

High Conviction Fund

Annual Financial Report
for the year ended 30 June 2025



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ARSN 653 076 236

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Contents

	Page
Directors' Report	2
Lead Auditor's Independent Declaration	6
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Directors' Declaration	30
Independent Auditor's Report	31

Directors' Report

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical High Conviction Fund (the Scheme) present the directors' report together with the financial statements and notes to the financial statements of the Scheme for the year ended 30 June 2025 and the accompanying independent auditor's report.

RESPONSIBLE ENTITY

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

Registered office:

Boardroom Pty Limited
Level 8, 210 George Street
Sydney NSW 2000

Principal place of business is:

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

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

Steve Gibbs (Chair)
John McMurdo (Managing Director and CEO)
Julie Orr
Kate Greenhill
Sandra McCullagh
Richard Brandweiner (appointed 1 September 2024)
Brian Bissaker (appointed 15 April 2025)
Mara Bun (retired 31 October 2024)

PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activity of the Scheme is to pool investors' savings to invest in accordance with the investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's Constitution. The Scheme invests in a concentrated portfolio of Australian and New Zealand shares predominantly drawn from the S&P ASX 300. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

With effect from 1 November 2024 custody of the Schemes assets and provision of administration services was transitioned from NAB Asset Servicing (NAS) to State Street Australia Limited (SSAL). This change was made due to NAS' decision to exit the custody business with SSAL appointed as custodian by the Responsible Entity following a thorough selection process and extensive due diligence.

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

REVIEW OF OPERATIONS

Year in Review

It was a challenging year for investors as polarisation in the lead up to the US election and the escalating conflict in the Middle East and Eastern Europe fuelled volatility in investment markets. The new US Administration stoked further volatility with seesawing tariffs and other geopolitical plays. The ensuing uncertainty has impacted consumer confidence and hampered many companies' abilities to execute on their growth plans.

Directors' Report (continued)

REVIEW OF OPERATIONS (continued)

Year in Review (continued)

Even the technology sector was buffeted, with the “Magnificent 7” getting caught up in the April 2025 “Liberation Day” sell-off. Share prices of the world’s largest listed technology companies have since rebounded, with NVIDIA’s strong results despite trade restrictions a proof point that the Artificial Intelligence theme and associated capital spending boom is still alive and well.

We are all too aware that planetary boundaries continue to be breached while short-termism and performative politics dominate the headlines. Multiple global climate monitoring agencies¹ agree that 2024 was the hottest on record. In Australia, this played out as severe drought in Victoria and South Australia contrasted with rainfall volumes breaking previous records and repeated, devastating flooding on the mid-north coast of NSW.

A global ‘anti-woke’ backlash saw many US-based global financial leaders abandoning their previously stated commitments to climate, and to the principles of diversity, equity and inclusion (DEI)². In fact, our investment and ethics teams had to step in to ensure our continued consideration of board diversity in investee companies when our proxy advisor deleted this criterion for the US market.

In Australia, media and regulatory scrutiny of ESG-related claims led many investors to either water down or remain silent on their previous commitments to responsible investing for fear of being named and shamed. But as others have stepped back, we continue to press forward. We remain laser-focussed on the challenges and opportunities represented by the transition to a low-carbon future, technological advancements and equity.

It is estimated that a “massive mobilisation” of capital – more than US\$6 trillion each year by 2030 – is needed to meet the Paris target³. Meanwhile Australia is on track to be the second largest super (pension) market in the world by 2030⁴. With this trajectory and its deep financial expertise, we believe Australia well positioned to leverage this opportunity.

As ethical investors we are determined to play a leading role in this mobilisation. To that end we continued to build out the depth and breadth of our low-carbon, ethically screened product suite; advocate for policy clarity and certainty; and amplify our influence on Australian companies through our stewardship activities.

Overview

The investments of the Scheme are consistent with those set out in the Scheme’s Product Disclosure Statement dated 6 February 2025.

Investors can access the Wholesale Performance Fee class either directly with the Responsible Entity or by buying or selling units through Cboe Australia securities exchange (“Cboe”) through ticker code: AEAE.

Results

Total return is the percentage change of a unitholder’s financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Guidance Note 46 Investment Option Performance - Calculation of Returns. The Scheme achieved the following total returns for the year:

- Wholesale class 9.91% (2024: 3.95%); and
- Wholesale performance fee class 10.33% (2024: 4.17%).

¹ NASA; NOAA; World Meteorological Organisation (WMO)

² <https://sustainability-news.net/climate-nature/climate-alliance-exodus-banks-abandon-net-zero-pledges/>;
<https://esgnews.com/major-banks-reduce-public-dei-commitments>

³ <https://www.unsw.edu.au/news/2025/05/can-sharper-financial-tools-give-australia-an-edge-in-the-global-greenrace?>;
<https://www.wise.ac.uk/granthaminstitute/publication/raising-ambition-and-accelerating-delivery-of-climate-finance/>

⁴ www.theactuary.com/news/2025/02/20/global-pension-assets-climb-record-high

Directors' Report (continued)

REVIEW OF OPERATIONS (continued)

Results (continued)

The 12 months to 30 June 2025 was a period of significant volatility in equity markets, navigating inflation concerns, geopolitical tensions, political upheaval in the US, and challenges to the global economic system driven by the US's "America First" strategy.

The Wholesale class with performance fee delivered a positive 10.33% return, net of fees, for the 12 months to 30 June, but underperformed its ASX300 benchmark by 3.41% (net of fees). Despite the volatility throughout the year, we maintained our disciplined investment approach, focusing on companies within our ethically screened universe with good balance sheets, strong management teams, and possessing earnings growth prospects that we believe are being undervalued by the market. New investments throughout the year reflected this approach as market volatility provided good entry points. We expect similar opportunities will present themselves in the financial year ahead.

The primary driver of the Fund's relative underperformance was the decision to be underweight large financial names that have experienced historically high price to earnings valuations. Disappointingly, the Fund was not able to offset this in other areas, despite some positive contributions from the healthcare sector, consumer staples and the broader financials sectors. While the Fund's natural underweight to energy and iron ore stocks provided a tailwind for relative performance, gold stocks were a headwind as the gold price rallied throughout the year on the global uncertainties playing out. Mining has a broad range of negative impacts. We restrict our investment to mining activities necessary to execute the energy transition and for other critical purposes, so long as adequate action is taken to mitigate impacts. Gold does not meet this threshold in our assessment as guided by our Ethical Criteria.

Net assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2025 was \$662m (30 June 2024: \$524m).

LIKELY DEVELOPMENTS

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

EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2025 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

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

INDEMNITIES AND INSURANCE PREMIUMS FOR THE RESPONSIBLE ENTITY AND AUDITOR

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

Directors' Report (continued)

ROUNDING OF AMOUNTS

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

RELATED PARTY DISCLOSURES

Fees paid to the Responsible Entity and its associates out of Scheme assets are shown in Note 14 of the attached financial statements.

ENVIRONMENTAL REGULATION

The operations of the Scheme are not subject to any particular or significant environmental regulations under Commonwealth, state, or territory legislation.

AUDITOR'S DECLARATION

The auditor's independence declaration is included in this report and forms part of the directors' report for the financial year ended 30 June 2025.

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



John McMurdo
Managing Director
Australian Ethical Investment Limited
27 August 2025



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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical High Conviction Fund for the financial year ended 30 June 2025 there have been:

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

KPMG

Andrew Reeves

Partner

Sydney

27 August 2025

Statement of Profit or Loss and Other Comprehensive Income

	Note	30 June 2025 \$'000	30 June 2024 \$'000
Investment income			
Interest	2	875	1,417
Dividends	3	17,523	12,097
Net change in fair value of financial assets	4	<u>44,147</u>	<u>20,393</u>
Net investment income/(loss)		<u>62,545</u>	<u>33,907</u>
Operating expenses			
Management fees	14	65	52
Transaction costs		<u>864</u>	<u>554</u>
Operating expenses before finance costs		<u>929</u>	<u>606</u>
Profit/(loss) from operating activities		<u>61,616</u>	<u>33,301</u>
Finance costs			
Distributions paid and payable to unitholders of the Scheme	11	<u>(43,643)</u>	<u>(14,148)</u>
Change in net assets attributable to unitholders (total comprehensive income)	6	<u>17,973</u>	<u>19,153</u>

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

Statement of Financial Position

	Note	30 June 2025 \$'000	30 June 2024 \$'000
Assets			
Cash and cash equivalents	7	21,359	28,866
Receivables	8	3,123	1,925
Financial assets held at fair value through profit or loss	9	<u>673,712</u>	<u>502,277</u>
Total assets		<u>698,194</u>	<u>533,068</u>
Liabilities			
Payables	10	6	60
Distributions payable	11	<u>35,918</u>	<u>8,838</u>
Total liabilities		<u>35,924</u>	<u>8,898</u>
Net assets attributable to unitholders	6	<u>662,270</u>	<u>524,170</u>

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

Statement of Changes in Equity

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

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

Statement of Cash Flows

	Note	30 June 2025 \$'000	30 June 2024 \$'000
Cash flows from operating activities			
Interest received		875	1,417
Dividends received		16,742	10,979
Management fees paid		(60)	(52)
Transaction costs paid		<u>(864)</u>	<u>(564)</u>
Net cash provided by operating activities	13	<u>16,693</u>	<u>11,780</u>
Cash flows from investing activities			
Proceeds from sale of investments		212,142	145,700
Purchase of investments		<u>(340,534)</u>	<u>(385,894)</u>
Net cash used in investing activities		<u>(128,392)</u>	<u>(240,194)</u>
Cash flows from financing activities			
Proceeds from issue of units		159,645	251,169
Payments for redemption of units		(55,341)	(5,155)
Distributions paid to unitholders		<u>(112)</u>	<u>(98)</u>
Net cash provided by financing activities		<u>104,192</u>	<u>245,916</u>
Net increase/(decrease) in cash and cash equivalents		(7,507)	17,502
Cash and cash equivalents at 1 July		<u>28,866</u>	<u>11,364</u>
Cash and cash equivalent at 30 June	7	<u>21,359</u>	<u>28,866</u>

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

1 MATERIAL ACCOUNTING POLICIES

REPORTING ENTITY

The Australian Ethical High Conviction Fund (the Scheme), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 21 August 2021 and will terminate on 19 August 2101 unless terminated earlier in accordance with the provisions of the Scheme's Constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the year ended 30 June 2025.

On 1 February 2022, the Scheme became a Quoted Managed Fund and commenced trading on Cboe Australia securities exchange (ticker code: AEAE).

Statement of compliance

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

BASIS OF PREPARATION

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

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

The Statement of Financial Position is prepared on a liquidity basis. All balances including investments are readily converted to cash.

ESTIMATES AND JUDGEMENTS

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

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

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

CASH AND CASH EQUIVALENTS

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

1 MATERIAL ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT PRINCIPLES

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

The Scheme can invest into Australian and New Zealand shares. Generally, valuation information is obtained from third-party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security; and
- quoted market prices on securities.

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

The Scheme's assets are measured at fair value in accordance with AASB 13 Fair Value Measurement. The fair value of financial assets traded in active markets is based on quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market prices used for the fair value measurement are last traded prices and is the same price used in the unit pricing process.

The fair value measurement of financial assets for the comparative period was previously based on quoted market bid prices, being the price a market participant would pay to buy the asset and is different to the price used in the unit pricing process which is the last sale price.

Accordingly, the Scheme has elected to re-present the applicable comparative period values. The restatement is to ensure comparability to the current period.

The reclassification allocates the adjustment arising from different unit pricing and accounting valuations to Financial assets held at fair value through profit and loss and Net change in fair value of financial assets. The reclassification has also been captured where applicable.

Classification

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

Recognition and initial measurement

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

Measurement

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

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

1 MATERIAL ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT PRINCIPLES (continued)

Derecognition

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

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

Impairment of financial assets held at amortised cost

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

Offsetting

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

DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with the investment mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. After initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. No derivative financial instruments were held by the Scheme at balance date.

RECEIVABLES

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC). Unsettled sales are amounts due from brokers for securities sold that have not been received at reporting date. Trades are recorded on trade date and normally settle within two business days.

Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables as at 30 June 2025 and management have not identified any additional concerns regarding collection of the receivables.

PAYABLES

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

DISTRIBUTIONS PAID AND PAYABLES

In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are

1 MATERIAL ACCOUNTING POLICIES (continued)

DISTRIBUTIONS PAID AND PAYABLES (continued)

not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Profit or Loss and Other Comprehensive Income as 'finance costs'.

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

CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

REVENUE

Interest income

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues, on a gross basis including withholding tax. Interest is measured using the effective interest rate method.

Dividend income

Dividend income relating to exchange-traded equity investments is recognised as dividend income in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date.

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

INCOME TAX

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

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

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

1 MATERIAL ACCOUNTING POLICIES (continued)

NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

EXPENSES

All expenses, including management fees and performance fees, are recognised in the profit or loss on an accrual basis.

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 'net change in fair value of investments'.

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 'net change in fair value of investments'.

The effects of changes in foreign exchange rates recognised as part of the 'net change in fair value of investments' are separately disclosed in Note 4.

Realised foreign exchange gains or losses on the settlement of dividends are brought to account as part of or 'dividend income' in the Statement of Profit or Loss and Other Comprehensive Income and in the Statement of Cash Flows.

STANDARDS AND INTERPRETATIONS ON ISSUE 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 2024 that would be expected to have a material impact on the Scheme.

2 INTEREST INCOME

	30 June 2025 \$'000	30 June 2024 \$'000
Bank interest	875	1,417
Total interest income	875	1,417

3 DIVIDEND INCOME

	30 June 2025 \$'000	30 June 2024 \$'000
Dividend income from securities designated at fair value through profit or loss	17,523	12,097
Total dividend income	17,523	12,097

4 NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS

	30 June 2025 \$'000	30 June 2024 \$'000
Unrealised gain/(loss) arising on financial assets designated at fair value through profit or loss	2,321	23,259
Realised gain/(loss) arising on the disposal of investments	41,830	(1,733)
Effects of changes in foreign exchange rates	(4)	(1,133)
Net change in fair value of financial assets	44,147	20,393

5 ISSUED UNITS

Each unit represents a right to an individual share in the Scheme per the Constitution. Zero class units are issued to other schemes managed by the Responsible Entity and the Australian Ethical Retail Superannuation Fund (AERSF) and are not charged a Responsible Entity fee. All rights attached to zero class units are the same as those of the other classes.

	30 June 2025 Units	30 June 2024 Units
Wholesale class		
On issue at beginning of period	137,734	136,198
Issued	2,767	1,536
On issue at period end	140,501	137,734
Wholesale Performance Fee class		
On issue at beginning of period	824,526	687,470
Issued	301,145	238,429
Redeemed	(170,687)	(101,373)
On issue at period end	954,984	824,526
Zero class		
On issue at beginning of period	531,249,833	253,549,917
Issued	167,647,991	293,423,515
Redeemed	(52,304,309)	(15,723,599)
On issue at period end	646,593,515	531,249,833

6 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

6 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to deliver income and capital appreciation through investing in equities. The Scheme is not subject to any externally imposed capital requirements.

	30 June 2025 \$'000	30 June 2024 \$'000
Opening balance	524,170	247,612
Issued	159,017	261,664
Distributions reinvested	16,451	10,763
Redeemed	(55,341)	(15,022)
Change in net assets attributable to unitholders	<u>17,973</u>	<u>19,153</u>
Net assets attributable to unitholders	<u>662,270</u>	<u>524,170</u>

7 CASH AND CASH EQUIVALENTS

	30 June 2025 \$'000	30 June 2024 \$'000
Cash at bank	<u>21,359</u>	<u>28,866</u>
Total cash and cash equivalents	<u>21,359</u>	<u>28,866</u>

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

8 RECEIVABLES

	30 June 2025 \$'000	30 June 2024 \$'000
Dividends and distributions	2,024	1,243
Applications	2	630
Investment sales proceeds	1,083	38
GST	<u>14</u>	<u>14</u>
Total receivables	<u>3,123</u>	<u>1,925</u>

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2025 \$'000	30 June 2024 \$'000
Equity securities	<u>673,712</u>	<u>502,277</u>
Total financial assets at fair value through profit or loss	<u>673,712</u>	<u>502,277</u>

The Scheme's accounting policy on fair value measurements is disclosed in Note 1.

10 PAYABLES

	30 June 2025 \$'000	30 June 2024 \$'000
Management fees	6	1
Investment purchases	<u>-</u>	<u>59</u>
Total payables	<u>6</u>	<u>60</u>

11 DISTRIBUTIONS PAID AND PAYABLE

	30 June 2025 \$'000	30 June 2024 \$'000
Interim distribution paid	7,725	5,310
Distributions payable	<u>35,918</u>	<u>8,838</u>
Total distributions paid and payable	<u>43,643</u>	<u>14,148</u>

The Scheme paid interim distributions to the classes were as follows:

- Wholesale class of 0.81 (December 2023: 0.74) cents per unit;
- Wholesale performance fee class of 9.54 (December 2023: 8.50) cents per unit; and
- Zero class of 1.31 (December 2023: 1.19) cents per unit.

The year-end distributions payable were as follows:

- Wholesale class of 5.00 (June 2024: 1.17) cents per unit;
- Wholesale performance fee class of 50.98 (June 2024: 13.22) cents per unit; and
- Zero class of 5.48 (June 2024: 1.64) cents per unit.

The prior year final distribution of \$8,838,329 was paid in July 2024.

12 AUDITOR'S REMUNERATION

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

	30 June 2025	30 June 2024
	\$	\$
Financial statements audit	24,141	23,033
Custodian transition audit	1,455	-
Compliance plan audit	5,243	5,002
Tax compliance service	5,436	5,448
Total auditor's remuneration	36,275	33,483

13 RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	30 June 2025	30 June 2024
	\$'000	\$'000
Net profit/(loss) from operating activities	61,616	33,301
Adjustments for:		
Net realised (gain)/loss on disposal of investments	(41,830)	1,733
Net unrealised (gain)/loss on revaluation of investments	(2,321)	(23,259)
Effects of changes in foreign exchange rates	4	1,133
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(781)	(1,127)
Increase/(decrease) in payables	5	(1)
Net cash provided by operating activities	16,693	11,780

Non-cash financing and investing activities

During the year, income distributions totalling \$16,451,066 (2024: \$10,762,537) were reinvested by unitholders for additional units in the Scheme.

14 RELATED PARTY DISCLOSURES

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

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

14 RELATED PARTY DISCLOSURES (continued)

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

Steve Gibbs (Chair)
John McMurdo (Managing Director and CEO)
Julie Orr
Kate Greenhill
Sandra McCullagh
Richard Brandweiner (appointed 1 September 2024)
Brian Bissaker (appointed 15 April 2025)
Mara Bun (retired 31 October 2024)

Some of the Directors indirectly hold units in the Scheme through a superannuation fund.

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

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

- 0.95% p.a. for the wholesale class (2024: 0.95%);
- 0.69% p.a. for the wholesale performance fee class (2024: 0.80% reduced to 0.69% with effect from 29 September 2023); and
- Nil for the zero class (2024: Nil).

	30 June 2025 \$'000	30 June 2024 \$'000
Management fees	65	52

Fees earned by the Responsible Entity are net of any non-reclaimable GST. Fees payable to the Responsible Entity at 30 June 2025 were \$5,957 (2024: \$1,416) and are included in payables.

A performance fee also accrues when performance exceeds the Benchmark (S&P/ASX 300 Accumulation Index). The performance fee is 15% (less unrecovered GST) of the Scheme's outperformance over its Benchmark. It is calculated daily based on that day's Net Asset Value (NAV) excluding performance fee accrual and that day's performance against the Benchmark. It does not take into account the effects of compounding in the published performance returns. There is no performance fee charged by AEIL in relation to the zero class units which are held by other AEIL managed investment schemes. If there was a cumulative underperformance at the end of the financial year, then this is subject to clawback in the following year before any performance fee accrues in the daily unit price. As at 30 June 2025, no performance fee was accrued as the Scheme's performance did not exceed the benchmark.

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

14 RELATED PARTY DISCLOSURES (continued)

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

30 June 2025

	Value of units held opening \$	Value of units held closing \$	Interest held %	Value of units acquired/ (disposed) \$	Distributions paid/payable by the Scheme \$
Australian Ethical Balanced Fund	214,342,583	287,520,215	43.99	65,508,435	18,794,356
Australian Ethical Conservative Fund	2,819,023	4,569,039	0.70	1,559,949	300,213
Australian Ethical High Growth Fund	50,609,605	66,869,362	10.23	14,341,354	4,413,755
Australian Ethical Moderate Fund	8,845,348	10,840,598	1.66	1,622,682	726,272
Australian Ethical Retail Superannuation Fund	238,270,781	282,707,399	43.25	35,680,666	18,825,500

30 June 2024

	Value of units held opening \$	Value of units held closing \$	Interest held %	Value of units acquired/ (disposed) \$	Distributions paid/payable by the Scheme \$
Australian Ethical Balanced Fund	149,808,005	214,342,583	40.99	58,025,277	5,986,789
Australian Ethical Conservative Fund	-	2,819,023	0.54	2,600,781	81,944
Australian Ethical High Growth Fund	26,994,779	50,609,605	9.68	22,603,227	1,283,171
Australian Ethical Moderate Fund	-	8,845,348	1.69	8,187,538	247,568
Australian Ethical Retail Superannuation Fund	64,348,543	238,270,781	45.56	164,674,380	6,373,690

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

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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

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

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

(a) Categories of financial instruments

	30 June 2025 \$'000	30 June 2024 \$'000
Financial assets		
Cash and cash equivalents	21,359	28,866
Receivables	3,123	1,925
Financial assets held at fair value through profit or loss	<u>673,712</u>	<u>502,277</u>
Total assets	<u>698,194</u>	<u>533,068</u>
Financial liabilities		
Payables	6	60
Distributions payable	35,918	8,838
Net assets attributable to unitholders	<u>662,270</u>	<u>524,170</u>
Total liabilities	<u>698,194</u>	<u>533,068</u>

(b) Operational risk

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

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

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(b) Operational risk (continued)

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

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

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

Investment administration of the Scheme is conducted by State Street Australia Limited (SSAL). All the assets of the Scheme are held by external custodian, SSAL. The Responsible Entity conducts oversight on the investment administration services provided by SSAL and monitors the credit ratings and capital adequacy of its custodian.

(c) Financial risk management objectives

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

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

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

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and this will affect the Scheme's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk).

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(d) Market risk (continued)

The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's Constitution and Product Disclosure Statement. The Scheme's investment mandate is to invest in a range of assets, which may include Australian and New Zealand equity investments listed on the ASX. There has been no change to the Scheme's exposure to market risks or the way it manages and measures the risk.

(i) Foreign currency risk

The Scheme can invest in financial instruments and enter into transactions that are denominated in currencies other than its functional currency. Consequently, the Scheme is exposed to risk that the exchange rate may change in a manner that has an adverse effect on the fair value or future cash flows.

The Responsible Entity can use derivative financial instruments such as foreign currency options and forward contracts, to hedge the foreign currency risk exposures. The foreign currency exposure of the Scheme is reviewed regularly and updated as required. The use of derivative financial instruments is subject to policies and parameters set out in the Responsible Entity's Derivatives Risk Statement and Trust Investment Parameters. The Board is responsible for monitoring adherence to the Derivatives Risk Statement and the Trust Investment Parameters. No derivative financial instruments are currently held.

The carrying amounts of the Scheme's foreign currency denominated assets and monetary liabilities at the end of the reporting period are as follows:

	30 June 2025	30 June 2024
Foreign currency assets	\$'000	\$'000
NZD	68,552	68,167

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

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

	<u>Foreign currency risk exposure</u>	
	-10%	+10%
	NZD	NZD
	\$'000	\$'000
30 June 2025	7,617	(6,232)
30 June 2024	7,574	(6,197)

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(d) Market risk (continued)

(ii) Interest rate risk

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

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

The Scheme's exposures to interest rates on financial assets and financial liabilities would be as follows:

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2025				
Financial assets				
Cash and cash equivalents	21,359	-	-	21,359
Receivables	-	-	3,123	3,123
Financial assets held at fair value through profit and loss	-	-	673,712	673,712
Total financial assets	21,359	-	676,835	698,194
Financial liabilities				
Payables	-	-	6	6
Distribution payable	-	-	35,918	35,918
Amounts payable to unitholders	-	-	662,270	662,270
Total financial liabilities	-	-	698,194	698,194
	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2024				
Financial assets				
Cash and cash equivalents	28,866	-	-	28,866
Receivables	-	-	1,925	1,925
Financial assets held at fair value through profit and loss	-	-	502,277	502,277
Total financial assets	28,866	-	504,202	533,068
Financial liabilities				
Payables	-	-	60	60
Distribution payable	-	-	8,838	8,838
Amounts payable to unitholders	-	-	524,170	524,170
Total financial liabilities	-	-	533,068	533,068

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

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

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

	30 June 2025 \$'000	30 June 2024 \$'000
Increase in interest rates by 2.5% (2024: 3%)	534	866
Decrease in interest rates by 2.5% (2024: 3%)	(534)	(866)

(iii) Price risk

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Scheme has investments in equity instruments which exposes it to price risk. The portfolio manager manages the Scheme's market price risk daily in accordance with the Scheme's investment objectives and policies.

The Scheme's portfolio managers aim to manage the impact of market price risk using consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Investments (including derivatives) are only purchased when they meet investment criteria.

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

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unitholders which could result from a change in redemption prices. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in redemption prices as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

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

	30 June 2025 \$'000	30 June 2024 \$'000
Increase in redemption prices by 10% (2024:10%)	67,371	50,228
Decrease in redemption prices by 10% (2024:10%)	(67,371)	(50,228)

(e) Credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is exposed to credit risk through its deposits at banks and trades and other receivables.

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(e) Credit risk (continued)

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

At the balance sheet date, all cash was held with State Street Australia Limited, which carries a Standard & Poor's rating of AA- at 30 June 2025. At 30 June 2024, all cash was held with National Australia Bank, which carried a Standard & Poor's rating of AA-.

No financial assets carried at amortised cost were past due or impaired at 30 June 2025 (2024: Nil).

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

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

	30 June 2025 \$'000	30 June 2024 \$'000
Cash and cash equivalents	21,359	28,866
Receivables	3,123	1,925
Total credit risk	24,482	30,791

(f) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting its financial obligations as they fall due.

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

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

The table below summarise the contractual maturities of financial liabilities:

30 June 2025	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000
Payables	6	-	-	-
Distributions payable	35,918	-	-	-
Amounts payable to unitholders	662,270	-	-	-
Total	698,194	-	-	-

15 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(f) Liquidity risk (continued)

30 June 2024	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000
Payables	60	-	-	-
Distributions payable	8,838	-	-	-
Amounts payable to unitholders	<u>524,170</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>533,068</u>	<u>-</u>	<u>-</u>	<u>-</u>

(g) Fair values

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

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.

30 June 2025	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Designated at fair value through profit or loss				
Equity securities	<u>673,712</u>	<u>-</u>	<u>-</u>	<u>673,712</u>
Total	<u>673,712</u>	<u>-</u>	<u>-</u>	<u>673,712</u>

30 June 2024	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Designated at fair value through profit or loss				
Equity securities	<u>502,277</u>	<u>-</u>	<u>-</u>	<u>502,277</u>
Total	<u>502,277</u>	<u>-</u>	<u>-</u>	<u>502,277</u>

Carrying amounts versus fair value

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

16 CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2025 (2024: Nil).

17 SEGMENT REPORTING

The Scheme operates in one segment which is the reportable segment.

Reportable segment

Equities

Operations

The Scheme invests in a concentrated portfolio of Australian and New Zealand companies that meet the Australian Ethical Charter to achieve long-term capital growth and income.

18 EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2025 fair values in the financial report, any volatility in values after the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

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

Directors' Declaration

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

- (a) The financial statements and notes to the financial statements that are set out in this report are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the Scheme's financial position as at 30 June 2025 and of its performance for the financial year ended on that date; and
 - (ii) Complying with Australian Accounting Standards and Corporations Regulations 2001;
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable; and
- (c) The Scheme has operated during the year ended 30 June 2025 in accordance with the provisions of the Scheme's Constitution.

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

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



John McMurdo
Managing Director
Australian Ethical Investment Limited
27 August 2025



Independent Auditor's Report

To the unitholders of Australian Ethical High Conviction Fund

Opinion

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

In our opinion, the accompanying **Financial Report** of Australian Ethical High Conviction Fund gives a true and fair view, including of the Scheme's financial position as at 30 June 2025 and of its financial performance for the year then ended, in accordance with the *Corporations Act 2001*, in compliance with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Statement of financial position as at 30 June 2025
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes, including material accounting policies
- Directors' Declaration.

Basis for opinion

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

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

We are independent of the Scheme and Australian Ethical Investment Limited (the Responsible Entity) in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

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

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



Valuation and existence of financial assets held at fair value through profit or loss
\$673.71m

Refer to Note 9 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>Financial assets at fair value through profit or loss comprise investments in listed securities ("investments").</p> <p>The Scheme outsources certain processes and controls relevant to:</p> <ul style="list-style-type: none"> • Executing transactions as instructed by the Responsible Entity and recording and valuing investments to the Scheme administrator; • Maintaining custody and underlying records of investments to the Custodian; and • Processing unitholders' transactions to the Registry. <p>Valuation and existence of investments is a key audit matter due to the:</p> <ul style="list-style-type: none"> • Size of the Scheme's portfolio of investments. These investments represent a significant percentage of the Scheme's total assets at period end; and • Importance of the performance of these investments in driving the Scheme's investment income and capital performance, as reported in the Financial Report. <p>As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of the accounting policies applied by the Scheme, including those relevant to the fair value of investments, against the requirements of the accounting standards. • We obtained and read the Scheme's Service Provider's ASAE 3402 <i>Assurance Reports on Controls at a Service Organisation</i> and GS007 <i>Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services</i> assurance reports to understand the processes and assess the controls relevant to the: <ul style="list-style-type: none"> - Scheme administrator – to execute transactions, record and value the Scheme's investments; - Custodian – to maintain custody and underlying records of the Scheme's investments; and - Registry – to provide registry services for processing Scheme's transactions. • We assessed the reputation, professional competence, and independence of the auditors of the ASAE 3402 and GS007 assurance reports. • We checked the existence of investments, being the ownership and accuracy to the independent confirmation from the Custodian. • We checked the valuation of investments, as recorded in the general ledger, to independently sourced prices from relevant stock exchanges as at 30 June 2025. • We evaluated the Scheme's disclosures of investments, using our understanding obtained from our testing, against the requirements of the accounting standards.



Other Information

Other Information is financial and non-financial information in the Australian Ethical High Conviction Fund's annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Australian Ethical Investment Limited (the Responsible Entity) are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report.

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

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

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

Responsibilities of Directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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



A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/media/apzlw0y/ar3_2024.pdf. This description forms part of our Auditor's Report.

A stylized, handwritten-style logo of the letters 'KPMG' in black ink.

KPMG

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

Andrew Reeves

Partner

Sydney

27 August 2025