel companies make up the majority of lobbyists. It is concerning that a well-funded and self-interested few can dominate these policy discussions above the interests of all Australians, including businesses, farmers, investors and the billions of animals all of whom would benefit from effective climate policy that limits our emissions in line with our commitments under the Paris Agreement.

For all these reasons, Australian Ethical remains deeply committed to our purpose of investing for a better world. This has not changed for 37 years, despite the short-term rallies that have boosted fossil fuels and miners, and broader market volatility due to geopolitical conflict and supply chain issues. We maintain our belief that our customers will do better over the long term by investing in diversified, ethical and sustainable companies, and in sectors that are growing and are future focused.

Through all market cycles, we remain committed to investing in line with our constitutionally enshrined Ethical Charter. We have developed significant expertise in the renewables sector and have invested strategically over many years to align with long-term global trends of energy transition and electrification. This means we are very well positioned as the shift to renewables continues to build momentum. The transition cannot happen quickly enough.

First-half overview

We have built a capable and purpose-driven organisation of 130 quality professionals. In the face of recent market volatility, we have continued to implement our growth strategy by investing in our business capability and progressing our inorganic pipeline to ensure we are well placed to take advantage of the opportunity that lies ahead. At the same time, we have managed to grow FUM, revenue and profit and improve underlying operating leverage.

We are proud of the way we operate our purpose-driven business and were pleased that many aspects of our business – customer experience, service, growth, governance, investment philosophy as well as investment excellence – were all recognised by awards and accolades during the period.

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[3] https://www.weforum.org/videos/portugal-renewable-energy
[4] energymining.sa.gov.au/consumers/energy-grid-and-supply/our-electricity-supply-and-market
[5] Electricity 2024 – Analysis - IEA
[6] At the COP28 climate change conference in Dubai, more than 130 national governments including the European Union agreed to work together to triple the world's installed renewable energy capacity to at least 11 000 GW by 2030.
[7] amnesty.org/en/latest/news/2023/12/global-record-number-of-fossil-fuel-lobbyists-at-cop-undermines-critical-climate-talks
[8] Influence map: https://influencemap.org/pressrelease/New-Study-Corporate-Australia-Misrepresents-its-Policy-Agenda-with-Pro-Climate-PR-26443

We continued to see positive net flows - total net flows for the period were $259 million, up 39% compared to the prior comparative period. Net flows were underpinned by solid superannuation net flows of $269 million following continued growth in customer numbers which drove new rollovers and growth in superannuation guarantee (SG) contributions.

Our managed funds net flows were impacted by volatile market conditions and we saw modest outflows of -$10 million.

From an investment perspective we continue to deliver solid returns. For the period, absolute investment performance across the portfolio was positive $202m, a pleasing result given the volatile market conditions.

For the six months ending December 2023, our flagship Australian Ethical Australian Shares Fund (ASF) (Wholesale) had a net return of +3.2%, contributing to +11% one-year return against the benchmark return of +12.2%. Our Emerging Companies Fund (ECF) (Wholesale) returned net +5.0% for the six months and +10.2% one-year return compared to the one-year benchmark of +11.4%. The Australian Ethical International Shares Fund (ISF) (Wholesale) returned net +5.9% for the six months; and net +25.7% over the full year, exceeding the benchmark return of +23.2%.

Our super and pension options recorded positive returns across all options for both the six-month and one-year periods and continue to generate attractive long-term returns. The Australian Ethical Balanced option was recently recognised by Chant West in the Top 10 best performing growth funds for the 10 years to December 2023[9] and was the only retail product that appeared in this ranking.

Strategic highlights

Over the last six months our focus has been on capability development, expanding our ethical product suite and building out a robust operational infrastructure to support our growth aspirations.

Our key strategic highlights are set out below:

Principled investment leadership

Over the past six months, we have continued to fortify our investment capabilities by recruiting highly skilled professionals, expanding our product suite, and further progressing our new product pipeline. Our growing investment capability and strengthened Investment Committee have contributed to the retention of strong product ratings for select existing funds in our portfolio by external research houses and asset consultants.

Recent appointments to the investment team include Natalie Tam as Portfolio Manager, Systematic Equities and Zeljka Black as Analyst, Australian Equities. Natalie has two decades of experience in Australian equity markets, including 18 years at Aberdeen Asset Management. Most recently she was a portfolio manager at Perpetual Limited, where she managed around $5 billion in direct equities. Natalie is responsible for our Diversified Shares and International Shares Funds. Zeljka was most recently an executive director at VGI, where she covered equities, private markets, and real and natural assets. Previously she worked as a senior analyst at Ethical Partners Funds Management, after spending 10 years at Ausbil Investment Management. In her new role Zeljka will identify energy transition investment opportunities for our flagship Australian Equities Fund.

In the last six months we successfully launched two new multi-asset funds, the Moderate and Conservative Funds. These enhance our multi-asset offering by providing more choice to customers who have a lower risk tolerance and improving the product selection experience for advisers. The Moderate Fund provides a diversified portfolio with a balance between income and capital growth investments. Its asset classes include shares, unlisted property, alternative assets and fixed-income securities. The Conservative Fund is designed to provide investors with returns

[9] Source: Chant West. AFR article 18 January 2024

moderately above inflation, with low to medium levels of investment risk. The asset classes mix of this fund is similar to the Moderate Fund, but with a 70% defensive weighting.

Significant progress has been made on the development of further products with the launch of our first private debt fund, the Australian Ethical Infrastructure Debt Fund in February 2024. We have partnered with renewable and infrastructure debt specialist, Infradebt to deliver a debt infrastructure fund which will provide exposure for sophisticated investors to a diversified range of predominantly senior secured loans to renewable energy projects (such as solar, wind, and battery assets), as well as loans for social infrastructure (such as schools and hospitals) and sustainable property (such as social housing) in Australia. Financing renewable energy infrastructure investments will be critical to Australia's transition, whilst Australian Ethical's expansion into private debt is an important growth opportunity for our business.

Advocates for a better world

On behalf of our growing customer base, our shareholders and employees, we are increasingly using our voice to advocate for systemic change as part of our ethical stewardship engagement. In FY23, we publicly divested our shares in Lendlease over its planned development at Mt Gilead in Western Sydney which will potentially impact one of the few remaining healthy koala colonies in NSW.

More recently, in the six months to 31 December 2023, we escalated our active engagement efforts with Boral on the back of their reduced climate ambitions.

Following Boral's announcement that it was walking back its 2025 emission-reduction targets we instituted both public and private engagement, including meeting with their CEO, and leading a group of high-profile investors to urge Boral's Board of Directors to stay the course on the company's Paris-aligned emissions targets. We also publicly expressed our concerns over Boral's lobbying through its peak body, The Cement Industry Federation. Boral is an unfortunate stand out as one of only three companies in Australia that is misaligned with the Paris agreement by nature of its direct and indirect lobbying, alongside Woodside and Santos[10].

We also co-filed climate-focused shareholder resolutions at the 2023 NAB and Westpac annual general meetings. Our NAB resolution received 4 times the investor support of the prior year's climate resolution, with more than a quarter of proxies voting in favour. The Westpac resolution, calling for a broader application of policies to shift customers to greener energy sources, received 21.5 per cent of proxies in support, more than double the level of the previous year.

We have advocated for and supported the achievements of the Aboriginal and Torres Strait Islander peoples for many years. In 2023 we have developed and submitted for feedback a Reconciliation Action Plan that captures the work we are already doing, along with the focus areas we are committing to moving forward. We recognise reconciliation with Aboriginal and Torres Strait Islander peoples will provide a better future where both people and planet prosper.

During the period, we provisioned $949,000 for the Australian Ethical Foundation, for its future work supporting innovative and effective charities combatting climate change in specific focus areas: Stopping Sources of Carbon, Supporting Carbon Sinks and Empowering Women and Girls.

The Foundation continued to support strategic grantees with grants totalling over $1 million as well as $500,000 of funding provided to 10 Visionary Grants, for projects trialling new approaches to solving climate change issues. The quality of the applications we receive continues to increase, and we selected projects across all our focus areas, spread across grassroots community projects and system level interventions. We also continued our 'Members Choice' voting program, allocating an extra $10,000 to the highest voted project.

A new three-year strategy was also approved by the Foundation's board. Our focus will continue to be on climate and nature-related activities, with an emphasis on alignment with our ethical stewardship program across Australian Ethical and partnering with other philanthropic organisations to maximise impact.

[10] https://www.climateaction100.org/company/boral-limited/

Compelling client experience

We're proud of our talented and capable client services team. And we're not the only ones acknowledging them. In October, Client Services Manager Nyssa Lobo Bismire was recognised by the Customer Service Institute of Australia, when she won their annual Customer Service Champion Award. In November, our client services team won the award for Best Inclusive Customer Experience in the sixth annual CX Awards.

We knew our in-house team was delivering improved service and better outcomes for our customers, but we wanted more immediate and granular data to help us track our customers' experiences when engaging with our team. For this reason, we have identified the key drivers of satisfaction for our customers (CSAT) and created a new measurement system that caters to customers, employers and advisers. We will be tracking this feedback closely to ensure that our customer and stakeholder feedback is heard, and that we are acting swiftly and appropriately to address concerns.

To underpin our enhanced customer service, we have made significant progress on several transformational programs. As part of the continued integration activities following the SFT with Christian Super, a project is now underway to extract further middle and back office synergies through the consolidation of our two current super administrators to a single new provider, GROW. This initiative is expected to deliver an improved customer experience and cost savings over the medium term.

We have executed a contract with a new custodian, following the announced closure of NAB Asset Servicing, and will transition this relationship in late 2024, which will deliver future cost savings and enhancements to our super and investment platforms.

Building a larger and more impactful business

Despite the challenging market conditions our growth trajectory continues. FUM grew 15% compared to first half FY23 to $9.67bn, a new record high. Our customer base grew 13% compared to first half FY23 to over 130,000 customers. Superannuation FUM increased 17% compared to the prior comparative period, whilst managed funds FUM increased by 9%.

Our larger scale has allowed for continued investment for growth in the business enabling us to deliver better and more effective services for our customers, while also delivering pleasing profit growth for shareholders. Further, we are seeing improvements in underlying operating leverage.

Our adviser distribution team have become well known and highly regarded in the financial advice community, and we have over $1.6 billion FUM in this key channel. Australian Ethical continues to be the most strongly associated ethical investing fund manager, and the team has achieved over a dozen significant additions to the approved product listings and model portfolios of national dealer groups, boutique dealer groups and large IFA practices during the period.

Our SMA is also garnering interest from advisers wanting to curate bespoke ethical portfolios for their clients and, while allocations have been strong in large and mid-cap stocks earlier this year, advisers are starting to see opportunity in small caps again as a result of changing market conditions. This represents a good opportunity for Australian Ethical due to our strong micro and small cap investment capability. We are also receiving interest from organisations in the not-for-profit sector that want to align their investments with their mission and values. We are continuing to explore opportunities with our newly formed values-aligned business development team.

Following the decision to narrow our focus on employment platforms to one provider late last year, we are now seeing a modest but consistent contribution to net flows through this channel at a relatively low acquisition cost. Our purpose-led approach and responsible investment leadership continue to win accolades. Our leading approach to responsible investing was again endorsed by Morningstar in February 2024 when they released their latest 'ESG Commitment Level' assessment of 97 global asset managers.[11] Australian Ethical was named as one of only 8 global 'Leaders' for ESG Commitment. Though others named in the assessment operate in Australia, we were the only Australian company to make this elite list. We were also recognised as a RIAA Responsible Investment Leader 2023 and by Rainmaker as an ESG Leader Super fund for 2023. We received the 2023 Finder Green Super Award and we were finalists in the 2023 DBM Australian Financial Awards[12] for most recommended super fund.

As a founding B Corporation ('B Corp') member and the first listed B Corp in Australia in 2014, we were delighted to achieve a record score of 168.5 in our B Corp reassessment in 2023. This made us the highest scoring Certified B Corp in Australia and Aotearoa New Zealand as at 13 July 2023.

We were also delighted to win the Financial Services Growth Company of the Year Award, 2023 in the Australian Growth Company Awards. This award program recognises exceptional growth companies across Australia. An independent panel of judges determined the winners from a list of finalists demonstrating the highest rates of sustainable growth, innovation, integrity, and contribution to the community.

Our strategy will be achieved through both organic and inorganic growth. We are proud to have built an effective merger and acquisition muscle as evidenced by the speed, integration results and overall success of our recent SFT, and which will facilitate rapid and effective execution on future opportunities.

Leadership and innovation

We continue to have strong gender diversity across both the executive team and Board, with a solid lift in diversity in the investment team following recent hires.

Our CultureAmp pulse survey reported an uplift in employee engagement score from 70% to 72% in December 2023. Strong leadership skills remain a core focus with 80% of employees now having completed our residential leadership program.

As part of our ongoing focus on Diversity, Equity & Inclusion, and Employee Benefits, we further strengthened our inclusive culture and benefits offering by launching our gender-neutral paid parental leave policy. The enhancements are transformative for families both personally and professionally, and further strengthens our equitable and inclusive culture.

Our commitment to the learning and development of our people was demonstrated through our Investment Foundations program. Our first cohort of 24 participants are currently completing Certificate course work, in addition to supplementary information and learning sessions with members of the investment team.

Profit

Underlying profit after tax was $8.5 million, up 71% compared to the prior corresponding period, and up 24% on second half FY23. This was after excluding costs relating to the continuing SFT integration and business transformation costs (focussed on consolidating administration platforms) as well as costs relating to due diligence of merger and acquisition opportunities.

The net profit attributable to shareholders was $6.2 million, up 547% versus the prior corresponding period, and up 11% vs the second half FY23. The net profit for the Group amounted to $6.3 million.

To execute on our strategy, we continue to invest in our business and capability to seize the opportunities presented by a growing market shift towards responsible investment, and to build a robust business platform capable of supporting a much larger business.

[11] The Morningstar ESG Commitment Level Report, Feb 1, 2024: © 2024 Morningstar, Inc. All rights reserved.
[12] The DBM Financial Awards are based on customer data from Australia's largest financial services study – the DBM Atlas.

Despite this investment and the challenging operating environment, continued strong revenue and FUM growth and increased scale, along with disciplined cost management have contributed to the continued improvement in operating leverage and underlying profit increase compared to both first and second half FY23.

Revenue

Revenue increased by 33% compared to the prior comparative period to $48.5 million, driven by higher average FUM following continued positive net flows, solid investment performance, and the SFT with Christian Super. Compared to second half FY23, revenue was up 9% reflecting the increase in FUM driven by continued growth in positive net flows and investment performance.

The average revenue margin across all products was 1.02% for the first half compared to 1.06% for the first half FY23 reflecting the full impact of fee reductions implemented in September and November 2022. As at 31 December 2023, revenue margin was 1.02% compared to 1.00% at 30 June 2023.

In addition, member-based fee revenue increased 28% compared to prior period and 11% compared to second half last year, as we continue to win new members as more Australians are making an active choice to invest their superannuation responsibly. Super members increased to over 117,000 at 31 December 2023.

Operating revenue was also bolstered by higher interest income during the period.

Expenses

Expenses, excluding $3.2 million in due diligence, integration and transformation costs, increased by 23% compared to the first half FY23, and were up 4% compared to second half FY23. The expense growth is driven predominantly by the higher cost base following the SFT with Christian Super, as well as continued investment in our growth strategy as we build capability in the business. Furthermore, growth in FUM and customer numbers has driven higher volume-based expenses.

As the business grows, operating leverage is improving. Underlying cost to income ratio[13] for the period was 75%, an improvement from second half FY23 of 78%. Excluding the 'grants to non-profit organisations' expense, underlying cost to income ratio is 73%.

However, we continue to actively monitor the challenges presented by the external environment, and if adverse market conditions prevail, and our growth expectations don't eventuate, we will adopt a rigorous approach to expense containment.

Key drivers of the first half cost increase include:

Employee expenses

- Employee expenses increased 18% compared to first half FY23 following the addition of new employees as a result of the SFT with Christian Super, as well as several strategic hires and talent acquisition as part of the growth strategy.
- FTE increased from 111 at 31 December 2022 to 126 at 31 December 2023, which included contractors working on strategic projects
- The increase in employee costs reflects both new hires during the period as well as the run rate of hires in first half FY23, and inflationary salary increases.

[13] excluding UPAT adjusted expenses

Fund-related expenses

- Fund-related expenses increased by 57% compared to first half FY23, representing almost half of the growth in overall expenses. The increase was driven by higher super-member numbers (as a result of organic and inorganic growth) and FUM, higher regulatory body fees, and higher spend on strategic and regulatory initiatives compared to prior year. When compared to the second half FY23, fund-related expenses increased 10%, driven by increases in total super members, higher transaction volumes, inflationary increases and higher regulatory body fees.

Marketing

- Marketing costs decreased 16% compared to prior comparative period, primarily due to timing of brand spend, partly offset by higher direct acquisition costs following increasingly competitive superannuation market. When compared to second half FY23, marketing costs decreased 39%. This is primarily due to the rationalisation of employment platforms as an acquisition channel, as well as the timing of brand spend. Our brand spend is expected to increase in the second half to support the launch of a new brand campaign.

IT expenses

- IT expenses increased 38%, driven primarily by increases in licence costs following business expansion (e.g. Factset, Morningstar, Braze and Salesforce), as well as increased investment in IT security.

External services

- External services costs increased 53%, as consultants were engaged to work on the technology and investment management strategic initiatives as part of the growth strategy, as well as short-term consultants engaged to backfill vacant roles.

The Foundation

- During the first half, we were able to provision $949,000 for the Australian Ethical Foundation which will allow the Foundation to continue its philanthropic work delivering positive impact via its Visionary Grant program and other initiatives.

Funds under management

FUM grew strongly compared to prior comparative period to a new record of $9.67 billion at 31 December 2023, up 15%, with average FUM increasing 37%. This was underpinned by continued growth in customer numbers, positive net flows and solid investment performance. This was a particularly pleasing result, given current market conditions and reflects our diversified and resilient product offering, and the continuing demand for ethical investment products. FUM was up 5% since 30 June 2023.

We continue to deliver strong and consistent business growth through different market cycles and have recorded consecutive positive quarterly net flows for more than 10 years.

Total net flows were $259 million for the six months to 31 December 2023, which were underpinned by super net flows.
Following the SFT, the profile of our net flows has changed. Super Guarantee (SG) contributions now make up a greater proportion of inflows, as a result of a larger member base, with 54% of inflows coming from SG contributions compared to 44% in the prior period. At the same time, super outflows have increased post the SFT due to the

higher outflow rates relating to ex-Christian Super members (historically higher than Australian Ethical outflow rates). SG contributions form a strong, steady source of inflows from our existing member base, and increase as the member base grows.

Total super net flows were $269 million.

Managed fund net flows continue to be impacted by cautious investor sentiment relating to broader market volatility. Despite the market challenges, however, this product set demonstrated resilience, with a modest net outflow of -$10 million.

Investment performance during the period was positive $202 million.

Funds under management ($bn)	1H2024	1H2023	% Change (YoY)#
Opening FUM	9.20	6.20	48%
Super net flows	0.27	0.30	
Managed Funds net flows*	(0.01)	0.07	
Net flows excluding Institutional	**0.26**	**0.37**	
Institutional net flows	-	(0.18)	
Total net flows	**0.26**	**0.19**	**39%**
Investment Performance (net of fees & distributions)	0.20	0.06	
Christian Super SFT	-	1.93	
Closing FUM	**9.67**	**8.37**	**15%**
Average 1H FUM	**9.28**	**6.78**	**37%**

* including SMA
# percentage changes reflect movement in non-rounded, precise figures

Investment performance

Despite markets being dominated by concerns over economic weakness, the impact of historical interest rate hiking cycles, and geopolitical risks, the majority of Australian Ethical's suite of investment funds and options demonstrated positive performance over the six months ending 31 December 2023. Resilient employment in Australia and the US, coupled with moderation in inflation, provided support.

Throughout the period, global markets remained uncertain about interest rate directions. Initial concerns over government debt levels, inflation, and policy decisions led to a spike in rates in October, reaching their highest 10-year nominal yields since 2008 in the US (5.08%) and Australia (4.95%). However, after the US Federal Reserve signalled interest rate cuts in December, yields experienced a substantial decline, ending December at 3.87% (US), indicating a belief that ‘peak’ interest rates had been reached in this cycle.

Global equity markets, especially in large-cap technology and the Artificial Intelligence (AI) theme, thrived for most of 2023, driving index returns. Broader participation in risk assets and fixed income markets emerged by November, fuelled by decreasing inflation expectations and falling interest rates. December saw a robust end-of-year rally following the US Federal Reserve’s indication of interest rate cuts for 2024.

A more accommodative interest rate environment is a function of decreasing inflation. US annualised core inflation hit 4.1% in November, surpassing the 2% target but notably lower than the 6.63% in September 2022. Australia followed suit, with consumer price inflation reaching a near two-year low in November.

The global trend of moderating inflation suggests that interest rates might not need to increase further, aligning with the market's growing expectation for a softer economic landing. While lower inflation is welcomed, uncertainty remains as core inflation continues above central bank targets.

Energy and commodity markets continued to experience short-term volatility due to the increasing tensions in the Middle East. While energy prices initially spiked in October, they finished the calendar year near their 12-month lows as weakened global demand continues. The October attack on Israel escalated into a broader conflict affecting major energy and international trade routes. Disruptions, like those in the Suez Canal, are anticipated to disproportionately impact Europe and China.

Global concerns remain, including economic weakness in Europe and China, and elections in the USA, UK and India over the next 12 months. Further, the full impact of monetary policy lag effects remains unobserved. Our strong view is that investors should prioritise a long-term investment horizon over succumbing to short-term volatility for several compelling reasons. Short-term market fluctuations are often influenced by unpredictable factors, such as market sentiment, news events, or economic data, which can lead to irrational price movements.

While commodity and materials sectors face short-term volatility, Australian Ethical strategically invests in lithium mining and direct copper holdings, aligning with long-term global trends of energy transition and electrification. Other long-term global themes, including demographics (health care) and technology, continue to present major opportunities across Australian Ethical's funds.

Australian Ethical's Multi-Asset strategies are focused upon building more long-term portfolio resilience through diversification while maintaining responsible growth opportunities. Over recent periods the portfolios have added welcomed defensive alternative positions with strong social and environmental focus within private credit space.

The Australian Ethical Balanced Fund (Wholesale) returned net +3.0% for the six months ending 30 December 2023 in comparison to benchmark[14] return of +4.5%. Over the 12-month calendar year performance was a strong net +10.8% in-line with its benchmark of +10.9%.

The Australian Ethical International Shares Fund (ISF) (Wholesale) returned net +5.9% for the six months, outpacing its benchmark[15] return of +4.9% and contributing to a strong 1-year net return of +25.7% relative to its benchmark return of +23.2%.

For the six months ending December 2023, the Australian Ethical Australian Shares Fund (ASF) (Wholesale) net return of +3.2% against its benchmark[16] of +7.5% contributed to a full calendar year net result of +11% vs its benchmark return of +12.2%. As ASF is an all-cap portfolio, it holds tilts to smaller-capitalised companies, which underperformed relative to larger cap sectors over the short-term period.

The Australian Ethical Emerging Companies Fund (ECF) (Wholesale) returned net +5.0% against the ASX Small Industrial index performance of +7.4% over six months ending in December, contributing to a 1-year net performance of +10.2% (ECF) vs +11.4% for the benchmark[17].

The Australian Ethical High Conviction Fund (HCF) (Wholesale) returned net -0.7% for six months compared to its benchmark[18] return of +7.5%. This contributed to a 12-month net performance of +6.9% compared to +12.1% return for the benchmark. The HCF underperformance was attributed to several health care stocks underperforming for the period and tilts away from large, capitalised materials companies. Notably, large iron ore producers were significant performers within the period.

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[14] Indices of underlying asset classes weighted by the Fund's Strategic Asset Allocation

[15] MSCI World ex Australia (NET)

[16] On 30 September 2023 the Benchmark changed from S&P/ASX 300 Accum Index to 65% ASX 100 Total Return Index & 35% ASX Small Ordinaries Total Return Index.

[17] S&P/ASX Small Industrials Accumulation

[18] S&P/ASX 300 Accumulation

The Australian Ethical Fixed Interest Fund (Wholesale) returned net +3.3% over the last six months of the calendar year enabling net +4.7% return for the fund over 1 year. The Bloomberg Ausbond Composite benchmark returned +3.5% for six months and +5.1% for 1 year.

Our super and pension options recorded positive returns across all options for both the six month and one-year periods and continue to generate attractive long term returns. As noted, the Australian Ethical Balanced option was recently recognised in the top 10 best performing growth funds for the 10 years to December 2023[19], the only retail product to appear in the 10-year top 10. The Balanced option returned +6.8% over 10 years, with a +9.6% and +2.7% return over the 1 year and six-month periods respectively.

Markets provided strong returns over recent periods and our portfolios continue to benefit from attractive longer-term risk adjusted performance with an authentic ethical investment focus.

Since Ludovic Theau assumed the role of Chief Investment Officer (CIO) in April 2023, there has been a concerted effort to bolster the resources of the investment team, aligned with our focussed enhancement of our ethical investment leadership. Over the past six months, Ludo's key focus has been to fortify our investment capabilities through continued integration of institutional-grade systems and recruiting highly skilled professionals.

Noteworthy enhancements to our investment team include the appointment of Natalie Tam as PM, Systematic Equities and Zeljka Black who has joined as a Senior Analyst, Australian Equities thereby contributing to the overall enrichment of our equity investment capabilities. The ethics team capability was also bolstered by the January 2024 appointment of Dr Ella Robinson as Senior Impact and Ethics Analyst. Ella previously worked as a post-doctoral researcher investigating the role of responsible investment in driving food industry accountability for health.

Material business risks

Australian Ethical's approach to risk management is based on the Risk Appetite Statement set by the board, which sets out the overall appetite and tolerance levels and defines limits for each material risk category.

The board holds the ultimate responsibility for setting strategic direction, the risk management framework (RMF) and determining the risk appetite/tolerance for the activities of the business. The board forms a view of the risk culture of the Group and any desirable changes required and monitors implementation of these changes.

The Board recognises that risk management is an integral part of good management practice and is integrated into the Australian Ethical philosophy, practices and business planning processes. A risk-aware culture and operation within the Boards' risk appetite and tolerances is promoted throughout the organisation through regular communications from management and within the provision of training and ongoing support from the Risk and Legal team.

The Audit Risk and Compliance Committee (ARCC) oversees and reviews the RMF, and reviews internal and external audit results. This oversight includes the identification, treatment and monitoring of:

- The use of risk appetite
- Current and emerging material risks, including (but not limited to) investment, data, technology and cyber risks
- Exceptions, incidents and breaches
- Complaints
- The results of control testing

The full ARCC charter (and other board charters) can be found on the Australian Ethical website at:

[19] Source: Chant West. AFR article 18 January 2024

https://www.australianethical.com.au/shareholder/corporate-governance/

The RMF is supported by the Three Lines of Defence model with the first line being Senior Leadership Team (SLT) who foster and enhance development of risk culture within the Group, monitor risks, report breaches and review risk register. The SLT have day to day responsibility and accountability for risk management in their area and ensure an appropriate risk culture.

Australian Ethical's second line, the Risk team, facilitates the RMF, including review and update of the risk register and RMF, reports on exceptions and control effectiveness. The third line of defence is Internal Audit, (which is outsourced to PricewaterhouseCoopers in accordance with ARCC approved annual audit program) who provides assurance over the RMF and independent review of the design and operation of the control environment, as well as External Audit (KPMG) who provides assurance, through the annual audits and reviews as required by SPS 310 and the Corps Act, that internal controls are designed appropriately and operating effectively.

The full detail of Australian Ethical's risks and mitigants appear in the FY23 Annual Report.

Our approach to climate change

All of our investments are made considering our Ethical Charter, which is embedded in our Constitution and overseen by our Board. The Charter's 23 principles are applied using our ethical frameworks, policies and measurement systems.

These ensure we prioritise action seeking to avoid dangerous climate change and its serious impacts on the planet, people, and animals. This priority is pursued through the way we invest, considering both positive and negative contributions, engagement and advocacy, and climate performance measurement and reporting.

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

However, the effects of climate change are projected to be felt across the economy and society. Higher warming threatens to disrupt trade and financial markets with implications for all investment portfolios.

At the portfolio level, our:

• Strategic asset allocation approach – which guides our long-term investment positioning – is informed by scenario analysis that includes social and environmental factors, including climate change. Within our six core scenarios, we include both a negative scenario (high climate change) and a positive scenario (optimal energy transition).

• Active asset allocation process considers the resilience of our portfolio in the short term (up to 1 year) to shocks like extreme weather events. This provides strong resilience for individual extreme events and is informing our thinking about portfolio positioning if extreme events increase in frequency and number with escalating climate change.

Our Asset Allocation Forum meets quarterly to monitor signposts (like renewable energy investment and climate ambition) and review probabilities for each scenario, as well as considering whether new scenarios should be added.

Strategic implications

Our ethical investment approach leads us to portfolios that are already far less emissions intensive than relevant benchmarks. However, climate change is expected to present systemic risks to the continuing good health of the planet and society on which all investment returns depend. That's why we believe accelerating the transition to net-zero carbon is an urgent priority and integral to the financial best interests of our investors.

Our strategy recognises that our strong early position on climate change is core to our brand and reputation, with customers, partners and employees and is critical to our competitive positioning. Under our strategic pillar, 'Advocates for a better world', climate change is a priority topic.

Given this, we consider our business relatively well positioned compared to peers under both low and high temperature scenarios. But we also expect high temperature scenarios to bring lower economic output and higher variability of returns, undermining trust in investment markets and overall demand for investment management. Conversely, rapid action to address climate change would contribute further to already rapid growth in climate investment opportunities. In all scenarios, imperfect information on climate change related attributes creates challenges to investment management as well as opportunities for outperformance.

Responsibilities

Our CIO and Head of Impact & Ethics are responsible for the implementation of our Ethical Charter across our investment activities. They approve new and updated ethical frameworks, which include our climate-related ethical 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 Impact & Ethics 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.
- technological innovation in climate mitigation and adaptation.

Metrics & Targets

We pursue net zero outcomes for our investments and the world (our climate ambition) aligned with the emissions reduction needed to limit temperature rise – consistent with the most ambitious aims of the Paris Agreement.

We use a range of measures to check the effectiveness of our ethical investment approach in managing climate risk and pursuing our climate ambition and report annually in our Sustainability Report on our:

- Carbon footprint for investments and operations
- Investment in clean energy
- Climate change-related engagement, voting and advocacy
- Foundation giving targeting emissions reduction

Outlook

The medium-term market opportunity remains compelling as we build an operating platform capable of supporting a much larger business. We expect to continue to grow FUM through ongoing positive net flows as we target $100 million in annualised revenue run-rate by the end of FY24, subject to market conditions.

The second half will see careful management of the business-as-usual cost base and continued prudent, disciplined investment in the business as we progress several key strategic projects that are already underway. We will be targeting a lower overall underlying cost to income ratio for the full year FY24 (compared to FY23), notwithstanding higher expenses expected in the second half due to the timing of marketing spend and continued strategic investment.

Second half activities include:

- further progressing the transition to our new super administration provider, GROW, as part of the post-SFT integration activities. This initiative is expected to deliver synergies and an uplift in customer experience, along with a new modern technology stack. Full transition is expected to be completed in FY25
- transition planning to a new custody and investment administration provider as our current custodian exits the market, which is expected to deliver future cost benefits
- further enhancing our investment capability and infrastructure, to build on our ethical investing competitive advantage and enhance our investment management platform. This will continue to enhance operational, product development and trading capability and systems, fitting for an investment management business of much larger scale
- enhancing our technology and data capability, with a focus on enhanced infrastructure, improved business intelligence, enhanced cybersecurity and business efficiency
- growing our new channels
- continuing to build our brand awareness
- progressing our inorganic strategy, and
- continuing to manage and implement our regulatory pipeline of projects

Overall, we expect these initiatives to result in a more diversified and efficient platform for growth going forward. As a business, we remain well-positioned with no debt, well-managed cash flows and are confident we are well placed to take advantage of the opportunity that remains ahead of us.

Financial performance – management analysis

	31 December 2023 $'000	31 December 2022 $'000	% Increase
Net profit after tax (NPAT)	6,316	997	
Less: Net profit after tax attributable to The Foundation	(97)	(36)	
Net profit after tax attributable to shareholders	**6,219**	**961**	**547%**
Adjustments:			
Change in fair value of investment	-	2,600	
Integration & transformation costs	2,943	1,999	
Due diligence & transaction costs	289	-	
Tax on adjustments	(970)	(600)	
Underlying profit after tax (UPAT)	**8,481**	**4,960**	**71%**
Basic EPS on NPAT (cents per share)	5.65	0.89	
Basic EPS on NPAT attributable to shareholders (cents per share)	5.57	0.86	
Diluted EPS on NPAT attributable to shareholders (cents per share)	5.53	0.85	
Basic EPS on UPAT attributable to shareholders (cents per share)	7.59	4.45	
Diluted EPS on UPAT attributable to shareholders (cents per share)	7.54	4.41	

Dividends

Dividends paid during the interim period were as follows:

	31 December 2023 $'000	31 December 2022 $'000
Final dividend for year ended 30 June 2023 of 5.00 cents (2022: 3.00 cents) per ordinary share (paid 21 September 2023)	5,639	3,372
	5,639	3,372

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 3.00 cents per fully paid ordinary share (2022: 2.00 cents), fully franked. This interim dividend, $3,383,000 (2022: $2,256,000), is expected to be paid on the 20 March 2024. It is not recognised as a liability because it was approved by the Directors subsequent to period end on the 22 February 2024.

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the Group during the interim period.

Matters subsequent to the end of the financial half-year

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

The Company 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 unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report and forms part of the Director's Report for the half-year ended 31 December 2023.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

John McMurdo
Managing Director and Chief Executive Officer

22 February 2024
Sydney

Lead Auditor's Independence Declaration

KPMG

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

To the Directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Ethical Investment Limited for the half-year ended 31 December 2023 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

KPMG

JDavis

Jessica Davis

Partner

Sydney

22 February 2024

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Financial Statements

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Condensed Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2023

	Note	2023 $'000	2022 $'000
Revenue			
Operating revenue	5	48,493	36,562
Total revenue		48,493	36,562
Expenses			
Employee benefits	6	(16,486)	(13,918)
Fund related expenses	7	(9,053)	(5,772)
Marketing	8	(4,117)	(4,925)
IT expenses	9	(2,051)	(1,482)
External services	10	(1,767)	(1,155)
Other operating expenses		(1,023)	(997)
Grants to non-profit organisations		(872)	(328)
Depreciation		(537)	(649)
Occupancy		(290)	(203)
Finance charges		(81)	(11)
Integration & transformation costs	11	(2,943)	(1,999)
Due diligence & transaction costs	12	(289)	-
Total expenses		(39,509)	(31,439)
Change in fair value of investment	18	-	(2,600)
Profit before income tax expenses		8,984	2,523
Income tax expenses	13	(2,668)	(1,526)
Net profit for the half-year		6,316	997
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain/(loss) on revaluation or investments		(4)	(1)
Other comprehensive income, net of tax		(4)	(1)
Total comprehensive income for the half-year		6,312	996
		Cents	Cents
Basic earnings per share		5.65	0.89
Diluted earnings per share		5.62	0.89

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

Condensed Statement of Financial Position

As at 31 December 2023

	Note	31 Dec 2023 $'000	30 June 2023 $'000
Assets			
Current assets			
Cash and cash equivalents		16,850	27,134
Term deposit		10,600	5,600
Trade and other receivables		4,383	2,475
Prepayments		1,818	1,475
Right-of-use assets		10	30
Income tax refund due		1,840	-
Total current assets		35,501	36,714
Non-current assets			
Deferred tax		3,119	3,974
Property, plant and equipment		1,054	911
Right-of-use assets		3,001	2,284
Term deposit		749	749
Financial assets through profit or loss	18	2,600	2,600
Financial assets through other comprehensive income	18	68	72
Total non-current assets		10,591	10,590
Total assets		46,092	47,304
Liabilities			
Current liabilities			
Trade and other payables		9,046	9,832
Employee benefits		5,433	6,258
Deferred consideration		441	871
Tax payable		-	605
Lease liabilities		532	379
Total current liabilities		15,452	17,945
Non-current liabilities			
Lease liabilities		2,326	1,823
Employee benefits		500	444
Provisions		436	324
Deferred tax		9	14
Total non-current liabilities		3,271	2,605
Total liabilities		18,723	20,550
Net assets		27,369	26,754
Equity			
Issued capital	14	9,712	10,515
Reserves		3,040	2,301
Retained profits		14,617	13,938
Total equity		27,369	26,754

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

Condensed Statement of Changes in Equity

For the half-year ended 31 December 2023

	Issued capital $'000	Employee Share Plan reserve $'000	FVOCI[1] reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2022	8,969	2,702	4	12,990	24,665
Profits after income tax expense for the half-year	-	-	-	997	997
Other comprehensive income for the half-year, net of tax	-	-	-	(1)	(1)
Total comprehensive income for the half-year	-	-	-	996	996
Transactions with owners in their capacity as owners:					
Shares vested under employee share plans during the year	1,712	(1,712)	-	-	-
Dividends provided or paid	-	-	-	(3,372)	(3,372)
Employee deferred shares and rights	-	1,048	-	-	1,048
Employee share plan – shares purchased on-market	(349)	-	-	-	(349)
Revaluation of investments	-	-	(1)	1	-
Balance at 31 December 2022	**10,332**	**2,038**	**3**	**10,615**	**22,988**

	Issued capital $'000	Employee Share Plan reserve $'000	FVOCI[1] reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2023	10,515	2,293	6	13,940	26,754
Profits after income tax expense for the half-year	-	-	-	6,316	6,316
Other comprehensive income for the half-year, net of tax	-	-	-	(4)	(4)
Total comprehensive income for the half-year	-	-	-	6,312	6,312
Transactions with owners in their capacity as owners:					
Shares vested under deferred shares plan during the year	1,864	(1,864)	-	-	-
Dividends provided or paid	-	-	-	(5,639)	(5,639)
Employee deferred shares and rights	-	2,609	-	-	2,609
Employee share plan – shares purchased on-market	(2,667)	-	-	-	(2,667)
Revaluation of investments	-	-	(4)	4	-
Balance at 31 December 2023	**9,712**	**3,038**	**2**	**14,617**	**27,369**

[1] Fair value through other comprehensive income (FVOCI)

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

Condensed Statement of Cash Flows

For the half-year ended 31 December 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers		46,630	35,067
Payments to suppliers and employees		(35,899)	(27,041)
		10,731	8,026
Interest received		615	289
Grants to non-profit organisations		(1,175)	(915)
Income tax paid		(3,270)	(2,940)
Net cash from operating activities		6,901	4,460
Cash flows from investing activities			
Payments relating to integration & transformation costs		(2,251)	(1,469)
Payments relating to due diligence & transaction costs		(289)	-
Security deposit		-	(245)
Investment in Term Deposit		(5,000)	-
Payments for property, plant, and equipment		(829)	(71)
Purchase instalment of investment in Sentient Impact Group		(429)	-
Net cash used in investing activities		(8,798)	(1,785)
Cash flows from financing activities			
Purchase of employees deferred shares		(2,667)	(349)
Interest on lease liabilities		(81)	(11)
Dividend paid	16	(5,639)	(3,372)
Net cash used in financing activities		(8,387)	(3,732)
Net increase/(decrease) in cash and cash equivalents		(10,284)	(1,057)
Cash and cash equivalents at the beginning of the financial half-year		27,134	21,787
Cash and cash equivalents at the end of financial half-year		16,850	20,730

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

Notes to the Financial Statements

Notes to the Condensed Financial Statements

For the half-year ended 31 December 2023

Note 1 – General information

The consolidated interim financial statements are comprised of Australian Ethical Investment Limited (referred to as ‘Australian Ethical’, the 'Company' or 'Parent Entity'), and its wholly owned subsidiaries (together referred to as the 'Group'). Australian Ethical Investment Limited is a listed company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Group is a for-profit entity for the purposes of preparing financial statements.

The interim financial statements were authorised for issue, in accordance with a resolution of directors, on 22 February 2024.

The directors have the power to amend and reissue the interim financial statements.

Note 2 – basis of preparation

Statement of Compliance

The consolidated interim financial statements are general purpose condensed which have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes normally required in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Basis of Measurement

The consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Rounding of Amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

Note 3. MATERIAL accounting policies INFORMATION

New Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates from 1 July 2023. The amendments did not result in any changes to the accounting policies themselves, but they require the disclosure of material accounting policy information rather than significant accounting policies.

The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies, and no updates were required to the accounting policies disclosed at 30 June 2023.

Note 4. Critical accounting judgements, estimates and assumptions

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements. Our valuation and estimate methodologies have not changed since 30 June 2023. The judgements and estimates used in determining the fair value of the Group's investment in Sentient are described in Note 18.

Note 5. Revenue

	31 December 2023 $'000	31 December 2022 $'000
Operating revenue		
Management fees	36,525	28,312
Administration fees (net of Operational Risk Financial Reserve contributions)	8,273	5,574
Member fees (net of rebates)	3,039	2,381
Interest income	656	290
Other income	-	5
	48,493	36,562

Recognition and measurement

The administration fee entitlement in accordance with the Product Disclosure Statement ('PDS') is net of $1,107k (2022: $1,277k) paid directly to the Operational Risk Financial Reserve ('ORFR') of the superannuation fund.

Note 6. Employee benefits

	31 December 2023 $'000	31 December 2022 $'000
Employee remuneration	14,855	12,539
Directors' fees	442	406
Strategic project contractors	-	61
Other committee member fees	53	69
Other employment related costs	1,136	843
	16,486	13,918

During the reporting period, the Group modified the classification of payroll tax expense from 'Employee remuneration' to 'Other employment related costs' to reflect a more appropriate comparison of controllable costs relating to employee remuneration. Comparative amounts in the statement of profit or loss and OCI were reclassified for consistency. As a result, $690k has been reclassified in the 31 December 2022 comparative.

Note 7. Fund related

	31 December 2023 $'000	31 December 2022 $'000
Administration and custody fees	7,218	4,749
Asset managers, ratings and platform fees	674	427
Regulatory and industry body fees	709	375
Regulatory projects	296	168
Ethical research	78	53
Strategic projects	78	-
	9,053	5,772

During the reporting period, the Group modified the classification of APRA fees from 'Asset managers, rating and platform fees' to 'Regulatory and industry body fees' to reflect a more appropriate comparison and alignment of title and cost. Comparative amounts in the statement of profit or loss and OCI were reclassified for consistency. As a result, $160k has been reclassified in the 31 December 2022 comparative.

The increase in administration and custody fees is driven by increases in members and FUM following the SFT with Christian Super, in addition to new organic managed funds and superannuation members.

Regulatory compliance initiatives include costs incurred to implement regulatory changes in the superannuation industry. Strategic projects include costs associated with the transition to a new custodian following the decision by NAB Asset Servicing to exit the market and costs relating to new products.

Note 8. Marketing

	31 December 2023 $'000	31 December 2022 $'000
Distribution costs	2,466	1,915
Brand awareness	770	2,337
Other	881	673
	4,117	4,925

Note 9. IT expenses

	31 December 2023 $'000	31 December 2022 $'000
Investment and client-facing systems	1,146	910
Support systems, infrastructure, and security	742	508
Strategic IT projects	163	64
	2,051	1,482

Strategic IT projects include an investment in technology and data warehouse, and a continuation of customer engagement strategic projects. An ongoing focus is the continuous improvement in IT controls, cybersecurity testing and the Business Continuity Planning environment.

In the prior year, strategic IT projects included upgrades to the company website, customer engagement strategic projects and enhancements to Application Programming Interface (API) for the mobile app.

Note 10. External services

	31 December 2023 $'000	31 December 2022 $'000
Internal and external audit and tax services	580	425
Consultants	675	378
Legal services	307	209
Other	205	143
	1,767	1,155

Note 11. Integration & Transformation costs

	31 December 2023 $'000	31 December 2022 $'000
Project management and Project Team employment costs	1,442	886
Fund related transition costs	1,485	484
Legal and consulting	8	459
Marketing and member communications	8	103
Other	-	67
	2,943	1,999

On account of the Christian Super SFT, Australian Ethical is transitioning its superannuation administration services to a single service provider. This transformational project aims to deliver a modern technology stack, improving growth flexibility with a more compelling commercial rate-card. The integration and transformation costs include service providers' costs to facilitate the configuration and transfer of member data alongside project management costs.

Note 12. Due Diligence & Transaction Costs

	31 December 2023 $'000	31 December 2022 $'000
Contractors	193	-
Consulting	96	-
	289	-

Note 13. Income tax

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2023 was 29.7% (for the six months ended 31 December 2022: 60.5%). The effective tax rate with respect to profit attributable to shareholders is 30% (2022: 61.4%). The movement in the effective tax rate reflects the impact of the change in fair value of the Sentient investment in the prior period, which is on capital account and not deductible. The difference between the effective tax rate for the Group and profit attributable to shareholders is due to the tax-exempt status of the Foundation.

	31 December 2023 $'000	31 December 2022 $'000
Current tax	1,452	867
Deferred tax – origination and reversal of temporary differences	1,216	659
Aggregate income tax expense	2,668	1,526

Note 14. Equity - issued capital

Movements in share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2023	112,782,052		10,515
Vesting of deferred shares in the Employee Share Plan (255,234 shares)	15 September 2023	-	$4.53	1,156
Vesting of deferred STI shares (108,628 shares)	15 September 2023	-	$6.10	663
Vesting of deferred shares in the Employee Share Plan (8,528 shares)	10 November 2023	-	$5.29	45
Purchase of deferred shares in the Employee Share Plan – on-market (568,032)	23 October to 12 December 2023	-	$4.53	(2,571)
Purchase of deferred shares in the Employee Share Plan – on-market (18,261)	22 December 2023	-	$5.27	(96)
		112,782,052		9,712

Note 15. Share-based payments

During the interim period, $2,667,262 (2022: $349,123) was paid to purchase shares on-market, to be granted to all employees under both the Deferred Shares – ESP and Deferred Shares – STI share grants. The Board has discretion to decide whether to issue new shares or purchase shares.

The following share-based payment arrangements existed at 31 December 2023.

Deferred shares – ESP

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $771,000 (2022: $694,000) relating to the deferred shares granted under the long-term employee share plan.

Deferred Shares – STI

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $503,000 (2022: $505,000) relating to the deferred portion of the short-term incentive plans.

Executive long-term incentives (ELTI)

The ELTI was introduced to retain key senior talent and provide reward for future outstanding performance to the periods ending 30 June 2025, 2026, and 2027. Under the plan, the CEO and select senior executives invited to participate are issued with Hurdled Performance Share Rights that represent the number of AEI shares that will vest subject to the achievement of certain performance hurdles. If all minimum company performance hurdles are met at vesting date, then the base level award will vest.

The hurdles are measured in the years ending and as at 30 June 2025, 2026, and 2027 with vesting after the release of the FY25, FY26, and FY27 annual results respectively. The FUM target for the tranche vesting at the end of FY25 includes a multiplier mechanism that provides a stretch target for AEI's leadership team. The multiplier mechanism does not apply to the tranche vesting at the end of FY26 or FY27. For the FY25 grant, the probability continues to be assessed as being less likely than more likely to be achieved and as such there is no expense in this 6-month period. Refer to the 2023 Annual Report for further details of the tranche vesting at the end of FY25 and FY26.

The FY27 tranche comprises 347,756 hurdled performance share rights issued, which were issued on 1 December 2023. The ELTI expense is based on the grant date of 1 December 2023. Each share right was fair valued at $4.58, being the share price on 1 December 2023 discounted for forecast dividend yield. These share rights will be equity settled at the end of the vesting period.

The performance hurdles require the following performance conditions to be achieved:

- Net flows, including no more than 50% from M&A activity, over the 4-year vesting period of $6.05bn
- Cost to income ratio of no more than 75%
- Median NPS (Net Promoter Score) for Financial Services companies in Australia
- Median employee engagement score for financial services companies in Australia; and
- Continued alignment with our Ethical Charter.

During the vesting period, employees are not entitled to receive dividends nor hold voting rights. Vesting is subject to meeting specified performance criteria over the performance period, service hurdles and Board approval. Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $300,000 (2022: $259,000) for the executive long-term incentives plans.

Employee unvested shares

As at 31 December 2023, the Employee Share Trust holds 1,332,443 shares (30 June 2023: 1,118,541 shares) on behalf of employees until vesting conditions are met.

Note 16. Equity - dividends

Dividends paid during the financial half-year were as follows:

	31 December 2023 $'000	31 December 2022 $'000
Final dividend for the year ended 30 June 2023 of 5.00 cents (2022: 3.00 cents) per ordinary share (paid 21 September 2023)	5,639	3,372
	5,639	3,372

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 3.00 cents per fully paid ordinary share (2022: 2.00 cents), fully franked. This interim dividend, $3,383,000 (2022: $2,256,000), is expected to be paid on the 20 March 2024. It is not recognised as a liability because it was approved by the Directors subsequent to period end on the 22 February 2024.

Note 17. earnings per share

	31 December 2023 $'000	31 December 2022 $'000
Net Profit after income tax for the half-year	**6,315**	997

	Cents	Cents
Basic earnings per share	5.65	0.89
Diluted earnings per share	5.62	0.89

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	111,759,052	111,439,917
Adjustments for calculation of diluted earnings per share:		
Deferred shares	713,557	1,111,473
Weighted average number of ordinary shares used in calculating diluted earnings per share	112,472,609	112,551,390

Basic earnings per share

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

Diluted earnings per share

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

Note 18. Fair value measurement

Fair value hierarchy

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

The following 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.

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.

Consolidated – 31 December 2023	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
Investments	1	67	2,600	2,668
Total assets	1	67	2,600	2,668

Consolidated – 30 June 2023	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
Investments	1	71	2,600	2,672
Total assets	1	71	2,600	2,672

Reconciliation	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Reconciliation of the fair values at the beginning and end of the interim period:				
Opening fair value at 30 June 2023	1	71	2,600	2,672
Revaluation decrements	-	(4)	-	(4)
Closing fair value at 31 December 2023	1	67	2,600	2,668

Assets and liabilities held for sale are measured at fair value on a recurring basis.

There were no transfers between levels during the interim period.

Sentient Impact Group

Australian Ethical continues to hold its 10% minority interest in Sentient Impact Group Pty Limited (Sentient), paying fair value at acquisition of $5.2 million. In addition, Australian Ethical had three future dated call options equating to an additional 30% of the equity. Australian Ethical call option rights have expired.

In the period to 31 December 2022, Sentient commenced a review and refinement of its strategy, business model and plans. Based on information received and with the assistance of an external expert valuer, the investment was written down by $2.6 million (by 50%) in the year ended 30 June 2023. In the six months ended 31 December 2023, the Directors have continued to assess the fair value in light of any significant changes to the revised strategy. At this time there are no indicators or reference points for the directors' to adopt an alternative fair value.

The investment has been recognised as a Financial Asset at Fair Value through Profit & Loss.

Note 19. Events after the reporting period

Apart from the dividend declares as disclosed in Note 16, no other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

Directors' Declaration

In the directors' opinion:

a) The interim financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

b) The attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the financial half-year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

John McMurdo
Managing Director and Chief Executive Officer
Australian Ethical Investment Limited
22 February 2024

Independent Auditor's Report

Independent Auditor's Review Report

To the shareholders of Australian Ethical Investment Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Australian Ethical Investment Limited.

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 Investment Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2023 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:

- Condensed statement of financial position as at 31 December 2023;
- Condensed statement of profit or loss and other comprehensive income, Condensed statement of changes in equity and Condensed statement of cash flows for the Interim Period ended on that date;
- Notes 1 to 19 comprising material accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Australian Ethical Investment Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 31 December 2023.

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 Group 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 these requirements.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company 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
- 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 Responsibilities 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 Group's financial position as at 31 December 2023 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 Period 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

KPMG

J Davis

Jessica Davis

Partner

Sydney

22 February 2024