

Balanced Fund

Interim Financial Report
as at 31 December 2023

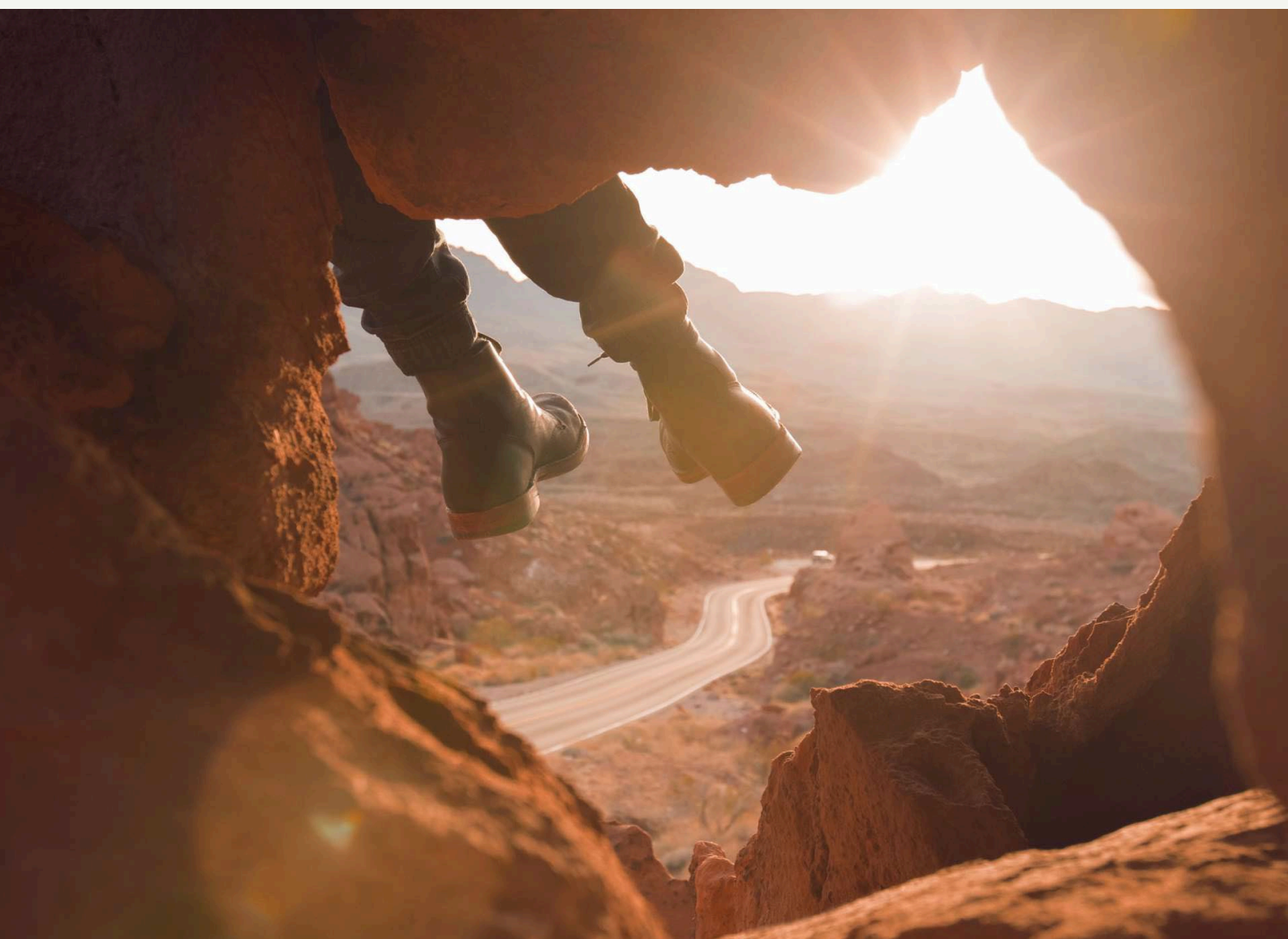


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Directors' Report

Directors' Report

For the half-year ended 31 December 2023

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Balanced Fund (the Scheme) present the directors' report together with the financial statements and notes to the financial statements of the Scheme for the half-year ended 31 December 2023 and the accompanying independent auditor's report.

RESPONSIBLE ENTITY

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

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

- Steve Gibbs (Chair)
- John McMurdo (Managing Director and CEO)
- Julie Orr
- Kate Greenhill
- Mara Bun
- Sandra McCullagh

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 diversified portfolio of asset types which may include Australian and New Zealand shares, international shares, property, alternative assets, interest-bearing securities, and cash. 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.

During the period, the Scheme received a \$374m redemption and a \$191m application from related party entities. The units for the redemption and application were processed via an in-specie transfer and are not reflected in the Statement of Cashflows. These transactions were made within the Scheme to meet the asset allocation requirements of the related party entities.

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

REVIEW OF OPERATIONS

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 2023, 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.

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 remains above central bank targets.

Moderation of inflation and interest rates provided a strong support for assets into the end of the period. December saw a robust end-of-year rally following the US Federal Reserve's indication of interest rate cuts for 2024. A more optimistic outlook for inflation and interest rates allows several sectors including growth and smaller capitalised equities to come back into focus moving forward.

However, 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 uncertain.

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 2023, they finished the calendar year near their 12-month lows as weakened global demand continues. The October 2023 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.

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.

We continue to remain laser-focused on our purpose to invest for a better world. This has not changed for 37 years.

Short-term market fluctuations are often influenced by unpredictable factors, such as market sentiment, news events, or economic data, which can lead to volatile price movements. Despite the volatility and short-term rallies that have boosted fossil fuels and miners as conflict and supply chain issues disrupt, we maintain our belief that our customers do better over the long term invested in diversified, ethical, and sustainable companies, and in sectors that are growing and are future focused.

Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 15 September 2023.

Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance - Calculation of Returns. The Scheme achieved the following total returns for the period:

- Retail class 2.63% (December 2022: 2.25%); and
- Wholesale class 2.97% (December 2022: 2.59%).

The wholesale class generated a return of 2.97% compared to the benchmark which returned 4.51% in the six months ended 31 December 2023.

The financial landscape for the six months ending 31 December 2023, saw continued volatility within fixed income markets as central bank policy tightening effects has led to moderating inflation and the prospect that peak rates had been seen in October 2023.

Global equity markets continued to experience strong returns over the period, driven by large cap technology and Artificial Intelligence thematic, with a broadening of risk appetite in the last weeks of the period. Domestic Equity markets staged a strong end of year rally with the ASX300 benchmark index ending close to all time high levels. Investor sentiment improved with interest rate expectations plateauing, as the synchronized move by central banks to tame inflation appears to be working.

The Scheme benefitted from the positive returns across both bond and equity portfolios for the six months ending 31 December 2023, however; global economic weakness and geopolitical risks remain.

The Scheme is subject to our ethical screening that supports the Australian Ethical Charter. This can lead the Scheme to be underweight and overweight in the certain sectors that form the benchmark and lead to short term volatility against the benchmark return. However, holding firm to our ethical investment beliefs and approach has successfully steered us through many market cycles.

The Scheme seeks to provide a balance between capital growth and a moderate level of income through a diversified portfolio of assets that supports the Australian Ethical Charter. The recommended minimum investment timeframe is 8 years.

Distributions paid and/or payable

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

As per Note 2 the interim distributions of \$55,739,129 (December 2022: \$21,863,319) were as follows:

- Retail class of 0.98 (December 2022: 0.31) cents per unit; and
- Wholesale class of 1.65 (December 2022: 0.85) cents per unit; and
- Zero class of 2.43 (December 2022: 0.99) cents per unit.

The prior year final distribution of \$61,724,604 was paid in July 2023.

Net assets

The value of the Scheme's net assets attributable to unitholders as at 31 December 2023 was \$4,742,102,478 (30 June 2023: \$4,614,459,426).

Fees

Responsible Entity fees charged during the period were as follows:

- 1.42% p.a. for the retail class (December 2022: 1.42%);
- 0.76% p.a. for the wholesale class (December 2022: 0.76%); and
- Nil for the zero class (December 2022: Nil).

Management costs as reported in the Scheme's Product Disclosure Statement dated 15 September 2023 include 0.13% (retail class) and 0.13% (wholesale class) indirect costs attributable to fees and costs of specialist asset managers in unlisted property trusts and alternative assets. These additional costs form part of the net performance of the Scheme however are not payable to the Responsible Entity.

Climate change

All our investments are made considering our Ethical Charter, which is embedded in our Constitution and overseen by our Board. The Charter's 23 principles are applied using our ethical frameworks, policies, and measurement systems. These ensure we prioritise action to avoid dangerous climate change and its serious impacts on the planet, people, and animals. This priority is pursued through the way we invest, 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 investment approach leads us to portfolios that are already far less emissions intensive than relevant benchmarks. However, climate change presents 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 those that invest with us.

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

We pursue net zero outcomes for our investments and the world (our climate ambition) aligned with the emissions reduction needed to limit temperature rise to 1.5°C – 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 related engagement, voting and advocacy; and
- foundation giving targeting emissions reduction.

INDEMNITIES AND INSURANCE PREMIUMS FOR THE RESPONSIBLE ENTITY AND AUDITOR

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

ROUNDING OF AMOUNTS

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

AUDITOR'S DECLARATION

The auditor's independence declaration included in this report forms part of the directors' report for the half-year ended 31 December 2023.

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



John McMurdo
Managing Director
Australian Ethical Investment Limited
22 February 2024

Lead Auditor's Independence Declaration



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

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

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Ethical
Balanced Fund 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


Andrew Reeves
Partner
Sydney

22 February 2024

Financial Statements

Financial Statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2023

	Note	Dec-23 \$'000	Dec-22 \$'000
Investment income			
Interest		466	207
Dividends		58,919	23,769
Net change in fair value of financial assets		95,630	33,848
Net investment income		155,015	57,824
Operating expenses			
Management fees		1,700	1,604
Transaction costs		724	-
Operating expenses before finance costs		2,424	1,604
Profit/(loss) from operating activities		152,591	56,220
Finance costs			
Distributions paid and payable to unitholders of the Scheme	2	(55,739)	(21,863)
Change in net assets attributable to unitholders (total comprehensive income)	4	96,852	34,357

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	Dec-23 \$'000	Jun-23 \$'000
Assets			
Cash and cash equivalents		23,910	14,074
Margin accounts		8,635	-
Receivables		57,712	69,998
Financial assets held at fair value through profit or loss	5	4,707,685	4,592,213
Total assets		4,797,942	4,676,285
Liabilities			
Payables		101	101
Distribution payable	2	55,739	61,725
Total liabilities		55,840	61,826
Net assets attributable to unitholders	4	4,742,102	4,614,459
Represented by:			
Net assets attributable to unitholders at net asset value price		4,799,820	4,677,884
Distribution payable to unitholders of the Scheme	2	(55,739)	(61,725)
Adjustments arising from different unit pricing and accounting valuations		(1,979)	(1,700)
Total net assets attributable to unitholders	4	4,742,102	4,614,459

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

STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2023

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

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

STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2023

	Dec-23 \$'000	Dec-22 \$'000
Cash flows from operating activities		
Interest received	466	207
Dividends received	5,754	5,992
Management fees paid	(1,675)	(1,575)
Transaction costs paid	(778)	-
Net cash provided by operating activities	3,767	4,624
Cash flows from investing activities		
Proceeds from sale of investments	382,497	265,661
Purchase of investments	(520,496)	(268,437)
Transfers from margin accounts	10,078	-
Transfers to margin accounts	(18,713)	-
Net cash used in investing activities	(146,634)	(2,776)
Cash flows from financing activities		
Proceeds from issue of units	223,371	218,221
Payments for redemption of units	(69,416)	(217,378)
Distributions paid to unitholders	(1,244)	(4,095)
Net cash provided by financing activities	152,711	(3,252)
Net increase/(decrease) in cash and cash equivalents	9,844	(1,404)
Effect of exchange rate changes on the balances of foreign currencies	(8)	-
Cash and cash equivalents at 1 July	14,074	13,806
Cash and cash equivalents at 31 December	23,910	12,402

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

Notes to the Financial Statements

Notes to the Financial Statements

For the half-year ended 31 December 2023

NOTE 1 – MATERIAL ACCOUNTING POLICIES

REPORTING ENTITY

The Australian Ethical Balanced Fund (the Scheme), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 2 November 1999 and will terminate on 1 November 2079 unless terminated earlier in accordance with the provisions of the Scheme's Constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the half-year ended 31 December 2023.

Statement of compliance

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

BASIS OF PREPARATION

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

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

The Statement of Financial Position is prepared on a liquidity basis. All balances including financial assets held at fair value are readily converted to cash, except for investments in the Australian Ethical Alternatives Fund, Australian Ethical Defensive Alternatives Fund, Australian Ethical Unlisted Property Fund and direct unlisted property assets.

This interim financial report is a general-purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The interim financial report covers Australian Ethical Balanced Fund (the Scheme) as an individual entity. The Responsible Entity of the Scheme is Australian Ethical Investment Limited (the Responsible Entity). The registered office is Boardroom Pty Limited, Level 8, 210 George Street, Sydney, NSW, 2000. The interim financial report is presented in Australian dollars, which is the Scheme's functional currency.

Selected explanatory notes are included to explain events and transactions that are material to an understanding of the changes in financial position and performance of the Scheme since the last annual financial statements as at and for the year ended 30 June 2023. The interim financial report does not include all of the information required for full annual financial reports and should be read in conjunction with the annual financial report of the Scheme as at and for the year ended 30 June 2023, and any public announcements made in respect of the Scheme during the reporting period in accordance with continuous disclosure requirements of the Corporations Act 2001.

ESTIMATES AND JUDGEMENTS

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with the Scheme's investment strategy, 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, derivatives are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

CASH AND CASH EQUIVALENTS

Cash and 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.

MARGIN ACCOUNT

Margin accounts comprise of cash held or owned as collateral for derivative transactions. The cash is held by or owed to the broker and is only available for margin calls. It is not included as a component of cash and cash equivalents. Movements to and from the margin accounts are presented under investing activities in the statement of cash flows.

FAIR VALUE MEASUREMENT PRINCIPLES

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

The Scheme can invest into a variety of assets including Australian and New Zealand shares, international shares, property, alternative assets, interest-bearing securities and cash. Generally, valuation information is obtained from third-party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

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

For certain investments, prices cannot be obtained from the above sources. In these instances, valuations obtained from service 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 uses derivative instruments in the form of futures and options. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognised in the statement of comprehensive income in the year in which they occur.

The Scheme's assets are measured at fair value in accordance with AASB 13 Fair Value Measurement. This is taken as last market bid price being the price a market participant would pay to buy the asset and is different to the price used in the unit pricing process which is the last sale price. The statement of financial position presents the difference in the values used in unit pricing to this financial report.

Classification

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

Recognition and initial measurement

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

Measurement

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

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

Derecognition

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

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

Impairment of financial assets held at amortised cost

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

STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET ADOPTED

The Scheme has applied AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting policies and Definition of Accounting Estimates, effective from January 2023, for the first time in the current financial period. There are no other new standards that are effective and that are expected to have a material impact on the Scheme in the current or future reporting periods and on foreseeable future transactions.

NOTE 2 – DISTRIBUTIONS PAID AND PAYABLE

	Dec-23	Dec-22
	\$'000	\$'000
Distributions payable	55,739	21,863

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

- Retail class of 0.98 (December 2022: 0.31) cents per unit; and
- Wholesale class of 1.65 (December 2022: 0.85) cents per unit; and
- Zero class of 2.43 (December 2022: 0.99) cents per unit.

The prior year final distribution of \$61,724,604 was paid in July 2023.

NOTE 3 – ISSUED UNITS

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

	Dec-23	Dec-22
	Units	Units
Retail class		
On issue at beginning of period	48,245,198	49,530,454
Issued	2,698,782	4,701,733
Reclassified to wholesale class	(1,557,830)	(1,704,930)
Redeemed	(3,291,513)	(2,488,514)
On issue at period end	46,094,637	50,038,743
Wholesale class		
On issue at beginning of period	139,664,388	122,257,805
Issued	9,327,835	22,162,578
Reclassified from retail class	1,565,612	1,713,037
Redeemed	(10,770,457)	(8,211,514)
On issue at period end	139,787,378	137,921,906
Zero class		
On issue at beginning of period	2,158,107,570	1,399,187,225
SFT investment	-	622,756,573
Issued	227,781,320	149,480,371
Redeemed	(210,288,429)	(105,225,333)
On issue at period end	2,175,600,461	2,066,198,836

NOTE 4 – NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly 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.

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to provide investors with a balance between capital growth and a moderate level of income through a diversified portfolio of assets.

	Dec-23 \$'000	Dec-22 \$'000
Opening balance	4,614,459	2,841,480
SFT investment	-	1,184,047
Issued	414,130	218,221
Distributions reinvested	60,481	107,649
Redeemed	(443,820)	(217,378)
Change in net assets attributable to unitholders	96,852	34,357
Net assets attributable to unitholders	4,742,102	4,168,376

NOTE 5 – FAIR VALUES

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

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.

	Dec-23			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Designated at fair value through profit or loss				
Equities				
Australian listed	67,671	-	-	67,671
Derivatives				
Exchange traded	498	-	-	498
Unit trusts				
Unlisted Australian Ethical trusts	-	4,069,922	258,623	4,328,545
Unlisted property trusts	-	310,971	-	310,971
Financial assets at fair value through profit or loss	68,169	4,380,893	258,623	4,707,685
	Jun-23			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Designated at fair value through profit or loss				
Equities				
Australian listed	-	-	-	-
Derivatives				
Exchange traded	-	-	-	-
Unit trusts				
Unlisted Australian Ethical trusts	-	4,018,716	237,965	4,256,681
Unlisted property trust	-	335,532	-	335,532
Financial assets at fair value through profit or loss	-	4,354,248	237,965	4,592,213

During the period there were no transfers between levels.

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

The table below describes the valuation techniques used in the measurement of fair value for assets categorised as Level 2 and 3. Exposure to early-stage venture capital partnerships and unlisted infrastructure is through the investment in the Australian Ethical trusts.

Asset type	Valuation technique	Interest held by the Scheme
Unlisted Australian Ethical trusts (Level 2 & Level 3)	The prices used to value the underlying investments include but is not limited to independent prices obtained for each security, quoted 'bid' prices on securities and for investments into unlisted unit trusts, redemption prices published by the Responsible Entity.	Direct investment in units issued by the Australian Ethical trusts
Unlisted property trust (Level 2)	The valuation measurement is market value as defined by the International Valuation Standards Council and adopted by the Australian Property Institute. The fair value of direct property assets is based on independent external valuations. A variety of established valuation techniques are used by valuers in determining the value of direct property investments. These include, discounted cashflows, capitalisation of rental income and analysis of comparable recent sale transactions.	Direct investment in units issued by the trusts and indirectly held through the Australian Ethical trusts
Early-stage venture capital partnerships (Level 3)	Valuation techniques are in accordance with International Private Equity and Venture Capital (IPEV) valuation principles endorsed by the Australian Investment Council (AIC). In estimating Fair Value of investments, the valuation techniques that are appropriate in light of the nature, facts and circumstances of the investment are applied. Consistent valuation techniques for investments with similar characteristics, industries and/or geographies is considered and used. There are a number of different techniques applied, including 'Price of Recent Investment', 'Multiples', 'Net Assets', 'Discounted Cash Flows or Earnings'.	Limited partnership interest indirectly held through the Australian Ethical trusts
Unlisted infrastructure (Level 3)	Third-party experts apply valuation techniques to determine fair value. Valuers use accepted valuation methodologies that are most appropriate for each asset, considering factors such as asset size, characteristics, and domicile. The assumptions within the valuation techniques applied to infrastructure assets can include income capitalisation, discounted cash flow, trading and transaction earnings multiples or direct sales comparison. The assumptions are determined by the valuer and adjusted to reflect the current consensus view of economic conditions and asset specific drivers.	Investment is held through the Australian Ethical trusts

At balance date, the effect on net assets attributable to unitholders as a result of a 10% change in the internal valuation of Level 3 assets, with all other variables remaining constant would be as follows:

	Dec-23	Jun-23
	\$'000	\$'000
Increase in alternative assets by 10% (June 2023: 10%)	25,862	23,796
Decrease in alternative assets by 10% (June 2023: 10%)	(25,862)	(23,796)

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

	Dec-23	Jun-23
	\$'000	\$'000
Opening balance at 1 July	237,965	57,314
Acquisition of units in Australian Ethical Alternatives Fund	27,065	79,152
Acquisition of units in Australian Ethical Defensive Alternatives Fund	20,417	103,456
Disposal of units in Australian Ethical Alternatives Fund	(7,105)	(5,292)
Disposal of units in Australian Ethical Defensive Alternatives Fund	(6,300)	-
Net fair value profit/(loss)	(13,419)	3,335
Total level 3 assets held at fair value	258,623	237,965

CARRYING AMOUNTS VERSUS FAIR VALUE

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

NOTE 6 – CONTINGENCIES

There are no contingent assets or liabilities as at 31 December 2023 (June 2023: Nil).

NOTE 7 – EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 31 December 2023 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 31 December 2023 and the date of this report, there were no items, transactions, or events, of a material and unusual nature likely in the opinion of the Responsible Entity, to significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial periods.

Directors' Declaration

Directors' Declaration

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

- a) (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. i. Giving a true and fair view of the Scheme's financial position as at 31 December 2023 and of its performance for the six-month period ended on that date; and
 - ii. ii. Complying with Australian Accounting Standards and Corporations Regulations 2001;
- b) (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) (c) The Scheme has operated during the half-year ended 31 December 2023 in accordance with the provisions of the Scheme's Constitution.

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



John McMurdo
Managing Director
Australian Ethical Investment Limited
22 February 2024

Independent Auditor's Report



Independent Auditor's Review Report

To the unitholders of Australian Ethical Balanced Fund

Conclusion

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

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

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

- Statement of financial position as at 31 December 2023
- Statement of profit or loss and other comprehensive for the Interim Period ended on that date;
- Statement of changes in equity and Statement of cash flows for the Interim Period ended on that date;
- Notes 1 to 7 comprising material accounting policies and other explanatory information; and
- The Directors' Declaration.

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 Scheme and Australian Ethical Investment Limited, the Responsible Entity of the Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the 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 Australian Ethical Investment Limited are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. *ASRE 2410* requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Scheme's financial position as at 31 December 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*. As auditor of Australian Ethical Balanced Fund *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

KPMG

Andrew Reeves
Partner
Sydney

22 February 2024