



# Australian Ethical Annual Report

*Year ended 30 June 2013*

1800 021 227 | [australianethical.com.au](http://australianethical.com.au)

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## Shareholder Calendar

AGM .....	19 November 2014
Interim Results Announcement.....	28 February 2014
Record date for Interim Dividend .....	14 March 2014
Payment date for Interim Dividend.....	28 March 2014
Annual Results Announcement.....	29 August 2014

These dates may change at the company's discretion.

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# Chair and Managing Director's Report

*Dear shareholder,*

The past 12 months has been one of the busiest but most satisfying for Australian Ethical from many perspectives. The external environment has been characterised by numerous themes that have highlighted the strong ethical leadership of our investments, financial markets that are stronger but still volatile and the continuation of one of the most significant periods of regulatory change affecting the financial services industry for many years. Internally we have begun to see the fruit of many of the improvements we have made to the business over the past few years.

The key highlights for the year include:

## Significant improvement in profits

Our profits for the financial year to 30 June 2013 have shown a significant improvement over the previous year due to a number of factors including improved market conditions, a continued focus on cost management and steadily improving new business and flows. Moreover, the strong result was achieved despite a number of fee reductions in order to make our funds more competitive and better value for our clients, a significant investment in the business to improve our systems and strengthen compliance, a further impairment on our building in Canberra and the impairment to listed securities held in respect of our Advocacy fund.

The changes to the business over the past few years have set us up for a healthy and sustainable future. More detail on the financial results is set out on page 7.

## Competitive returns from ethical investment

It has been five years since the commencement of the global financial crisis and financial markets in Australia and overseas continue to be volatile and unpredictable. However, over the past year we have seen an overall increase in global markets with the Australian market up some 16% (as measured by the All Ordinaries Index). This has had a positive impact on our funds under management and hence our revenues.

The investment performance of our funds continues to be strong over the long term with most of them having performed in line with or above the median fund in their relevant Mercer surveys. Our Larger Companies Trust was ranked in the top 4 retail and wholesale All Growth Funds returning 28% for the year whilst our International Trusts return of 32% was above the median.

The long term performance of our flagship Smaller Companies Trust remains well above benchmark returning 9.4% per annum (net of fees) for the last 10 years versus the Small Industrial Index of 6.3%, ranking it 7th in the Australian Equity (All Caps) Mercer Survey.

## Our ethical leadership

A number of themes have attracted headlines throughout the year which have highlighted the leadership position of our products when it comes to our strong conviction to ethics. These have included tobacco (a number of major funds took the step of selling out), climate risk (reports throughout the year have highlighted that the risk may be greater than previously thought) and human rights (supply chain issues following the factory collapse in Bangladesh).

The climate risk of superannuation funds and their exposure to fossil fuels has been a particular area of interest and an issue that was given oxygen by the visit to Australia by Bill McKibben plus other local group's campaigning efforts. It has highlighted the strong conviction that we have in our investment decisions with no exposure to coal, oil or gas extraction. This unique position in the market, especially in superannuation, has led to increased interest in our fund for those wishing to avoid investing in those areas. A survey by Market Forces suggested that one in four super members would switch funds to avoid coal and coal seam gas and we are busy trying to convert each and every one of them!

During the year we took a public stand with regard to the new tobacco exposure of Tomra, a Norwegian company in which we have successfully invested over a number of years.



Photos from our 2013 Community Grant recipients (see page 9). Left: Free to Shine, Middle: Street Swags, Right: Asylum Seeker Centre

Amongst other efficient and sustainable products, Tomra make reverse vending machines - you put the bottles in and receive money back. Unfortunately Tomra bought a company last year which made tobacco sorting machines. After the company refused our request to exit what is a small part of their business, we engaged other international institutional shareholders and put forward a resolution to their annual general meeting requiring them to stop selling these machines. In the course of the engagement with other investors we learned just how deep our analysis is as most of those investors were not even aware of the tobacco exposure.

Finally, the incidents of this year in Bangladesh highlighted the need for companies and investors to take more care with their supply chains, something we have been incorporating into our investment process for many years.

There is an ever-increasing trend of wider consumer consciousness and advocacy towards brands and businesses that care for the planet and we are asking people to make the same connection with their long term investments. Our wealth is a large part of who we are and to invest other than in accordance with our values is simply inconsistent. Collectively our combined wealth has a significant influence on helping to shape a better world.

### Refreshed brand, website and communications

During the year we introduced our refreshed brand identity, our new website and significantly improved new client engagement processes using more upbeat and interactive communications with a focus on sharable content. The aim has been to make clients' involvement with Australian Ethical a positive and engaging experience and to emphasise the positive impact their investments are having on society and the planet, whilst giving them the means and desire to share their experience with others.

Our new business flows, increased conversion of prospects and strong growth of our online (especially social media) community has shown this effort to be a great success.

### New business and flows

As a result of improved awareness and focus on more strategic sales and marketing activities, our monthly new clients are at record levels. New clients for the month of June were 269 compared to 146 last year, an increase of 84%. Equally, new default or registered employers, a key focus of our sales and product improvement efforts, increased significantly over the past year.

Whilst new business across superannuation takes longer to impact revenues as members build up their balances over time, our superannuation inflows remain strong and our managed funds flows are improving as confidence in financial markets, especially shares, returns.

### Regulatory changes and other business improvements

The past few years has seen the most intensive regulatory change in financial services in decades. It has been estimated that some \$1.5 billion has been spent by the industry in preparation for these changes. A lot of our focus over the past 12 months has been on preparing for the new superannuation regime which commenced on 1 July 2013. We have been preparing for MySuper and adjusting our managed fund products to be compliant with FoFA (Future of Financial Advice).

Over the course of the financial year we have also further invested in other business improvements, including:

- we changed the administrator of our superannuation fund in order to provide our members with an improved service at a lower cost

- we introduced new and improved insurance for our superannuation members which is now some of the most competitive in the superannuation industry.

The changes are to ensure that we remain not only the most ethical of funds but that we continuously improve the financial and client service aspects of our products.

### Business Changes

In September we implemented a business restructure involving the substantial reduction of our Canberra operations, the outsourcing of parts of the business and a restructuring of certain functions. This was done because the industry has changed considerably over the past few years and we have to continue to provide our clients with competitively priced ethical investment products and a high quality client experience. It is critical that we operate as effectively and efficiently as possible.

### Board changes

Over the year, we welcomed a number of new board members in Mara Bun, Tony Cole and Kate Greenhill, continuing the company's commitment to a board comprising the strong mix of skills and experience required for a highly regulated and rapidly changing environment.

André Morony retired as Chair in February after two years in the role and has recently announced that he will not be re-standing for election at the upcoming Annual General Meeting. André's contribution to the board over 5 years has been invaluable, particularly the guidance and commitment he provided as Chair over the past two years.

As foreshadowed at the 2012 Annual General Meeting, Justine Hickey retired from the board in March after 6 years of service. We thank Justine for her enormous contribution and insight over that time.

Steve Newnham recently retired from the Board after securing a full time executive role with another organisation. Steve's experience, insight and relationships particularly in the areas of retail sales and distribution were significant and greatly appreciated.



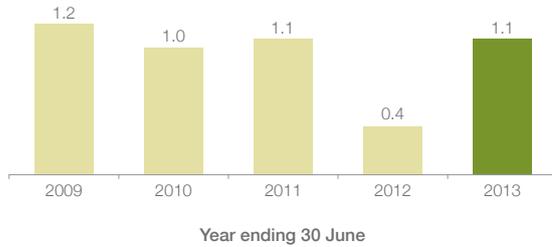
**Phillip Vernon**  
Managing Director



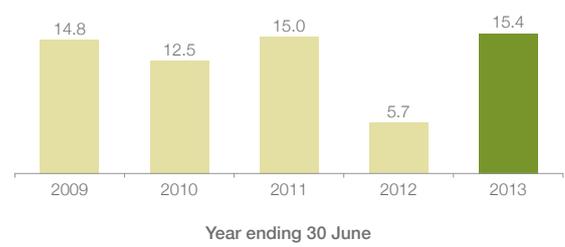
**Steve Gibbs**  
Chairman

# Financial Summary

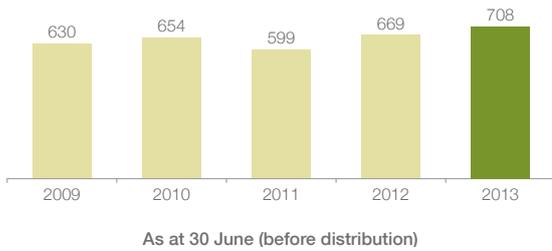
*Profit After Tax (\$m)*



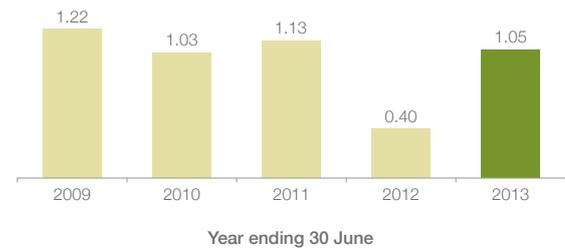
*Return On Equity (%)*



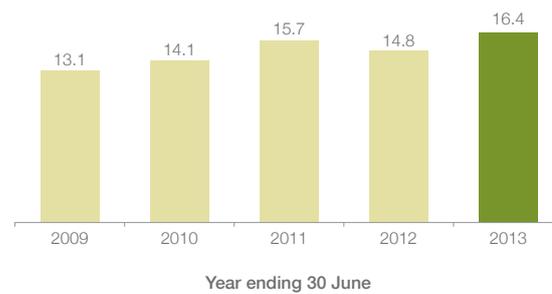
*Funds Under Management (\$m)*



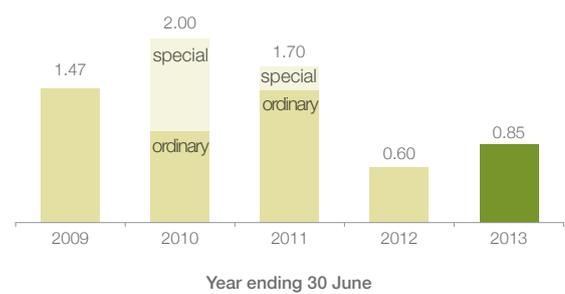
*Basic Earnings Per Share (\$)*



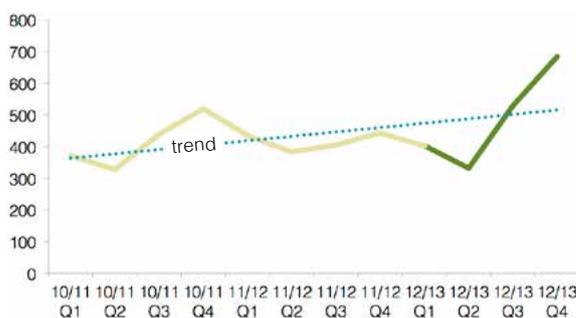
*Revenue (\$m)*



*Dividends Paid (\$)*



*New Clients (by quarter)*



*Funds Under Management*



## Financial results

Profit	2012 (\$000)	2013 (\$000)	% change
Revenue	14,793	16,378	10.7%
Operating expenses	13,789	13,708	(0.6%)
Abnormals, tax and community grants	602	1,607	
Net Profit After Tax (NPAT)	402	1,063	164%
Adjustments			
Add back employment restructure expenses	319	-	
Add back property revaluation	210	436	
Add back legal costs for shareholder actions	125	85	
Add back revaluation of listed securities	-	117	
Tax on adjustments	(197)	(26)	
Underlying Net Profit After Tax (UPAT) <sup>1</sup>	859	1,675	95%

Funds Under Management	2012 (\$m)	2013 (\$m)	% change
Opening FUM	644	627	(2.6%)
Super flows (net)	19	18	(7%)
Managed Funds flows (net)	(24)	(17)	31%
Net Flows	(5)	1	
Market movement	(13)	80	
Closing FUM	627	708	12.9%

Dividends	2012 (cents per share)	2013 (cents per share)	% change
Interim (fully franked)	25	40	
Final (fully franked)	35	45	
Total dividend	60	85	42%

<sup>1</sup> This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

## Notes to Results

### Key factors impacting the results are:

**Higher market values** – the All Ordinaries Index increased by 16% over the financial year. This overall increase in the market impacted on our funds under management. As our revenues are primarily related to funds under management this had a consequent impact on our revenues.

**More competitive fees** – during the previous financial year we made a number of adjustments to our fees all of which were effective from 1 July 2012. These changes were aimed at making our products more competitive and better value for our clients.

**Cost management** – operating expenses reduced by 0.6% for the year due to lower staff numbers and a general focus on efficiency. This was despite investment in more robust compliance infrastructure and project resources supporting major projects throughout the year.

**Impairment to building** – we incurred a further noncash impairment charge of \$436k with respect to our property in Canberra.

**Impairment to value of listed securities** – we incurred an impairment on the value of listed securities of \$117k. These securities are held in respect of the Advocacy Fund (previously the Climate Advocacy Fund) where shares were bought on balance sheet to support advocacy activities against certain companies. Due to a sustained reduction in the value of these securities an impairment was necessary.

## Dividend

In arriving at the final dividend determination, the board took account of the following factors:

- Regulatory considerations
- Market uncertainty
- Future potential strategic requirements

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# 2013 Community Grants



Image from 2013 community grant recipient, Free to Shine

As prescribed in Australian Ethical's constitution, 10% of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. This is one of the highest levels of corporate giving in Australia based on percentage of profits. It is something that the shareholders, staff and directors should be very proud of.

This year, grant applications were received by an excess of 300 organisations across a range of humanitarian, environmental and animal welfare organisations. The majority of the applications were of high quality, suited our selection criteria, and adhered to our Australian Ethical Charter and therefore made the task of determining a short list, for voting by staff and shareholders, extremely hard.

Voting was again strong and this year leaned heavily towards humanitarian projects (in stark contrast to last year's skew to wildlife conservation). Australian Ethical will be donating \$117,300 to a total of 11 organisations, bringing the total amount donated over the past 13 years to almost \$1.5 million.

This year's grants range in size from \$4,000 to \$30,000 and over half of the projects will be fully funded by Australian Ethical. Recipient groups have a strong focus on efficiently delivering tangible outcomes.

In addition to their grant, all recipients will receive a free two-year subscription to the Centre for Sustainable Leadership's (CSL) Leadership Rewired online training package. In addition, we plan to work with our clients to help crowdsource the remaining funding for the grant recipients that we were unable to fully fund.

## 2013 Grant Allocation

Street Swags	80 street swags	\$4,800	Project fully funded
Free to shine	Scholarship for girls at risk	\$9,000	Project fully funded
Asylum Seeker Centre	Employment assistance program	\$30,000	Project fully funded
East Timor Women Australia	Fair futures for women & girls in Timor-Leste	\$30,000	Partially funded
Kokoda Track Foundation	Lighting Up Papua New Guinea	\$10,000	Project fully funded
Communities @ Work	The Yellow Van food rescue	\$4,000	Project fully funded
Inanna	Comforting kids	\$5,000	Project fully funded
40K Foundation Aust	40K PLUS	\$7,250	Partially funded
Australian Conservation Foundation	100% renewable ready - clearing the barriers to change	\$7,250	Partially funded
Primary Ethics	Delivery of ethics classes	\$5,000	Partially funded
The Orangutan Project	Wildlife Protection Units	\$5,000	Partially funded

### Street Swags – 80 Street Swags

Our grant will help fund the supply of waterproof sleeping swags to the homeless because shelters do not have enough beds, so better than turning away with no shelter at all. Swags are sewn by prisoners in Qld and WA gaols, for which they gain TAFE qualifications. School kids roll and pack the swags.



<http://www.streetswags.org>

### Free to Shine Ltd – Scholarship for girls at risk

Free to Shine works to empower Cambodian girls through education to end sex slavery by providing scholarships. Poverty stricken rural villages struggle to feed children; most don't go to secondary school and teenage girls with no education are high risk being targeted by traffickers.



<http://www.free-to-shine.org>

### Asylum Seeker Centre – Employment assistance scheme

This project will assist asylum seekers to find meaningful and fairly paid employment aligned with their skills and experience. A grant will be used to employ an officer to train and support a team of skilled volunteers coaching asylum seekers. Part of it will also be used for microfinance loans to members of the community.



[www.asylumseekerscentre.org.au](http://www.asylumseekerscentre.org.au)

### East Timor Women Australia (ETWA) – Fair futures for women & girls in Timor-Leste



ETWA aim to empower women involved in producing naturally dyed hand-woven textiles in Timor-Leste. This project will establish fair trade standards, sustainable cultivation of organic cotton and dye plants, supply-chain sustainability, weaving school and design collaboration.

<http://www.etwa.org.au>

### Kokoda Track Foundation – Lighting Up Papua New Guinea

Lighting Up PNG is a project to provide four micro-loans to women's groups to assist in the training and establishment of solar-shops which will provide 800 solar LED lights for families in the Kokoda region. This will result in successful distribution, growth in solar shops, and improvement in living conditions.



The Kokoda Track Foundation

<http://www.kokodatrackfoundation.org>

### Communities @ Work – The Yellow Food Van

Communities@Work continue to rescue and deliver over 20 tonnes of good food, from 160 local businesses, providing over 60,000 meals to disadvantaged people, reducing 16m litres of water used in food production, and saving good food from landfill. Our grant will help expand this program.



<https://commsatwork.org>

### Inanna Inc – Comforting Kids



When women and children escape domestic violence they often take few possessions. This project enables kids to personalise and decorate their room in the transition home to feel more comfortable (eg. linen, lamps, pictures). They then can take these items with them when they leave the home.

<http://www.inanna.org.au>

### 40K Foundation Australia – 40K PLUS

A project to set up 34 centres (or pods) in pre-existing buildings in villages to provide up to 1000 children living in poverty in India with a dynamic learning space for two hours every weekday. The outcomes will be increased education level, high attendance, parental attendance, and upskilling women in villages.



<http://40k.com.au>

### Australian Conservation Foundation–100% renewable ready–clearing the barriers to change

ACF will undertake a comprehensive assessment highlighting the top five existing market, regular and financial barriers that are preventing a move to 100% renewable energy in Australia. They will use our grant to produce five videos to communicate these barriers, engage supporters and monitor their impact.



<http://www.acfonline.org.au>

### Primary Ethics Ltd – Ethics Classes

Grant will assist with paying full time employee to drive recruitment of volunteers– broadening delivery of ethics classes into 110 new schools in lower socio-economic areas of NSW.



<http://www.primaryethics.com.au>

### The Orangutan Project – Wildlife Protection Units

Our grant will help establish, train and maintain WPU's to secure released Sumatran orangutan populations and habitat at Bukit Tigapuluh. The project also aims to prevent illegal logging, assist in reintroduction of orangutans and collect wildlife data.



<http://www.orangutan.org.au>

# Directors' Report

The Directors present their report together with the consolidated financial report of Australian Ethical Investment Limited and its controlled entity, Australian Ethical Superannuation Pty Limited (the Company), for the year ended 30 June 2013 and the auditor's report thereon.

## Directors

The Directors of the Company at any time during or since the end of the financial year are:

Stephen Gibbs,  
Chairman and Non-Executive Director  
André Morony, Non-Executive Director  
Stephen Newnham, Executive Director  
Mara Bun, Non-Executive Director  
Tony Cole, Non-Executive Director  
Kate Greenhill, Non-Executive Director  
Phil Vernon,  
Executive Director and Managing Director  
Justine Hickey, Non-Executive Director  
Louise Herron, Non-Executive Director

## Director's Particulars

### Stephen Gibbs

Chairman and Non-Executive Director  
*BEC, MBA*

Stephen joined the Board in July 2012 as a Non-Executive Director and on 4 February 2013 was appointed Chairman. He Chairs the People, Remuneration & Nominations committee, is on the Audit, Compliance & Risk and is a director of Australian Ethical Superannuation Pty Limited.

Stephen is a director of Hastings Funds Management and was formerly Chair of the Responsible Investment Academy Advisory Council.

From early 2000 he was CEO of ARIA, the trustee of the PSS and CSS – the superannuation schemes for federal government employees. When Stephen left ARIA in January 2008 it had close to \$A20 billion under management. Prior to ARIA Stephen was the Executive Officer of the Australian Institute of Superannuation Trustees (AIST). His earlier career was in the trade union movement.

Other career highlights for Stephen include his personal invitation from the then UN General Secretary to join the steering committee and investor group which developed what became the United Nations Principles of Responsible Investment–UNPRI and membership of the ASX Corporate Governance Council from its inception until 2008.

### André Morony

Non-Executive Director  
*BEC (Hons), MEC*

André joined the Board of Australian Ethical as a Non-Executive Director in June 2008. André stepped down as the Chairman on 4 February 2013. He is a member of the People, Remuneration and Nominations Committee and the Investment Committee.

André is a highly regarded and experienced individual within the Government and finance industry. His career spans over 40 years and started at the Commonwealth Treasury where he worked in a number of financial policy areas. He also represented Australia for three years at the Organisation for Economic Cooperation and Development (OECD) in Paris.

After leaving Government in 1986, Andre's roles included Chief Economist and Chief

Investment Officer at Bankers Trust Australia (now BT) and Chief Investment Officer for the Commonwealth Government's superannuation scheme (ARIA).

### Stephen Newnham

Executive Director  
*BA, LLB, DFP*

Stephen joined the Board in December 2010 as a Non-Executive Director and in 2012, he became an Executive Director, focussed on sales and marketing.

Stephen resigned as a Director on 26 July 2013.

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### **Mara Bun**

Non-Executive Director  
*BA*

Mara was appointed as a Non-Executive Director on 4 February 2013. Mara has more than 20 years of business and community experience.

Mara was the founding CEO of Green Cross Australia when it was established in 2007. Green Cross International was founded in 1993 by former Soviet statesman Mikhail Gorbachev to create a new approach to solving the world's most pressing environmental challenges by reconnecting humanity to the environment.

Mara has previously worked for The Wilderness Society, Greenpeace Australia, Choice, the CSIRO and a number of financial organisations both in Australia and the US. She was a Director on the Board of Bush Heritage Australia for eight years and a member of the NSW Sustainable Energy Development Authority Advisory Council for six years.

### **Tony Cole**

Non-Executive Director  
*AO, BEc*

Tony was appointed as a Non-Executive Director on 4 February 2013. Tony is a member of the Investment Committee.

For the past 17 years he has been a senior investment consultant and executive in Mercer's Investment Consulting business, including heading the business in the Asia Pacific region for more than five years. Tony remains a Senior Partner in Mercer working on a part time basis.

Prior to joining Mercer, Tony held several senior positions in the Commonwealth Public Service, including Secretary to the Treasury, Secretary of the Department of Health and Social Security, Deputy Secretary to the Department of the Prime Minister and Cabinet and Chairman of the Industry Commission (now the Productivity Commission). Tony served as an Alternative Director of the World Bank and was Treasurer Paul Keating's principal economic adviser and head of office in the early years of the Hawke-Keating government.

Tony is currently a Trustee Director of the Commonwealth Superannuation Corporation and a member of the Advisory Board of the Northern Territory Treasury Corporation. He Chaired the Advisory Board of the Melbourne Institute for 10 years and was a longstanding member of the Australian Office of Funds Management Advisory Board.

### **Kate Greenhill**

Non-Executive Director  
*BEc FCA GAICD*

Kate was appointed as a Non-Executive Director on 22 February 2013. Kate is a member of the Audit, Compliance & Risk committee and the People, Remuneration and Nominations Committee.

Kate was formerly a Partner with PricewaterhouseCoopers assisting clients with advice and assurance in relation to financial statement audit opinions, accounting and regulatory developments, capital raisings, accounting for complex transactions, due diligence, valuations, compliance, risk management, organisational structure and the operation of controls.

Kate is a director, and member of the finance committee, for a not for profit organisation.

### **Phil Vernon**

Executive Director and Managing Director  
*BEc, MCom, MBA, FCPA, GAICD*

Phil joined the Company as Chief Executive Officer in December 2009 and was appointed Managing Director in July 2010. He is also a director of Australian Ethical Superannuation Pty Limited.

Phil has 25 years experience in financial services including funds management and superannuation. Prior to joining the Company he was a member of the Executive Committee of Perpetual Limited. He has extensive experience in strategy, people management and leadership, corporate governance and industry regulation.

Phil is a Director of Planet Ark, an environmental not for profit organisation. He is also a Director and Treasurer of the Responsible Investment Association of Australia and a member of the Advisory Board of the Association for Sustainable & Responsible Investment in Asia.

## Directors Who Resigned During the Period

### Justine Hickey

Non-Executive Director  
BCom, SAFin, GAICD, ASIP

Appointed as Non-Executive Director in March 2007. After Justine was re elected as a director at the AGM on 22 November 2012 she advised that she would not serve a full term. On 26 April 2013 Justine resigned as a director.

Listed company directorships held during the past three financial years:

- Hyperion Flagship Investments Limited

### Louise Herron

Non-Executive Director  
BA, LLB, LLM

Appointed as Non-Executive Director on 20 February 2012 and resigned on 25 July 2012 following her appointment as CEO of the Sydney Opera House.

## Company secretary

### Tom May

BA, LLB, MBA

Tom has experience in the superannuation and distribution aspects of financial services law. He has been a lawyer since 1990 when he was a legal officer in the federal government. He subsequently worked in house with funds management and life insurance companies before working in private practice in London and Tokyo.

## Subsidiary Board directors and Board committee members

### Ruth Medd

Chair and Non-Executive Director, Australian Ethical Superannuation Pty Limited  
BSc, Dip Comp Science, CPA, MAICD

Ruth is Chair of the Company's wholly owned subsidiary Australian Ethical Superannuation Pty Limited and also chairs the Company's Audit, Compliance & Risk committee. Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women) and WOB Pty Ltd (Women on Boards). Ruth started in IT in the 1970s. Since then she has been a senior public servant, a broadcasting regulator, the inaugural Company Secretary at Telstra and the Executive Director of an industry association.

### Les Coleman

Non-Executive Director, Australian Ethical Superannuation Pty Limited  
B.Eng.(Hons), B.Sc.(Hons), M.Ec., PhD

Les is a member of the Audit, Compliance & Risk committee and is also a director of Australian Ethical Superannuation Pty Limited. Les has been a trustee of two superannuation funds, and a director of ten companies involved in finance, retail and distribution. He has over 20 years experience in senior operational, planning and finance roles in Australia and overseas. He is currently a member of the investment committee of United Funds Management (a subsidiary of IOOF Holdings Limited), and since 2004 has taught in the Finance Department of the University of Melbourne.

### Philip George

Executive Director, Australian Ethical Superannuation Pty Limited  
BSc, LLB, ACIS

Philip was on the board of Australian Ethical Superannuation Pty Limited until his resignation on 29 August 2012.

## Principal activities

The principal activities of the Company during the financial year was to be the responsible entity for a range of public offer ethically managed investment schemes and as the Trustee of the Australian Ethical Retail Superannuation Fund. Included in these activities are funds management, portfolio management, investment administration and custody. Other than as described in this report, there were no significant changes in the nature of the controlling entity's activities during the year.

## Changes in the state of affairs

There were no significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or the financial statements.

## Review of Operations

For the financial year to 30 June 2013, Australian Ethical reported a net profit after tax of \$1,063,037 compared to the net profit after tax for the financial year to 30 June 2012 of \$402,155.

In looking at the consolidated entity's performance during 2013, the following are the key points:

### Funds Under Management and Revenue

- Funds under management increased by \$81.0m, \$79.7m due to market movements in addition to net inflows of \$1.3m. Funds under management as at 30 June 2013 was \$707.6m which is the highest for the Company since inception.
- Net inflows of \$1.3m are made up of positive inflows of \$18.0m (down from \$19.4m last year) into our superannuation fund offset by net outflows of \$16.7m from our managed funds (\$24.3m net outflow last year). Whilst this net outflow from our managed funds continues to be disappointing this is reflective of a shifting of investor behaviour across the industry. Despite this our net outflows from managed funds have improved.
- Revenues increased by \$1.59m representing an increase of 11% over the previous year. The main reason for the revenue increase was the growth in equity markets during the year which increased our funds under management.
- We made a number of adjustments to our fees over the past year to make our products more competitive and bring them in line with market best practice. These were:
  - Removal of all fees on contributions. These fees have been uncommon in the market for many years and were a key barrier to many investors. This reduced revenue by over \$1m compared to the prior year;
  - Increasing the member account fee for our superannuation product. We were under-market in respect of this fee;
  - Consistent with market practice we moved to full cost recovery from the super fund for the total costs incurred in relation to our external administrator;
  - Lowering the management fees across all investment options of our superannuation fund.
  - Lowering the management fees for our wholesale Smaller and Larger Companies Trusts.
- From 9 March 2013 the structure of the fees on the Superannuation fund were adjusted in line with MySuper and StrongerSuper requirements. These changes had an insignificant impact on revenue for the year.

### Expenses

- Operating expenses decreased by \$0.08m, a decrease of 0.6% over the previous year.
- Employment costs decreased by 1.9% as a result of reduced staff numbers (from 36 to 34). During the year we had significant project related work arising from regulatory change, product improvements and improvements to our operations and administration arrangements.
- Costs to outsource providers have increased as a result of changing our expense recovery process from the funds to now recover an estimate of expenses on a monthly basis and for the Company to pay all managed fund and superannuation fund related expenses. This method provides our customers with certainty on the pricing of our funds and aligns to market practice for retail funds.
- We entered into a lease on a new office in Sydney in February allowing our staff to operate from one location in Sydney. We have balanced cost with sustainability and secured space with a 4 star NABERS rating. The building is owned by Investa, who are well known for their sustainability credentials. This allowed us to vacate the existing lease in 25 Bligh St plus the temporary premises we were occupying. The costs for 2013/14 are expected to be in line with those for the current year.
- Amounts paid to consultants decreased by \$0.4m (2013 \$0.4m, 2012 \$0.8m) as a result of utilisation of internal staff for major projects this year.
- The effective tax rate of 45% was marginally higher than the prior year, 44%. The Company's effective tax rate is impacted by items that are not deductible for tax purposes which are detailed in Note 5 of the attached financial report.

### Community Grants

- \$117,291 has been provisioned for payment to charitable and conservation organisations under our community grants program. The Company's constitution requires that 10% of operating profit, after notional tax, be paid to non profit organisations involved in charitable, benevolent or conservation purposes. Staff and shareholders are actively involved in the selection of the organisations that receive community grants.
- \$1.45m, including the amount above, has now been paid by the Company to charitable and conservation organisations under the community grants program since inception.

## Underlying Profit

Underlying profit is provided to assist shareholders in understanding the Company's performance. Underlying profit excludes certain items, as determined by the Board and management, that are either significant by virtue of their size and impact on Net Profit After Tax, or are deemed to be outside normal operating activities. It reflects an assessment of the result for the ongoing business of the Group.

The reconciliation of net profit after tax to underlying profit after tax for the 2013 financial year is as follows:

	30 June 2013 \$'000	30 June 2012 \$'000
Net profit after tax	1,063	402
Adjustments (gross)		
Add: Employment restructure expenses	-	319
Add: Legal costs for shareholder actions	85	125
Add: Property revaluation	436	210
Add: Available for Sale assets revaluation	117	-
Tax on adjustments	(26)	(196)
Underlying profit after tax	1,675	859

This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

## Statement of Financial Position (as at 30 June 2013)

### Assets

- Total assets have increased by \$1.64m to \$10.28m during the financial year ended 30 June 2013.
- Cash balances increased by \$1.585m to \$3.895m primarily as a result of increased revenue from our funds as funds under management have grown. As a condition of the Company's Australian Financial Services (AFS) Licence the Company is required to maintain minimum Net Tangible Asset levels along with a significant cash balance. At all times during

the financial year and as at 30 June 2013 the Company has met the conditions of its AFS Licence.

- Trade and other receivables increased by \$0.758 million to \$2.474 million. These receivables primarily represent the accrual of fees on our products for the previous month.
- Due to a weakening commercial property market in Canberra the Company owned property in Bruce, ACT was independently re-valued resulting in an impairment charge of \$0.436 million. This impairment charge is a non-cash charge to profit.
  - Block E, Trevor Pearcey House is located in Bruce, ACT and is the property in which the Company operates the part of its business that is located in Canberra. It was purchased in 2006 and refurbished throughout 2007 in order to achieve a 6 star rating under the Green Building Council Green Star program.
  - Over the past few years the Company has progressively restructured its business to be predominantly based in Sydney. This was necessary to be more accessible to clients and investee companies and to more easily access appropriately skilled staff.
  - The Board has taken the view that it is not appropriate for the Company to hold real estate on its balance sheet. Regulatory requirements introduced in November 2012 require greater holdings in liquid reserves. Real estate is an illiquid asset and does not meet the required tests. As a result the property is actively being marketed for sale and consequently the building has been reclassified as held for sale.
- Shares held by the Company to support the advocacy activities of the Advocacy Fund fell by \$1,797. Cumulative unrealised losses in respect of these shares amount to \$113,332. Due to the sustained drop in prices on some of these securities an impairment charge of \$116,811 has been taken to the profit and loss. The Company has changed its approach to its Advocacy activities and in the future will not be purchasing shares on its balance sheet to obtain voting blocks in target companies.
- Excess capital of \$300,000 that was invested in the Australian Ethical Balanced Trust was redeemed during the year in order to meet the increased capital requirements of the Company's AFS Licence; a loss of \$58,523 was realised.

## Liabilities

Total liabilities increased by \$1.051m to \$2.982m due to an increase in trade payables which represents the change to the Company now paying all fund related expenses. These expenses are subsequently recovered from the funds. The trade payables primarily consist of payments to outsource service providers which are settled on a monthly basis.

## Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$	Franked/unfranked	Date of payment
Declared and paid during the financial year				
Final 2012	35	355,280	Franked	5 October 2012
Interim 2013	40	406,034	Franked	28 March 2013
<b>Total</b>		<b>761,314</b>		
Declared after end of year				
After balance sheet date, the directors declared the following dividend:				
Final 2013	45	460,416	Franked	4 October 2013 <sup>2</sup>

<sup>2</sup> Planned payment date

## Events subsequent to reporting date

The Company's fees are primarily based on its funds under management which in turn is impacted by changes in equity markets. Between 30 June 2013 and the date of signing this report the S&P/ASX All Ordinaries Index increased by 5.75% which is estimated would impact the net profit after tax by \$287,000 on a full year basis.

Other than as outlined in this report, no matters or circumstances have arisen since the end of the financial year which have or may significantly affect the operations of the Company and its controlled entity, the results of those operations or the state of affairs of the Company in financial years subsequent to the financial year ended 30 June 2013.

## Equity

Equity has increased by \$0.589 million due to net profit after tax of \$1.063 million offset by dividends paid during the year.

## Outlook—Likely developments and business strategies

Over the past three years the Company has been positioned to benefit from increasing awareness of ethical investing through improvements in the structure and price of products and a reduction in the ongoing expenses.

Over the coming year it is planned to make further reductions to our product fees in order to make them more competitive.

The largest driver of total revenues is the value of funds under management (FUM) which is in turn influenced by the level of the Australian equity market. We have estimated that a 1% change in the S&P/ASX All Ordinaries index will have a full year impact of \$50,000 on net profit after tax. Changes to the markets are monitored constantly and where there are sustained drops action will be taken to reduce variable expenses.

As noted in the Review of Operations section the Board has taken the view that it is not appropriate for the Company to hold real estate on its balance sheet. The Company is attempting to sell the property and the Board is yet to determine the appropriate course of action for the sale proceeds.

## Environmental Regulation

The consolidated entity acts as a responsible entity for the Australian Ethical Property Trust and the Australian Ethical Balanced Trust both of which own direct property assets. These fiduciary operations are subject to environmental regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The licence requirements relate to air, noise, water and waste disposal. The responsible entity is responsible for compliance and reporting under the government legislation.

The consolidated entity is not aware of any material non-compliance in relation to these licences during the financial year.

The consolidated entity has determined that it is not required to register to report under the National Greenhouse and Energy Reporting Act 2007, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the financial year.

The properties held in the Australian Ethical Property Trust are required to have a minimum of 5 Green star rated or be in respect to social infrastructure. The properties held in the Australian Ethical Balanced Trust do not have a minimum of Green star rating.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

## Indemnification of Directors' and officers

The Company and its controlled entity indemnify the current Directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the consolidated entity, except where the liabilities arise out of conduct involving a lack of good faith. The Company and its controlled entity will meet the full amount of any such liabilities, including costs and expenses.

## Insurance

The constitution of the Company provides a general indemnity for officers of the company against liabilities incurred in that capacity, including costs and expenses in successfully defending legal proceedings.

During the financial year, the company paid a premium to insure the directors (named above), the company secretary and all officers of the company and of any related body corporate against a liability incurred as a director, secretary or officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

During the year the company entered into or maintained deeds of indemnity, insurance and access (Deed) with directors and officers which provides a general indemnity against liabilities incurred in that capacity to the extent permitted by the Corporations Act 2001.

The Deed obligates the company to use its reasonable endeavours to obtain and maintain insurance for the benefit of a director or officer of the company and any subsidiary, to the extent that such coverage is available in the market on terms which the company reasonably considers financially prudent and on terms consistent with the practice of comparable companies operating in similar markets.

The Deed also provides that the company will pay on behalf of the director or officer or lend to the director or officer the amount necessary to pay the reasonable legal costs incurred by the director or officer in defending an action for a liability incurred as a director or officer of the company or a subsidiary on such terms as the company reasonably determines. The director or officer must repay to the company such legal costs if they become legal costs for which the company was not permitted by law to indemnify the director or officer. The company need not pay or provide a loan to the director or officer to the extent that the director or officer is actually reimbursed for legal costs as they fall due under an insurance policy or otherwise.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify a director, officer or auditor of the company or of any related body corporate against a liability incurred as such director, officer or auditor.

## Director's meetings

The number of Directors' meetings (including meetings of committees of directors of which not all directors are members) and number of meetings attended by each of the directors of the controlling entity during the financial year are set out below.

Director	Board		Investment		People, remuneration and nominations		Audit, compliance and risk	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
Stephen Gibbs	8	8	-	-	2	2	6	6
André Morony	9	8	3	3	3	3	-	-
Stephen Newnham	9	7	-	-	-	-	-	-
Mara Bun	4	3	-	-	-	-	-	-
Tony Cole	4	3	1	1	-	-	-	-
Kate Greenhill	4	4	-	-	-	-	3	3
Phil Vernon	9	9	-	-	-	-	-	-
Justine Hickey	8	8	3	3	3	3	-	-
Louise Herron	1	1	-	-	-	-	-	-
Ruth Medd	-	-	-	-	-	-	7	7
Les Coleman	-	-	-	-	-	-	7	7

## Directors' relevant interests in securities of the Company

Parent entity directors	Fully paid ordinary shares		Share options		Performance rights	
	2013	2012	2013	2012	2013	2012
Stephen Gibbs						
André Morony	-	-	-	-	-	-
Stephen Newnham	-	-	-	-	-	-
Mara Bun	-	-	-	-	-	-
Tony Cole	-	-	-	-	-	-
Kate Greenhill	-	-	-	-	-	-
Phil Vernon	1,474	-	-	-	6,933	5,744
Justine Hickey	1,200	1,200	-	-	-	-
Louise Herron	-	-	-	-	-	-
Ruth Medd	-	-	-	-	-	-
Les Coleman	-	-	-	-	-	-

### Directors' holdings in registered schemes made available by the Company

None of the current Directors have holdings in the registered schemes made available by the Company.

Several Directors are members of the Australian Ethical Retail Superannuation Fund.

### Rights as at the date of this report

Rights over unissued shares as at the date of this report are as follows:

Performance rights reference	Number of rights on issue
AEFAY	8,393
AEFAA	9,411
AEFAC	20,144
AEFAD	7,095

All performance rights are over unissued shares in the Company. Performance rights expire if the performance conditions are not met at the end of the performance period. No holder of performance rights is entitled, by virtue of holding the performance rights, to participate in any other share issue of the Company or of any other entity.

Further details on rights over unissued shares are provided in Note 27 of the attached financial report.

### Shares issued upon the exercise of share rights

12,051 ordinary shares of the Company were issued during the year ended 30 June 2013 on the conversion of performance rights granted under the Company's employee share ownership plan.

No further shares have been issued since 30 June 2013 to the date of this report. No amounts are unpaid on any of the shares.

# Remuneration Report 2013

This report sets out the remuneration arrangements for all key management personnel (KMP) for the year. KMP is defined under the Corporations Act as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The information contained in the Remuneration Report has been audited by the Company's external auditor and named directors and executives are key management personnel of the consolidated entity.

At the 2012 Annual General Meeting, the Remuneration Report received 33.84% of the vote against it. This result constituted a 'second strike' and the spill meeting motion was required. 68.67% voted against a spill motion meaning a spill meeting was not required. There were no specific comments at the Meeting criticising any aspect of the remuneration report. The directors are of the view that the vote received against the 2012 Remuneration Report was once again, not about the remuneration of KMP's, but rather, as a result of a campaign to remove certain directors.

## *Remuneration Policy and Structure*

Australian Ethical Investment Limited's remuneration policy is designed to create a motivating environment for staff where they feel appropriately paid and incentivised for the contribution they make to the performance of the company.

The remuneration philosophy is consistent with the principles of the Australian Ethical Charter and Constitution. In particular:

- it is designed to ensure that Australian Ethical facilitates "the development of workers participation in the ownership and control of their work organisations and places" (Charter element (a))
- it is designed so as to not "exploit people through the payment of low wages or the provision of poor working conditions" (negative Charter element (ix))

- the incentive structure meets the requirements of Rule 15.1(c) of the AEI Constitution which provides that:
  - prior to recommending or declaring any dividend, provision must be made for a bonus or incentive for staff to be paid of up to 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted;
  - these bonuses may be in cash or shares; and
  - this rule applies only to any staff bonus described below. The other schemes outlined in this document are part of the remuneration structure.

Principles guiding the design of the remuneration structure are as follows:

- pay people fairly for the work that they do
- build long term ownership in the company amongst employees
- reward people according to their contribution to the company's performance
- align shareholder interests and the company's capacity to pay
- attract and retain talented people
- promote the values of the Charter

## *Changes to Remuneration Structure in 2012/13*

In 2012, the Company's remuneration structure went through some change to ensure we strengthened the alignment of performance-based remuneration to shareholders' interests and the Company's strategic plan. The improvements made to the structure included:

- better alignment of incentive programs with the Company's capacity to pay
- better alignment of individual and company performance to short term incentive plans
- balancing of reward options including cash and performance rights
- reducing retention risk through the provision of market-based incentive programs for identified staff

#### i) Non-executive Directors

A review of Non-executive Directors remuneration is undertaken annually, taking into account recommendations from the People, Remuneration and Nominations Committee. The review includes the positions of Chairman and Non-executive Directors, duties undertaken, accountability and market rates. Non-executive Directors' remuneration has been consistently below that of comparative companies and the annual review in June 2013 saw an increase to Non-executive Director remuneration by \$12,000 pa, the first increase since 2008, effective from the first full pay period on or after 1 July 2013. The increases awarded remain within the pool approved by shareholders at the 2010 Annual General Meeting.

Non-executive Director remuneration is still well below comparative companies.

In addition to fixed remuneration, Non-executive Directors are entitled to be paid reasonable expenses, remuneration for additional services and superannuation contributions. They also receive payment for serving on board committees. Committee payments have not increased since July 2008.

Non-executive Director's are not eligible to participate in staff incentive plans.

#### ii) Key Management Personnel (KMP)

The Board seeks to reward KMP's based on positive contributions and Company results.

The remuneration structure for KMP's is based on a number of factors including position in the Company, the scope and impact of an individual's contribution to the performance of the Company and the achievement of agreed objectives. All remuneration for KMP's is reviewed against market rates for roles requiring similar skills and experience.

#### **Managing Director and KMP Performance**

An annual assessment of the Managing Director is completed by the Chairman and is overseen by the Board, with input from the People, Remuneration and Nominations Committee. The review includes a 360 review process, measurement of performance against agreed KPI's and Company performance.

The bonus received by the Managing Director during 2012/13 is shown in Table 1: Remuneration Elements and relates to the previous financial year of 2011/2012. This flows from a formula linking the bonus to year on year profit changes and

reflects a decrease in the results for that previous financial year. The bonus paid in 2012/2013 is lower reflecting the lower profits of the previous financial year.

In turn, the Managing Director is responsible for reviewing the performance of senior management and whether performance requirements are met. Both quantitative and qualitative data is used to determine whether performance criteria are achieved.

### *Performance-based Remuneration*

The Company seeks to reward employees for results and ongoing commitment through the provision of cash and equity based schemes as follows:

#### **a) Staff Bonus Plan**

Under the Company's Constitution, before the Directors recommend or declare a dividend to be paid out of profits of any one year provision must be made for a bonus or incentive for staff.

Historically, all staff across the organisation, irrespective of position (and including KMP), received the same bonus paid in cash under this constitutional provision. From 1 July 2012 the eligibility for this bonus plan changed and employees who had access to the Short Term Incentive Program were removed from the Plan.

In 2012/13 eligible employees received a cash bonus of \$3,000 each in respect of the 2011/12 financial year. The bonus is pro-rated for permanent part-time staff and staff who have not completed a full year with the company.

A further change to the Plan for the 2012/13 performance year (paid in 2013/14) was that payment will be based on the relative performance of the employee during the performance year, not a flat rate for each employee.

#### **b) Employee Share Incentive Schemes**

Under the employee share incentive schemes (ESIS), a pool of performance rights which would, if exercised, amount to less than 5% per annum of the company's existing ordinary share capital, is made available. This scheme was originally approved by members at the 2008 Annual General Meeting. The ESIS is split into two categories: general (now referred to as the Long Term Incentive Program, LTI) and individual (now referred to as the Short Term Incentive Program, STI).

The performance rights that have been issued during the current year are subject to the terms and conditions of the scheme rules.

i) Short Term Incentive Program

The Short Term Incentive Program (STI) is provided to senior management and eligible investment and sales staff. The outcome of any reward is based on company performance, individual performance and the achievement of agreed KPI's. Rewards are paid as 50% cash and 50% performance rights.

Performance objectives are chosen to provide consistency and alignment with the Company's strategy.

Performance rights issued under the STI are linked to the performance of the Company's managed funds for eligible investment staff and are notionally reinvested back into an employee appropriate fund for 12 months.

The following attributes determine whether the performance rights convert into ordinary shares:

- For all STI participants, employment must continue until a specified date.
- For the management, sales and marketing teams vesting occurs in 1 year.
- For investment staff, the number of shares issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, depending on the absolute performance of the company's managed investment schemes for which the employee has responsibility or provides significant input. The nominated managed investment scheme is agreed between the Company and the employee and the performance is measured over the relevant performance period. The value of this deferred incentive will vary as if the amounts were directly invested in actual investment units, giving the portfolio manager an effective exposure to the performance of the units. This builds alignment with clients.

Performance against individual objectives is determined by the Managing Director. Performance against investment targets is measured by the Chief Investment Officer and reviewed by the People, Remuneration and Nominations Committee in consultation with the Managing Director. Performance against flow objectives is determined by actual inflows and outflows during the period and reviewed by the Managing Director.

ii) Long Term Incentive Program

All permanent employees, including KMP, participate in the Long Term Incentive Program (LTI). The number of performance rights issued to each staff member is based on their relative remuneration.

Performance rights issued under the this category have two hurdles. Firstly, they are subject to a three year employment condition and secondly, shares will only be issued in respect of the performance rights where return on equity meets the established levels.

The following attributes determine whether shares will be issued in respect of the rights:

- Employment must continue until a specified date.
- The Average Return on Equity (AROE) must exceed 15% per annum or no shares shall be awarded at the end of the performance period.
- If the AROE exceeds 15% per annum but is less than 20% per annum, half the maximum number of shares shall be awarded.
- If the AROE is equal to or greater than 20% per annum the maximum number of shares shall be awarded.
- AROE is determined as the average of return on equity over each six month period calculated using audited half-year financial statements.
- The performance is measured over a rolling three year period.

## *Conditions of Employment*

### **a) Employment Contracts**

All KMP's have formal contracts of employment and are permanent employees of the Company.

The Managing Director's contract is for a fixed term, concluding on 30 March 2016. Prior to 12 weeks before the Contract expiry date, the Managing Director may resign by giving the company 12 weeks' notice in writing. Prior to 52 weeks before the Contract expiry date, the Company may terminate the Managing Directors employment by giving 52 weeks' notice in writing. In the event the Contract has less than 52 weeks to run before the expiry date, the Company may terminate the Managing Directors employment by giving notice to the expiry date.

All other KMP's have no pre-determined duration of employment or a termination date. The contracts for service between the company and these KMP's are on a continuing basis. All KMP's have a 12 week notice period in their employment contract and no termination provisions are provided other than the payout of accrued entitlements and notice period. No changes to the contractual arrangements are expected in the immediate future.

#### b) Consultancy Agreements

The Company maintained a consultancy agreement with Morse Consulting Pty Limited for the provision of management services to the Company's finance team by performing the role of Chief Financial Officer. The agreement commenced on 19 April 2012 and concluded on 30 June 2013. Costs incurred for the reporting period amount to \$393,733.

## Company Performance and Remuneration

One of the Company's remuneration guiding principles is that the remuneration structure should align value creation for shareholders, clients and employees.

As outlined earlier in this report, STI rewards for KMPs are based on a range of key performance measures. Depending on the position these include a portion linked to current year profit, for the investment team a portion linked to the performance of the investment funds for which they're responsible, and for the sales and marketing team a portion linked to net flows. The profit portion of these will relate to the previous year to which it is paid. Other elements (eg: investment performance and net flows) are focussed on building long term value and will impact profit performance over the longer term. LTI rewards are subject to average Return on Equity performance hurdles over the three year vesting period. If these are not met the shares are written back to profit at the end of the third year.

The following table shows the Company's five-year performance.

Five Year Performance	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013
Statutory net profit after tax (\$'000)	1,203	1,023	1,125	402	1,063
UPAT reported (\$'000)	1,020	1,543	981	859	1,639
Ordinary dividend per share declared with respect to the year (\$)	1.47	2.00	2.45	0.60	0.85
Basic earnings per share (\$)	1.22	1.03	1.13	0.40	1.05
Closing share price (\$)	22.00	23.20	19.10	17.50	19.50
Return on Equity	14.8%	12.5%	15.0%	5.7%	15.4%
Average Return on Equity over prior three years	-	-	14.1%	11.1%	12.0%

Performance rights issued under the LTI in 2010 did not meet the minimum 15% average return of equity over three year hurdle and have lapsed. Performance rights issued under the general ESIS outstanding as at 30 June 2013 are:

Issued year	Amount Outstanding
2012	26,871
2013	37,474

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## *KMP Compensation*

	2013 \$	2012 \$
Short term employment benefits	1,391,480	1,817,102
Post-employment benefits	121,613	170,705
Other long-term benefits	21,313	34,939
Termination benefits	-	221,528
Share-based payments	150,310	151,310
<b>Total Compensation</b>	<b>1,684,716</b>	<b>2,395,584</b>

## *Hedging Policy*

Directors and executives participating in the company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the company's securities.

**Table 1: Remuneration Elements**

The following table illustrates the proportion of remuneration that was performance and non-performance based, and the proportion of remuneration received in the form of performance rights during the financial year.

Non-executive Directors receive their total remuneration as cash or superannuation contributions. No element is dependent on performance. Non-executive Director's are not eligible to participate in staff incentive plans.

PARENT ENTITY DIRECTOR'S REMUNERATION		SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	EQUITY		
Name		Salary, Fees and Leave \$	Cash Bonus \$	Superannuation \$	Long Service Leave \$	Settled Share-based Payments \$	Termination Benefits \$	Total \$
Howard Pender	2013	-	-	-	-	-	-	-
	2012	16,362	-	6,263	(702)	-	136,634	158,777
Justine Hickey	2013	23,452	-	-	-	-	-	23,452
	2012	28,409	-	2,565	-	-	-	30,974
André Morony	2013	37,521	-	3,424	-	-	-	41,345
	2012	43,361	-	3,915	-	-	-	47,276
Les Coleman	2013	18,909	-	1,710	-	-	-	20,649
	2012	24,671	-	2,229	-	-	-	26,900
Stephen Newnham*	2013	147,553	-	13,275	2,108	-	-	162,936
	2012	150,176	-	12,645	2,668	-	-	165,489
Louise Herron	2013	2,109	-	190	-	-	-	2,299
	2012	23,324	-	901	-	-	-	24,225
Stephen Gibbs	2013	43,070	-	3,669	-	-	-	46,739
	2012	-	-	-	-	-	-	-
Tony Cole	2013	9,903	-	864	-	-	-	10,767
	2012	-	-	-	-	-	-	-
Kate Greenhill	2013	9,071	-	819	-	-	-	9,890
	2012	-	-	-	-	-	-	-
Mara Bun	2013	8,656	-	800	-	-	-	9,456
	2012	-	-	-	-	-	-	-
Ruth Medd	2013	30,901	-	2,790	-	-	-	33,691
	2012	30,901	-	2,790	-	-	-	33,691
Phil Vernon*	2013	285,851	15,263	24,962	5,751	49,534	-	381,361
	2012	263,032	67,500	30,288	5,751	52,870	-	425,441
<b>TOTAL</b>	2013	617,666	15,263	54,874	7,859	49,534	-	745,196
	2012	586,256	67,500	61,595	7,717	52,870	136,634	912,772
NAMED EXECUTIVES (INCLUDING OTHER KMP) REMUNERATION		SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	EQUITY		
Name		Salary, fees and Leave \$	Cash Bonus \$	Superannuation \$	Long Service Leave \$	Settled Share-based Payments \$	Termination Benefits \$	Total \$
Philip George	2013	112,823	11,760	11,113	1,096	-	-	136,792
	2012	189,576	12,937	18,982	5,873	25,486	-	252,840
Gary Leckie	2013	-	-	-	-	-	-	-
	2012	176,446	19,169	17,991	3,615	-	-	217,220
Tim Xirakis	2013	-	-	-	-	-	-	-
	2012	17,724	13,138	5,538	(796)	12,823	84,694	133,121
Adam Kirk*	2013	207,987	9,680	18,978	4,217	24,964	-	265,806
	2012	191,560	-	16,296	3,774	-	-	212,630
Paul Smith*	2013	165,974	8,187	15,725	3,514	20,597	-	213,997
	2012	158,424	-	13,626	3,244	-	-	175,294
David Macri*	2013	223,234	13,956	20,923	4,627	55,185	-	328,925
	2012	161,798	5,000	16,144	4,492	60,151	-	247,585
James Jordan	2013	-	-	-	-	-	-	-
	2012	175,501	41,684	20,533	7,014	-	-	244,732
<b>TOTAL</b>	2013	714,968	43,583	63,739	13,454	100,776	-	933,520
	2012	1,071,419	91,527	109,110	27,222	98,440	84,694	1,482,812

\* The five highest paid KMP's for the year ended 30 June 2013

Table 2: Rights and Shares held by KMP

Name	Rights Class	RIGHTS HOLDINGS				SHARE HOLDINGS							
		Balance at beginning of year	No. granted	No. for feited	No. vested & exercised	No. Expired	Balance at end of year	Year	Balance at beginning of year	Acquired/Granted as Remuneration	On exercise of options/ rights	Net Change other (1)	Balance at end of year (2) & (3)
<b>Current Directors</b> Phil Vernon	AEFAD		608				608	2013	-	1,474	-	1,474	
	AEFAC		2,432				2,432	2012	-	-	-	-	
	AEFAB	1,474		(1,474)			-						
	AEFAA	1,472					1,472						
	AEFAY	2,481				(317)	2,481						
	AEFAW	317			(1,474)	(317)	-						
	2013 Total	5,744	3,040	-	(1,474)	6,993							
	2012 Total	2,938	2,946			5,744							
Justine Hickey								2013	1,200	-	-	-	1,200
								2012	1,200	-	-	-	1,200
<b>Past Directors</b> Howard Pender	AEFAY	736					736	2013	49,852	-	900	50,752	
	AEFAW	320				(320)	-	2012	50,683	-	(801)	49,882	
	2013 Total	1,056				(320)	736						
	2012 Total	1,056				(320)	736						
							1,056						
<b>Current Executives</b> David Mairi	AEFAD		1,790				1,790	2013	-	2,262	(1,996)	266	
	AEFAC		1,379				1,379	2012	-	-	-	-	
	AEFAB	2,362		(100)	(2,262)		-						
	AEFAA	827					827						
	AEFAY	666					666						
	AEFAW	150				(150)	-						
	2013 Total	4,005	3,169	(100)	(2,262)	(150)	4,862						
	2012 Total	816	3,189			(150)	4,005						
	Adam Kirk	AEFAD		378				378	2013	-	-	-	-
		AEFAC		1,142				1,142	2012	-	-	-	-
	2013 Total		1,520				1,520						
	2012 Total		-				-						
Paul Smith	AEFAD		289				289	2013	-	-	-	-	
	AEFAC		968				968	2012	-	-	-	-	
	2013 Total		1,257				1,257						
	2012 Total		-				-						
<b>Past Executives</b> James Jordan	2013 Total												
	2012 Total		1,277	(4,537)									
	2013 Total												
	2012 Total		1,514	(3,344)									
	2013 Total		646		(646)		-						
	2012 Total		1,475	-1,475			646						
	Philip George	AEFAD		474	(474)			474	2013	-	890	(700)	794
		AEFAC		1,270	(1,270)			-	2012	1,104	-	(700)	1,104
		AEFAB	300					-					
		AEFAA	1,105		(1,105)			-					
	AEFAY	965					-						
	AEFAW	501		(501)			-						
	2013 Total	2,981	1,744	(4,335)	(390)	-							
	2012 Total	1,486	1,495			2,981							

- 1) "Net change other" incorporates changes resulting from purchases, sales, forfeitures during the year
- 2) Shares issued are fully paid
- 3) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124 Related Party Disclosures

Equity based remuneration consisting of rights under the Company's employee share incentive scheme are provided above and in Note 27 of the attached financial report.

**Table 3: Remuneration Received**

The following table sets out the actual remuneration received by executives at the Company including cash paid and the value of equity vested.

Name	Proportion of elements of remuneration related to performance			Proportion of elements of remuneration not related to performance	
	Non-salary cash-based incentives %	Shares %	Options/rights %	Fixed salary/fees %	Total %
<b>Directors</b>					
Justine Hickey	0	0	0	100	100
André Morony	0	0	0	100	100
Phil Vernon	3	0	13	84	100
Les Coleman	0	0	0	100	100
Stephen Newnham	0	0	0	100	100
Louise Herron	0	0	0	100	100
Stephen Gibbs	0	0	0	100	100
Tony Cole	0	0	0	100	100
Kate Greenhill	0	0	0	100	100
Mara Bun	0	0	0	100	100
Ruth Medd	0	0	0	100	100
<b>Executives</b>					
Adam Kirk	3	0	9	88	100
Paul Smith	2	0	10	88	100
David Macri	3	0	17	80	100
<b>Executives who left during the year</b>					
Phillip George	6	0	0	94	100

**Table 4: KMP Loans**

	Start of year balance \$	Interest charged \$	Interest not charged \$	Write-off \$	End of year balance \$	No. of KMP's at end of year
2013	7,455	204	-	-	-	-
2012	12,250	778	-	-	7,455	1

The loan was repaid in full in December 2012.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Stephen Gibbs  
**Chairman**

Dated: 29 August 2013

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# Corporate Governance Statement 2013

## *Australian Ethical Investment Limited*

This statement has been prepared under the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (2nd edition) ("Principles and Recommendations") and discloses the extent to which Australian Ethical Investment Ltd ("Company") has followed the Principles and Recommendations during the reporting period.

This statement will be posted to the 'About Us' section of the Company's website.

## *Principle 1—Lay solid foundations for management and oversight*

The Company has formalised the functions reserved to the Board and those delegated to management.

### **Board responsibilities**

The Board is directly responsible for the following activities.

- Setting the strategic direction of Australian Ethical
- Annual appraisal of the Board
- Approval of Board committee fees
- Recommendation to shareholders on the aggregate level of directors' fees
- Approval of individual director fees
- Appointment and removal of the CEO
- Annual appraisal of the CEO
- Approval of the annual operational and capital expenditure budget and any material revisions
- Approval of major contracts, acquisitions or disposals which have not been approved in the budget
- Authorisation of Board project expenditure
- Acceptance and sign-off of the annual audited accounts and directors' report for the Australian Ethical group

- Approval of the issue of shares and options
- Approval of significant changes to unit trust fees, including discount programs
- Approval of significant changes to products or product offerings
- Approval of the constitutional bonus and community grant amounts
- Approval of the terms and conditions for any employee share ownership scheme, or if shareholder approval is required, approval of recommendations to shareholders
- Approval of employee performance based remuneration programs
- Approval of dividend payments and any DRP
- Authorisation of the issue of the Trust PDS
- Review of key risks and approval of risk management and compliance programs
- Approval of significant Company policies
- Approval of indemnity, crime, director and officer and similar insurance programs
- Protection and promotion of the Australian Ethical Charter

The following general delegations are also in place.

The Chair of the Board – is delegated with all necessary authority to carry out the following functions:

### *Inside the boardroom*

- Acting as the link between the Board and the Company when the CEO is unable to perform this role;
- Establishing and maintaining an effective working relationship with the CEO;
- Setting the tone for the Board, including the establishment of a common purpose;
- Chairing Board meetings efficiently and shaping the agenda in relation to goals, strategy, budget and executive performance;
- Work with the Company Secretary and CEO to ensure that appropriate information is presented to the Board;

- Ensuring contributions by all Board members and reaching consensus when making decisions;
- Motivating Board members and where appropriate dealing with underperformance;
- Oversee the process for appraising Board members individually and the Board as a whole;
- Overseeing conducting and finalising negotiations for the CEO's employment and evaluating the CEO's performance;
- Assisting with the selection of Board committee members.

#### *Outside the boardroom*

- Communicating with shareholders on matters of corporate governance;
- Chairing shareholder meetings – annual and extraordinary general meetings (AGMs and EGMs);
- Ensuring compliance with ASX Listing Rules and continuous disclosure requirements;
- Speaking with large investors;
- In conjunction with the CEO, communicating Board views to staff.

**Board Committees** – are delegated with all necessary authority to carry out their functions as set out in Board committee charters.

**The CEO** – is delegated with all necessary authority to run Australian Ethical on an ongoing, day to day basis other than those responsibilities reserved to the Board and delegations (general or specific) made by the Board to the Chair, Board committees, Directors or other senior executives. Specifically the CEO is delegated with responsibility and authority for the following:

- Implementing the strategic direction set by the Board;
- Implementing the risk management and compliance programs approved by the Board;
- Approval and maintenance of Expenditure and Payment Guidelines;
- Approval and maintenance of Employee Authorisations;
- Employment, termination and suspension of staff;
- Employee remuneration;
- Employee policies and procedures.

The above responsibilities and delegations are made public through the publication of this statement and its inclusion in the corporate governance section of the Company's website.

#### **Evaluating the performance of senior executives**

Executive performance is evaluated in accordance with the Company's performance review guidelines. The Chair conducts the CEO's performance review. The CEO conducts the performance reviews of other senior executives.

In relation to senior executives the CEO completes a draft performance review and discusses it with the relevant executive. The discussion also covers:

- objectives for the coming year, aspirations and areas for improvement;
- the executives competencies and qualifications to ensure they remain applicable. If not, a training program is developed to bring the executive to the appropriate level; and
- where remuneration is subject to performance hurdles, the achievement of those hurdles is reviewed and the amount of any performance based remuneration is determined.

In relation to the CEO, the process is for the Chair to conduct the review and present the results of the review to the Board. The Board then has an opportunity to provide feedback to the CEO and to consider recommendations from the Chair on the CEO's remuneration package.

An evaluation of the CEO and senior executives was undertaken in the financial year in accordance with the processes described above.

### *Principle 2–Structure the board to add value*

#### **Independent directors**

A director is an independent director if they are a non executive director and:

- not a substantial shareholder (as defined in the Corporations Act) or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- have not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;

- within the last three years have not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- are not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- have no material contractual relationship with the Company or another group member other than as a director of the Company;
- have not served on the Board for more than 9 years;
- are free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The list reflects the relationships set out in the Principles and Recommendations.

Unless there are specific qualitative factors relevant to the relationship, the Board is generally of the view that a quantitative materiality threshold arises at 10% of the relevant amount – considered from both the Company's perspective and that of the other party.

The classification of directors who held office during or since the end of the financial year is set out below.

Director	Status	
Stephen Gibbs (Chair)	Non independent Non Executive Director	Appointed 25 July 2012; elected on 20 November 2012; appointed Chair on 1 March 2013
André Morony	Independent Non Executive Director	André's term expires at the end of the 2013 AGM; he has indicated that he will not offer himself for the office of director.
Mara Bun	Independent Non Executive Director	Mara was appointed by the Board on 4 February 2013.
Tony Cole, AO	Independent Non Executive Director	Tony was appointed by the Board on 4 February 2013.
Kate Greenhill	Independent Non Executive Director	Kate was appointed by the Board on 22 February 2013.
Phillip Vernon	Non independent Executive director	Phillip is the Managing Director and CEO.
Stephen Newnham	Non independent Executive Director	Steve resigned on 24 July 2013 after accepting a position with another financial services organisation.
Justine Hickey	Independent Non Executive Director	Justine resigned on 26 April 2013; in accordance with her statement to the 2012 AGM.
Louise Herron	Independent Non Executive Director	Louise resigned on 25 July 2012 to take up an appointment as the CEO of the Sydney Opera House.

On 30 June 2012 the Board was comprised of three independent non executive directors and two executive directors.

Steve Gibbs was appointed as a director by the Board on 25 July 2013 and was voted into office at the 2012 AGM by 99.8% of the approximately 69% of shares voted. Steve was the Chair of CAER Pty Ltd, a major supplier of ethical research services to the Company. Consequently, Steve, as a former officer of a material supplier, is classified as a non independent / non executive director. Steve was appointed Chair with effect from 1 March 2013.

Over the course of the reporting year three new independent non executive directors were appointed; two directors resigned; one director indicated that he will not offer himself for re election at the 2013 AGM; and, shortly after the end of the year, a director resigned.

As a result of these changes the Board is now dominated by independent directors. This is consistent with the Principles and Recommendations and the Board's intention is to keep this balance as it represents best corporate governance and alignment with the Australian Ethical Charter.

### Independent legal and other professional advice

Subject to the qualifications below director's have a right to seek independent legal and other professional advice at the Company's expense on any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors. The right of directors to seek independent legal and other professional advice at the Company's expense is subject to them complying with the following requirements.

- They must have the prior approval of the Chair to seek the specific independent legal and other professional advice.
- They must ensure that the costs are reasonable.
- Any advice received must be made available to the rest of the Board unless either the Chair or the Board agree that the rest of the Board does not need to see the advice.

### Chair of the Board

André Morony, the Chair during the majority of the reporting period (July to February), is considered an independent director.

Steve Gibbs, the Chair since 1 March 2013 is considered to be a non independent director. Steve's former role as Chair of CAER, means that he is not considered to be independent even though he resigned this position before being appointed to the Australian Ethical Board.

### Nomination Committee

The Board has a People, Remuneration and Nominations Committee. André Morony, Justine Hickey and Louise Herron were the members of the Committee at the commencement of the reporting period. Following Louise's resignation on 25 July 2012 Steve Gibbs was appointed and Kate Greenhill was appointed after Justine Hickey's departure.

Attendance at meetings is detailed in the directors' report. A summary of the Committee's Charter is available from the corporate governance section of the Company's website.

### Board and director evaluation

A formal Board evaluation was not undertaken in the relevant period given the extent of change during the year. The Board has assessed the skills and experience of the directors and the Board has been renewed through the appointment of 4

new directors during the reporting period. It is the Board's intention to conduct a board evaluation in the current year.

### Director skills and experience

The time in office, skills, experience and expertise of each director in office during the year is included in the directors' report.

### Selection and appointment of directors and re-appointment of incumbents

The People, Remuneration and Nominations Committee has the following responsibilities:

- assess the necessary and desirable competencies of directors;
- ensure the directors have the appropriate mix of competencies to enable the Board to discharge its responsibilities effectively;
- develop Board succession plans to ensure an appropriate balance of skills, diversity, experience and expertise is maintained;
- make recommendations to the Board relating to the appointment and retirement of directors.

The People, Remuneration and Nominations Committee considers the above responsibilities, the current Board composition, any nominations or suggestions for directorship and the assessment of incumbent directors when making recommendations to the Board on composition on an annual basis.

## *Principle 3 – Promote ethical and responsible decision making*

The Company is an ethical investment company that manages money in accordance with the Australian Ethical Charter. The Charter is in the Company's constitution and informs all aspects of the Company's operations. The Charter is available on the Company's website.

### Code of conduct

The Company has a code of conduct that applies to directors and staff. It is available on the Company's website.

### Share trading

The Company has a share trading policy that applies to directors and staff.

## Diversity

The Company has a diversity policy that includes measurable objectives for achieving gender diversity and requires annual assessment against the objectives and progress in achieving them.

The Diversity Policy States:

*“AEI’s Board of Directors will establish measurable objectives for achieving gender diversity in the workplace and will undertake a review of progress against these objectives annually.”*

The following Gender Diversity Targets have been adopted:

Target Date	Target
30 June 2013	<ul style="list-style-type: none"><li>25% of the AEI Board will be female</li><li>25% of Management at AEI will be female</li></ul>
31 December 2016	<ul style="list-style-type: none"><li>40% of the AEI Board will be female</li><li>40% of Management at AEI will be female</li></ul>

While this policy is aimed at increasing female representation at no time will AEI have more than:

- 75% of either gender up to 31 December 2016; or
- 60% of either gender after 31 December 2016.

As at 30 June 2013, 33% of the Board and 22% of AEI’s Management were female compared to 30 June 2012 when 40% of the Board and 11% of AEI’s Management were female.

## *Principle 4–Safeguard integrity in financial reporting*

### Audit Committee

Throughout the period, the Board had an Audit Committee consisting of at least three members being one external member (Ruth Medd, Chair of the Audit Committee and also independent Chair of the Company’s subsidiary, Australian Ethical Superannuation Pty Ltd) and two independent non executive directors.

The qualifications of those appointed to the Audit Committee are provided in the directors’ report, as are the number of meetings of the committee and attendances at those meetings.

A summary of the Audit Committee’s Charter is on the Company’s website.

As the Chair of the Audit Committee is not a director of the Company, it does not strictly speaking comply with recommendation 4.2 “consists solely of non executive directors”. However, the Board is of the view that notwithstanding this the structure of the Audit Committee is consistent with the spirit of the recommendations and the Committee is able to perform its functions with independence and diligence. In particular it is noted that:

- the Audit Committee is comprised only of non executives, is chaired by an independent chair who is not the Chair of the Board and currently has three other members;
- the Audit Committee speaks directly to the external auditor in the absence of executive management at meetings and as required at other times.

The Audit Committee considers the performance and independence of the external auditor over the course of a reporting period. In selecting an external auditor the Board seeks competence, industry experience, integrity and independence. In normal circumstances, appointment of the external auditor will typically continue for a significant number of years. Rotation of external audit engagement partners occurs in accordance with the rotation requirements of the Corporations Act 2001.

A significant change for the Company was the appointment by the AGM in November 2013 of KPMG as auditors of the Company, its subsidiary, the registered managed investment schemes and the Superannuation Fund .

## *Principle 5–Make timely and balanced disclosure*

The Company has written policies and procedures designed to ensure compliance with the ASX Listing Rule disclosure requirements and accountability at senior executive level for compliance. The disclosure policy appears in the corporate governance section on the Company’s website.

## *Principle 6—Respect the rights of shareholders*

The Company does not have a separately documented policy for shareholder communication. To address shareholder needs:

- the website includes comprehensive and informative sections which provide shareholders (and others) with up-to-date information about corporate activities, including Company announcements;
- the website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings;
- a facility is available to shareholders to be advised via e-mail when announcements are made;
- the Company has a regular sequence of communication points with investors and members including a newsletter, *Good Money*, for trust and superannuation investors;
- since listing the Company has also produced a shareholder newsletter;
- the Board recently resolved to hold AGM's in various locations to promote participation and dissemination of information to all shareholders not just those based in Canberra;
- the Company also produces a sustainability report using Global Reporting Initiative guidelines. The sustainability report is available on the Company's website; and
- the Company complies with the corporate governance guidelines for notices of meeting.

## *Principle 7—Recognise and manage risk*

### **Policies for the oversight and management of material business risks and internal controls**

The Company has established policies for the oversight and management of material business risks. The Company's risk management guide is available from the corporate governance section of its website.

The Board has required management to implement a risk management system consistent with the Company's risk management guide. The Board has required management to report to it on whether material business risks are being appropriately managed. During the relevant period, management has reported to the Board's Audit, Compliance and Risk Committee.

The CEO and risk management officer certify to the Board that its internal control and risk management systems are operating efficiently and effectively throughout the group.

### **CEO and CFO sign-off of financial reports**

The Company requires the CEO and the CFO to state in writing to the Board that the financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with relevant accounting standards.

The CEO and CFO certify to the Board that the integrity of the financial statements is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

## *Principle 8—Remunerate fairly and responsibly*

### **People, Remuneration and Nominations Committee**

The Board has a People, Remuneration and Nominations Committee. Details of attendance at meetings of the committee are provided in the directors' report. A summary of the Committee's Charter is available in the corporate governance section of the Company's website.

### **Details of remuneration**

Details of remuneration paid to directors and key management personnel during the reporting period are set out in the directors' report. The report distinguishes the structure of non executive director remuneration and that of executive directors. Non executive directors receive fees for serving as a director in the form of cash payments, plus superannuation contributions. They do not participate in bonus or equity schemes designed for the remuneration of executives.

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# Auditor's Independence Declaration



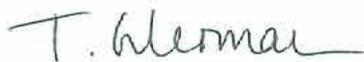
*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 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



Tanya Gilerman  
Partner

Sydney

29 August 2013

# Financial Statements

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Consolidated statement of financial position as at 30 June 2013

	Note	Consolidated entity	
		30 June 2013 \$	30 June 2012 \$
<b>Current assets</b>			
Cash and cash equivalents	8	3,894,666	2,309,587
Trade and other receivables	9	2,474,109	1,715,999
Financial assets	10	107,150	350,412
Current tax assets	14	-	19,156
Other current assets	11	220,039	173,598
Assets classified as held for sale	21	2,519,599	-
<b>Total current assets</b>		<b>9,215,563</b>	<b>4,568,752</b>
<b>Non-current assets</b>			
Property, plant & equipment	12	620,110	3,621,747
Intangible assets	13	94,573	17,746
Financial assets	10	-	33,757
Deferred tax assets	14	348,165	396,685
<b>Total non-current assets</b>		<b>1,062,848</b>	<b>4,069,935</b>
<b>Total assets</b>		<b>10,278,411</b>	<b>8,638,687</b>
<b>Current liabilities</b>			
Trade and other payables	15	1,936,805	1,512,720
Current tax liabilities	16	409,094	-
Short-term provisions	17	259,298	283,589
<b>Total current liabilities</b>		<b>2,605,197</b>	<b>1,796,309</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	253,632	25,453
Deferred tax liabilities	16	30,896	35,087
Other long-term provisions	17	92,061	74,117
<b>Total non-current liabilities</b>		<b>376,589</b>	<b>134,657</b>
<b>Total liabilities</b>		<b>2,981,786</b>	<b>1,930,966</b>
<b>Net assets</b>		<b>7,296,625</b>	<b>6,707,721</b>
<b>Equity</b>			
Contributed equity	18	6,278,225	6,038,301
Reserves	19	349,328	302,071
Retained earnings	20	669,072	367,349
<b>Total equity</b>		<b>7,296,625</b>	<b>6,707,721</b>

The accompanying notes form part of these Financial Statements.

**Consolidated statement of profit or loss and other comprehensive income  
for the year ended 30 June 2013**

		<b>Consolidated entity</b>	
		<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Revenue</b>	4	16,378,387	14,792,790
Commissions paid to advisers		-	( 146,750)
External services expense		( 3,183,776)	( 3,469,806)
Employee benefits expense		( 6,626,560)	( 6,753,962)
Depreciation and amortisation expense		( 392,436)	( 426,395)
Occupancy expenses		( 435,937)	( 276,680)
Marketing & Communication costs		( 643,932)	( 729,448)
Fund related expenses		( 1,329,929)	( 867,646)
Other expenses		( 1,095,943)	( 1,118,285)
Loss on disposal of assets		( 63,308)	( 17,865)
Impairment of available-for-sale securities	10	( 116,811)	-
Impairment of property, plant and equipment	12	( 436,000)	( 210,000)
Community grants expense		( 117,291)	( 53,327)
<b>Profit before income tax</b>		<b>1,936,464</b>	<b>722,626</b>
Income tax expense	5	( 873,427)	( 320,471)
<b>Profit for the year</b>		<b>1,063,037</b>	<b>402,155</b>
<b>Other comprehensive income, net of income tax</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Net gain/(loss) on revaluation of available-sale-investments, net of tax		( 1,259)	( 50,172)
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year, net of tax		5,924	-
Reclassification adjustments relating to available-for-sale financial assets impaired during the year, net of income tax		116,811	-
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>121,476</b>	<b>( 50,172)</b>
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>121,476</b>	<b>( 50,172)</b>
<b>Total comprehensive income for the year</b>		<b>1,184,513</b>	<b>351,983</b>
Profit attributable to members of the parent entity		1,063,037	402,155
Total comprehensive income attributable to members of the parent entity		1,184,513	351,983
<b>Earnings per share</b>			
Basic (cents per share),	7	104.84	40.10
Diluted (cents per share)	7	102.37	39.40

The accompanying notes form part of these Financial Statements.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

**Consolidated statement of changes in equity  
for the year ended 30 June 2013**

	Note	Issued Capital Ordinary \$	Asset Revaluation Reserve \$	Share-based Payment Reserve \$	Retained Earnings \$	Total \$
<b>Consolidated entity</b>						
Balance at 1 July 2011		5,915,219	(67,257)	1,199,161	581,689	7,628,812
Profit attributable to members of the consolidated entity		-	-	-	402,155	402,155
Other comprehensive income for the year, net of income tax		-	(50,172)	-	-	(50,172)
Total comprehensive income for the year		-	(50,172)	-	402,155	351,983
Transactions with owners in their capacity as owners:						
Shares Issued during the year	18	123,082	-	(123,082)	-	-
Dividends paid or provided for	6	-	-	-	(1,504,552)	(1,504,552)
Transfer from share-based payment reserve to retained earnings		-	-	(888,057)	888,057	-
Share-based payment expense		-	-	231,478	-	231,478
<b>Balance at 30 June 2012</b>		<b>6,038,301</b>	<b>(117,429)</b>	<b>419,500</b>	<b>367,349</b>	<b>6,707,721</b>
Balance at 1 July 2012		6,038,301	(117,429)	419,500	367,349	6,707,721
Profit attributable to members of the consolidated entity		-	-	-	1,063,037	1,063,037
Other comprehensive income for the year, net of income tax		-	121,476	-	-	121,476
Total comprehensive income for the year		-	121,476	-	1,063,037	1,184,513
Transactions with owners in their capacity as owners:						
Shares Issued during the year	18	239,924	-	(239,924)	-	-
Dividends paid or provided for	6	-	-	-	(761,314)	(761,314)
Share-based payment expense		-	-	165,705	-	165,705
<b>Balance at 30 June 2013</b>		<b>6,278,225</b>	<b>4,047</b>	<b>345,281</b>	<b>669,072</b>	<b>7,296,625</b>

The accompanying notes form part of these Financial Statements.

**Consolidated statement of cash flows  
for the year ended 30 June 2013**

		<b>Consolidated entity</b>	
		<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Cash flows from operating activities</b>			
		16,046,911	15,869,290
		(13,455,797)	( 13,896,620)
		93,699	95,589
		(452,908)	( 550,692)
		(53,325)	( 152,801)
	24(b)	2,178,580	1,364,766
<b>Cash flows from investing activities</b>			
		(335,997)	( 201,218)
		320,601	-
		230,645	100,306
		-	( 33,564)
		(99,550)	-
		52,114	29,160
		167,813	( 105,316)
<b>Cash flows from financing activities</b>			
		( 761,314)	( 1,504,552)
		( 761,314)	( 1,504,552)
		1,585,079	( 245,102)
		2,309,587	2,554,689
	24(a)	3,894,666	2,309,587

The accompanying notes form part of these Financial Statements.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 1 - Reporting entity

Australian Ethical Investment Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2013 comprises the Company and its wholly owned subsidiary, Australian Ethical Superannuation Pty Limited (together referred to as the 'Group' and individually as 'Group entities'). The Group is a for-profit entity for the purposes of preparing financial statements. Australian Ethical Investment Limited is the Responsible Entity (RE) for a range of ethically managed investment schemes. Australian Ethical Superannuation Pty Limited is the Registrable Superannuation Entity (RSE) of Australian Ethical Retail Superannuation Fund.

The consolidated annual report for the consolidated entity as of and for the year ended 30 June 2013 is available at [www.australianethical.com.au](http://www.australianethical.com.au).

The consolidated financial statements were authorised for issue by the directors on 29 August 2013.

### Note 2 - Statement of significant accounting policies

#### i) Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB's) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB).

#### ii) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the property and financial instruments which are measured at fair value or amortised cost, as explained in the accounting policies below.

The consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

#### iii) Business combinations

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights presently exercisable are taken into account. Financial statements of subsidiaries are included in the consolidated financial statements from the date of control commences until the date control ceases.

All intra-group balances and transactions between entities in the consolidated entity, including any unrealised income and expenses, have been eliminated on consolidation.

#### iv) Income tax

##### a) Current income tax expense

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items and any adjustment to tax payable in respect to previous years. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### iv) Income tax (continued)

##### b) Deferred tax asset

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to be applied to the temporary differences when they reverse. Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

##### c) Tax group

Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Limited have formed an income tax consolidated group under the Tax Consolidation System. Australian Ethical Investment Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group.

The tax consolidated group has a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

Under the tax sharing agreement Australian Ethical Superannuation Pty Limited agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment Limited pays the ATO for group tax liabilities.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### v) Property, plant and equipment

##### a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy (vii)(f)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. Cost of self-constructed assets includes cost of materials, direct labour, an appropriate proportion of overheads, and where relevant, the initial estimates of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

##### b) Subsequent costs

The consolidated entity recognises the cost of replacing part of an item of property, plant and equipment in the carrying amount of that item when the cost is incurred, it is probable that future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

##### c) Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 2 - Statement of significant accounting policies (continued)**

**v) Property, plant and equipment (continued)**

**d) Depreciation**

The depreciable amount of all fixed assets including buildings, is depreciated over their estimated useful lives on a straight-line basis to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives for current and comparative periods are as follows:

<b>Class of fixed asset</b>	<b>Estimated Useful Life</b>
Buildings	5 - 40 years
Plant & Equipment	2.6 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually.

**e) Intangible assets**

The development of the Group's website has been capitalised as an intangible asset and carried at cost less accumulated amortisation and accumulated impairment losses. Additional developments were made to the website during the year ended 2013. Amortisation is recognised on a straight-line basis over the estimated useful life of two and a half years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

**vi) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with banks.

**vii) Financial instruments**

**a) Recognition**

The Group initially recognises loans and receivables, trade and other payables at fair value on the date that they are originated. All other financial instruments are initially recognised on trade date, which is the date the Group becomes party to the contractual rights or obligations. Subsequent to initial recognition these instruments are measured as set out below.

**b) Available-for-sale financial assets**

The Group holds available-for-sale financial assets, which are financial assets not classified as assets held at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value other than impairment losses and are recognised in other comprehensive income and presented in the Asset Revaluation Reserve in equity.

**c) Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payables that are not quoted in an active market are classified as 'loans and receivables' subsequent to initial recognition. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### vii) Financial instruments (continued)

##### d) Fair value

Fair value is determined based on current bid prices for all quoted investments. Investments in unlisted unit trusts are valued at the redemption price as reported by the fund's responsible entity.

##### e) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

##### f) Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income.

#### viii) Other Financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### ix) Employee benefits

##### a) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liability for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date. These liabilities are calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating benefits, such as sick leave, are not provided for but are expensed as the benefits are taken by the employees.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term bonus or profit-sharing plans if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee.

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### ix) Employee benefits (continued)

##### b) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and expected future payments are discounted based on period of service.

##### c) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payments with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

##### d) Employee bonus

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### x) Community grants expense

The Company's Constitution states that the directors before recommending or declaring any dividend to be paid out of the profits of any one year must have first:-

*(i) paid or provisioned for payment to current employees, or other persons performing work for the Group, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted.*

*(ii) gifted or provisioned for gifting an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the above mentioned bonus and amount gifted been deducted.*

Provision for community grants expense has been made in the current year.

#### xi) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of a past event, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### xii) Revenue and income recognition

##### a) Revenue from the provision of services

Revenue is earned from provision of services to customers outside the consolidated entity. Revenue is recognised when services are provided.

##### b) Investment income

Interest income is recognised as it accrues taking into account the effective yield of the financial asset.

Dividend income is recognised in profit or loss on the date the entity's right to receive payment is established which, in the case of quoted securities, is the ex-dividend date.

Unit trust distributions are recognised in profit or loss as they are received.

##### c) Proceeds from sale of investments

Net gains or losses on disposal of non-current assets are included in profit or loss. The gain or loss arising from disposal of an item of property, plant and equipment is determined as the difference between net disposal proceeds, being the cash price equivalent where payment is deferred, and the carrying amount of the item.

Profit or loss on disposal of assets is brought to account at the date of an unconditional contract of sale is signed.

#### xiii) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

All revenue is stated net of the amount of goods and services tax (GST).

#### xiv) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares.

##### a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, by the weighted average number of ordinary shares outstanding during the financial year.

##### b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of the interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### xv) Leases

For the current and prior financial year only operating leases have been held by the Group. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### xvi) Segment reporting

The consolidated entity determines and represents operating segments based on the information that internally is provided to the Managing Director (MD), who is the consolidated entity's chief operating decision maker.

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's MD to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results are reported to the MD including items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax expenses, assets and liabilities.

#### xvii) Comparative figures

Where required comparative figures have been adjusted to conform with changes in presentation for the current financial year.

#### xviii) Critical accounting estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is discussed in:

Note 10 - Valuation of financial instruments

Note 12 - Valuation of property, plant and equipment

Note 16 - Recoverability of deferred tax assets

Note 17 - Provisions

Note 26 - Recognition and measurement of share based payments

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 2 - Statement of significant accounting policies (continued)

#### xix) Application of new and revised accounting standards

##### a) Standards and interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

##### ***Standards affecting presentation and disclosure***

Amendments to AASB 101 'Presentation of Financial Statements:

The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

##### ***Standards and interpretations affecting the reported results or financial position***

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 2 - Statement of significant accounting policies (continued)**

**xix) Application of new and revised accounting standards (continued)**

**b) Standards and interpretations in issue not yet adopted**

A number of new accounting standards and amendments have been issued but are not yet effective. The Australian Ethical Group has not elected to early adopt any of these new standards or amendments in this Financial report. The impact on the financial position or performance of the Australian Ethical Group of these new standards and amendments is currently being assessed by management.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13.	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

Notes to the consolidated financial statements for the year ended 30 June 2013

	Consolidated entity	
	2013	2012
	\$	\$
<b>Note 3 - Auditors' remuneration</b>		
Remuneration of the auditors for:		
<b>Audit services</b>		
Auditors of the Group		
<b>KPMG Australia</b>		
- Audit and review of consolidated and subsidiary financial statements	31,000	39,900
- Audit services in accordance with regulatory requirements	35,000	-
Audit services for non-consolidated trusts and superannuation fund:		
<b>KPMG Australia</b>		
- Audit and review of managed funds for which the consolidated entity acts as responsible entity <sup>1</sup>	88,000	126,400
- Audit and review of superannuation fund for which the subsidiary entity acts as responsible superannuation entity <sup>1</sup>	15,000	26,500
- Audit services in accordance with regulatory requirements <sup>1</sup>	16,000	9,700
Total audit fee attributable to the audit of non-consolidated funds	119,000	162,600
<b>Non-audit services</b>		
Auditors of the Group		
- Tax and other accounting advice	87,956	4,000
<b>Total</b>	272,956	206,500
In October 2012 the Board approved the appointment of KPMG Australia as the auditor of Australian Ethical Investment Limited and controlled entity (2012: Thomas Davis & Co).		
<sup>1</sup> These fees are incurred by the consolidated entity and are effectively recovered from the funds via management fees.		
Other audit firms		
<b>NetBalance</b> (Audit of the Sustainability Report)	16,623	18,311
<b>Note 4 - Revenue</b>		
Operating activities		
- Management & Trustee fees (net of rebates)	11,386,962	10,088,675
- Entry fees paid on products	-	1,010,122
- Member & Withdrawal Fees	1,348,303	775,276
- Reimbursed expenses from Trusts and superannuation fund	3,419,530	2,668,095
- Interest income		
Cash and cash equivalents	86,927	79,524
Loans and receivables at amortised cost	2,491	6,325
- Distributions received	-	7,164
- Other revenue	134,174	157,609
Total revenue	16,378,387	14,792,790

Notes to the consolidated financial statements for the year ended 30 June 2013

	Consolidated entity 2013	2012
	\$	\$
<b>Note 5 - Income tax expense</b>		
<b>a) The components of tax expense comprise:</b>		
- Current tax	824,368	87,992
- Deferred tax expense/(benefit)	49,059	232,479
	<u>873,427</u>	<u>320,471</u>
<b>b) Reconciliation of income tax expenses to prima facie income tax payable</b>		
Profit Before Tax	1,936,464	722,626
Prima facie income tax expense calculated at 30% (2012: 30%)	580,939	216,788
Increase in income tax expense due to:		
- Other non-deductible items	25,476	34,241
- Share based payment expense	53,837	69,443
- Under/(over) provision for income tax in prior year	( 15,668)	943
- Effect of unrecognised non-deductible permanent differences	193,800	-
- Impairment loss on AFS securities	35,043	-
Decrease in income tax expense due to:		
- Franking and foreign tax credits	-	( 944 )
Income tax expense attributable to profit for the year	<u>873,427</u>	<u>320,471</u>
The applicable weighted average effective tax rates are as follows:	45%	44%
<b>c) Current tax asset/(liability)</b>		
<i>Deferred tax</i>		
Available-for-sale revaluation	539	21,502
Total income tax recognised directly in equity	<u>539</u>	<u>21,502</u>

The current tax asset/(liability) for the consolidated entity represents income taxes payable in respect of the current financial year. In accordance with tax consolidation legislation, the Company, as head entity of the Australian tax-consolidated group, has assumed the current tax asset/(liability) recognised by members in the tax consolidated group.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 6 - Dividends**

**(a) Dividends paid**

	Cents Per Share	Total Amount	Franked <sup>1</sup> / UnFranked	Date of Payment
<b>2013</b>				
Final 2012 ordinary	35	355,280	Franked	5 October 2012
Interim 2013 ordinary	40	406,034	Franked	28 March 2013
	75	761,314		
<b>2012</b>				
Final 2011 ordinary	100	1,003,036	Franked	7 October 2011
Special 2011 ordinary	25	250,758	Franked	7 October 2011
Interim 2012 ordinary	25	250,758	Franked	30 March 2012
	150	1,504,552		

<sup>1</sup> All franked dividends declared or paid during the year were franked at a rate of 30 per cent and paid out of retained earnings.

**(b) Subsequent Events**

Since the end of the financial year, the directors declared the following dividend. The dividends have not been provided for and there are no tax consequences.

	Cents Per Share	Total Amount <sup>2</sup>	Franked <sup>1</sup> / UnFranked	Date of Payment <sup>3</sup>
Final 2013 ordinary	45	460,416	Franked	4 October 2013

<sup>1</sup> All franked dividends declared or paid during the year were franked at a rate of 30 per cent and paid out of retained earnings.

<sup>2</sup> Calculation based on the ordinary shares on issue as at 30 June 2013.

<sup>3</sup> Planned payment date.

**Note 7 - Earnings per share**

	2013	2012
<b>Earnings per share</b>	<b>Cents per share</b>	
Basic earnings per share	104.84	40.10
Diluted earnings per share	102.37	39.40

The following reflects the income and share information used in calculating the basic and diluted earnings per share:

	2013	2012
	\$	\$
Net profit after tax	1,063,037	402,155
Weighted average number of ordinary shares used in calculation of basic EPS	1,013,963	1,001,859
Weighted average number of rights outstanding	24,435	18,751
Weighted average number of ordinary shares used in calculation of dilutive EPS	1,038,398	1,020,610

Notes to the consolidated financial statements for the year ended 30 June 2013

<b>Note 8 - Cash and cash equivalents</b>	<b>Consolidated entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	300	300
Bank balances	1,310,004	185,773
Deposits at call	2,584,362	2,123,514
	<u>3,894,666</u>	<u>2,309,587</u>

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

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates

**Note 9 - Trade and other receivables**

Trade receivables	2,474,109	1,711,718
Other receivables	-	4,281
	<u>2,474,109</u>	<u>1,715,999</u>

The average credit period is 30 days.

This note should be read in conjunction with Note 28(iii).

**Note 10 - Financial assets**

Assets and liabilities held for sale at 30 June 2013 comprise listed securities held to support the advocacy activities of the Advocacy Fund.

Available-for-sale financial assets carried at fair value	107,150	332,055
Loans carried at amortised cost	-	52,114
	<u>107,150</u>	<u>384,169</u>
Current	107,150	350,412
Non-current	-	33,757
	<u>107,150</u>	<u>384,169</u>

An impairment loss of \$116,811 (2012: nil) has been recognised in the statement of profit or loss and other comprehensive income as a result of significant and prolonged decline in the fair value relative to the cost of acquisition.

**a) Available-for-sale financial assets comprise:**

- Listed equity securities at fair value	107,150	108,947
- Unlisted units in unit trust at fair value	-	223,108
	<u>107,150</u>	<u>332,055</u>

**a) Loans comprise:**

- Loans to other entity, at amortised cost	-	44,659
- Loans to staff, at amortised cost (refer to Note 26(d))	-	7,455
	<u>-</u>	<u>52,114</u>

The loans to other entity was provided to an unrelated entity with a fixed interest rate of 9.0% and a maturity date of 1 August 2015. This loan was fully repaid during the year.

Loans to staff was provided to one staff member with the Fringe Benefits Tax interest rate set by the ATO. The loan was fully repaid on 17 December 2012.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

**Notes to the consolidated financial statements for the year ended 30 June 2013**

	Consolidated entity	
	2013	2012
	\$	\$
<b>Note 11 - Other current assets</b>		
Other current assets	40,675	1,442
Prepayments	179,364	172,156
	<u>220,039</u>	<u>173,598</u>
<b>Note 12 - Property, plant and equipment</b>		
<b>Land and buildings</b>		
Leasehold land - At cost	-	230,000
	-	230,000
Leasehold improvements - at cost	320,601	1,151,025
Accumulated depreciation	(6,632)	(417,791)
	<u>313,969</u>	<u>733,234</u>
Buildings - at cost	-	2,784,117
Accumulated depreciation	-	(440,241)
Impairment loss <sup>2</sup>	-	(210,000)
	-	<u>2,133,876</u>
<b>Total land and buildings</b>	<u>313,969</u>	<u>3,097,109</u>
Plant and equipment - at cost	1,619,935	774,313
Accumulated depreciation	(1,313,794)	(249,675)
Total plant and equipment	<u>306,141</u>	<u>524,638</u>
<b>Total property, plant and equipment</b>	<u>620,110</u>	<u>3,621,747</u>
Movements in carrying amounts		
<b>Land</b>		
Balance at the beginning of year	230,000	230,000
Reclassified as held for sale	(230,000)	-
Carrying amount at the end of year	-	<u>230,000</u>
<b>Leasehold improvements</b>		
Balance at the beginning of year	733,233	810,581
Additions	320,601	-
Depreciation expense	(67,550)	(77,349)
Reclassified as held for sale	(672,315)	-
Carrying amount at the end of year	<u>313,969</u>	<u>733,232</u>
<b>Buildings</b>		
Balance at the beginning of year	2,133,876	2,415,475
Depreciation expense	(80,592)	(71,599)
Impairment loss <sup>1</sup>	(436,000)	(210,000)
Reclassified as held for sale	(1,617,284)	-
Carrying amount at the end of year	-	<u>2,133,876</u>

<sup>1</sup> As at 30 June 2013 a valuation of the Property asset (land and buildings) was conducted in accordance with the Group's policy by Jones Lang LaSalle and Knight Frank, independent valuers not related to the Group, to determine the fair value. Based on advice received from independent valuers the directors determined that the value of the property was below its carrying value and have noted an impairment of \$436,000. Valuers Jones Lang LaSalle and Knight Frank are both members of the Institute of Valuers of Australia. The valuation was determined by reference to recent market transactions on arm's length terms. Estimated selling costs of \$80,401 including selling agents commission and associated legal costs were deducted from the independent valuation to determine the carrying value.

<sup>2</sup> As at 30 June 2012 a valuation of the Property asset (land and buildings) was conducted in accordance with the Group's policy by Jones Lang LaSalle and Knight Frank, independent valuers not related to the Group, to determine the fair value. Based on advice received from independent valuers the directors determined that the value of the property was below its carrying value and have noted an impairment of \$210,000. Valuers Jones Lang LaSalle and Knight Frank are both members of the Institute of Valuers of Australia. The valuation was determined by reference to recent market transactions on arm's length terms. Estimated selling costs of \$54,250 including selling agents commission and associated legal costs were deducted from the independent valuation to determine the carrying value.

Notes to the consolidated financial statements for the year ended 30 June 2013

	Consolidated entity	
	2013	2012
	\$	\$
<b>Note 12 - Property, plant and equipment (continued)</b>		
<b>Plant and equipment</b>		
Balance at the beginning of year	524,638	584,691
Additions	15,396	193,588
Disposals	( 6,284)	( 3,966)
Depreciation expense	( 227,609)	( 249,675)
Carrying amount at the end of year	<u>306,141</u>	<u>524,638</u>
Total	<u>620,110</u>	<u>3,621,747</u>
<b>Note 13 - Intangible Assets</b>		
Capitalised Website development - at cost	99,550	69,560
Accumulated amortisation	( 4,977)	( 51,814)
Total intangibles	<u>94,573</u>	<u>17,746</u>
Capitalised Website development		
Balance at the beginning of year	17,746	45,355
Additions	99,550	7,630
Disposals	( 6,038)	( 7,467)
Amortisation expense	( 16,685)	( 27,772)
Carrying amount at the end of year	<u>94,573</u>	<u>17,746</u>
<b>Note 14 - Tax assets</b>		
<b>Current tax assets</b>		
Tax refund receivable due to income tax overpayment	-	19,156
	<u>-</u>	<u>19,156</u>
<b>Deferred tax assets</b>		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	276,897	252,295
Community grants	35,187	15,998
Loss on sale of financial instrument	17,225	1,930
Building impairment	-	63,000
Audit fees	18,856	13,136
	<u>348,165</u>	<u>346,359</u>
Amounts recognised directly in equity		
Financial asset revaluations	-	50,326
	<u>348,165</u>	<u>396,685</u>
Movements		
Opening balance at 1 July	396,685	607,503
Credited/(charged) to the consolidated statement of profit or loss and other comprehensive income		
	( 49,059)	( 232,320)
Credited/(charged) to equity		
	539	21,502
Closing balance at 30 June	<u>348,165</u>	<u>396,685</u>
<b>Note 15 - Trade and other payables</b>		
<b>a) Current</b>		
Trade payables	242,676	243,197
Unearned income	80,155	15,750
Sundry payables and accrued expenses	1,547,048	1,154,430
Employee bonus payable	66,926	99,343
	<u>1,936,805</u>	<u>1,512,720</u>
<b>b) Non-current</b>		
Unearned income	<u>253,632</u>	<u>25,453</u>

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**Notes to the consolidated financial statements for the year ended 30 June 2013**

	Consolidated entity	
	2013	2012
	\$	\$
<b>Note 16 - Tax liabilities</b>		
<b>Current tax liabilities</b>		
Income tax payable	409,094	-
	<u>409,094</u>	<u>-</u>
<b>Deferred tax liabilities</b>		
The balance comprises temporary differences attributable to: Amounts recognised in profit or loss:		
Stamp duty on leasehold property	30,896	30,896
Tax deferred income	-	4,191
	<u>30,896</u>	<u>35,087</u>
<b>Movements</b>		
Opening balance at 1 July	35,087	34,926
Credited/(charged) to the consolidated statement of profit or loss and other comprehensive income	( 4,191)	161
Credited/(charged) to equity		-
Closing balance at 30 June	<u>30,896</u>	<u>35,087</u>
<b>Note 17 - Provisions</b>		
<b>Current</b>		
Employee benefits - long service leave	214,803	283,589
Onerous lease provision (see below)	44,495	-
	<u>259,298</u>	<u>283,589</u>
<b>Non-Current</b>		
Employee benefits - long service leave	92,061	74,117
	<u>92,061</u>	<u>74,117</u>
<i>Onerous lease provision</i>		
Balance at 1 July	-	-
Additional provisions recognised	44,495	-
Balance at 30 June	<u>44,495</u>	<u>-</u>

The provision for onerous lease contracts represents the present value of the future lease payments that the Consolidated entity is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The unexpired term of the lease is 2 years.

**Note 18 - Contributed equity**

	2013	2012
	\$	\$
Share Capital: 1,015,086 (2012 1,003,035) ordinary shares	6,278,225	6,038,301

**i) Movements in Share Capital**

	2013		2012	
	Number of Shares	\$	Number of Shares	\$
Balance at the beginning of the year	1,003,035	6,038,301	997,913	5,915,219
Shares issued:				
Employee share ownership plan	12,051	239,924	5,122	123,082
<b>Balance at end of year</b>	<u>1,015,086</u>	<u>6,278,225</u>	<u>1,003,035</u>	<u>6,038,301</u>

At 30 June 2013 there were 1,015,086 fully paid ordinary shares which have no par value. The Company does not have authorised capital or par value in respect of its issued shares.

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 18 - Contributed equity (continued)**

**ii) Rights**

(a) For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan, including details of rights issued, exercised and lapsed during the financial year and the rights outstanding at year-end, refer to Note 27 Share-based payments.

(b) For information related to rights issued to key management personnel during the financial year refer to the remuneration report contained within the Directors' report.

**iii) Ordinary shares**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**iv) Capital management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2012.

The capital structure of the Group consists of equity of the Group (comprising issued capital, reserves, and retained earnings).

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of distributions to shareholders and share issues. The Group has external capital requirements and at all times during the year the Group has met all externally imposed capital requirements. Further details on the external capital requirements are contained in Note 28(v)(b).

**Note 19 - Reserves, net of tax**

	<b>Consolidated entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Asset revaluation reserve		
Balance 1 July	( 117,429)	( 67,257)
Unrealised gains/ (losses) from revaluation	( 1,259)	( 50,172)
Cumulative unrealised loss reclassified to profit or loss on impairment of available-for-sale financial assets	116,811	-
Cumulative unrealised loss reclassified to profit or loss on sale of available-for-sale financial assets	5,924	-
Balance 30 June	<u>4,047</u>	<u>( 117,429)</u>
Share-based payments reserve		
Balance 1 July	419,500	1,199,161
Shares issued during the year	( 239,924)	( 123,082)
Share based payment expense	165,705	231,478
Transfer to retained earnings	-	( 888,057)
Balance 30 June	<u>345,281</u>	<u>419,500</u>
Total Reserves	<u><u>349,328</u></u>	<u><u>302,071</u></u>

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 19 - Reserves (continued)

#### i) Nature and purpose of reserves

##### a) Asset revaluation reserve

The asset revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to the consolidated statement of profit or loss and other comprehensive income when those assets have been disposed of or are determined to be impaired.

##### b) Share-based payment reserve

The share-based payment reserve relates to rights granted by the Group to its employees under its share-based payment arrangement. Items included in the share-based payment reserve will not be reclassified subsequently to profit or loss. Further information about share-based payments to employees is set out in Note 27.

	Consolidated entity	
	2013	2012
	\$	\$
<b>Note 20 - Retained earnings</b>		
Balance 1 July	367,349	581,689
Profit for the period	1,063,037	402,155
Transfer from share-based payment reserve	-	888,057
Dividends	(761,314)	(1,504,552)
Balance 30 June	<u>669,072</u>	<u>367,349</u>

#### Note 21 - Assets classified as held for sale

Land and buildings <sup>1</sup>	<u>2,519,599</u>	-
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<sup>1</sup> As at the balance sheet date, the consolidated entity intends to dispose of its property it currently occupies. A search is underway for a buyer, with the Directors approving the sale program.

#### Note 22 - Commitments and contingencies

##### i) Leasing arrangements

Operating leases relate to leases of office premises for a term of 5 years. The Group does not have an option to purchase the premises at the expiry of the lease period.

	Consolidated entity	
	2013	2012
	\$	\$
<i>Payments recognised as an expense</i>		
Minimum lease payments	186,474	74,007
<i>Non-cancellable operating lease commitments</i>		
Not later than 1 year	296,196	-
Later than 1 year and not later than 5 years	937,056	197,500
	<u>1,233,252</u>	<u>197,500</u>
<i>Liabilities recognised in respect of non-cancellable operating leases</i>		
Lease incentives		
Current	80,155	16,472
Non current	253,632	25,453
	<u>333,787</u>	<u>41,925</u>

During the year, the Group entered into a five year lease for office premises in Sydney CBD. The lease terms allow for annual rent increases of 4.25% together with a market review in year three of the lease.

The existing leased premises which expire in January 2015 were sub-leased on 29 July 2013 to the end of the lease term.

##### ii) Guarantees

In entering into the operating lease, the Group has provided a guarantee for \$221,733 over the rental of building premises.

##### iii) Other commitments

The Group has no other commitments.

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 23 - Operating segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors and chief operating decision makers in assessing performance and determining the allocation of resources.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, investment income, and finance costs. This is the measure reported to the chief operating decision marker for the purposes of resource allocation and assessment of segment performance.

Reportable segments disclosed are:

- 1) public offer managed funds (managed funds); and
- 2) public offer retail superannuation fund (super)

**i) Segment performance**

	30 June 2013			30 June 2012		
	Managed funds	Super	Total	Managed funds	Super	Total
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
External revenue	6,027,500	10,261,469	16,288,969	5,781,860	8,917,917	14,699,777
Inter-segment revenue	6,004,825	-	6,004,825	6,403,976	-	6,403,976
Interest revenue	75,258	14,160	89,418	77,065	8,784	85,849
Distribution revenue	-	-	-	7,164	-	7,164
Total segment revenue	<u>12,107,583</u>	<u>10,275,629</u>	<u>22,383,212</u>	<u>12,270,065</u>	<u>8,926,701</u>	<u>21,196,766</u>
Inter-segment eliminations			(6,004,825)			(6,403,976)
Total Group revenue			<u>16,378,387</u>			<u>14,792,790</u>
Impairment on available-for-sale financial assets	116,811	-	116,811	-	-	-
Impairment on property plant and equipment	436,000	-	436,000	210,000	-	210,000
Segment net profit before tax	<u>841,107</u>	<u>1,838,215</u>	<u>2,679,322</u>	<u>1,214,839</u>	<u>304,833</u>	<u>1,519,672</u>
Reconciliation of segment result to Group net profit/loss after tax						
Income tax expense	(321,758)	(551,669)	(873,427)	(229,015)	(91,456)	(320,471)
Unallocated items						
- Depreciation and amortisation			(392,436)			(426,395)
- Other corporate overheads *			(350,422)			(370,651)
Group net profit after tax			<u>1,063,037</u>			<u>402,155</u>

\* Other corporate overheads includes staff bonus, community grants expense and staff options/rights expense.

**ii) Segment assets and liabilities**

	30 June 2013			30 June 2012		
	Managed funds	Super	Total	Managed funds	Super	Total
	\$	\$	\$	\$	\$	\$
Assets	7,991,191	2,603,220	10,594,411	8,099,560	893,714	8,993,274
Inter-segment eliminations			(316,000)			(354,587)
Total Group assets			<u>10,278,411</u>			<u>8,638,687</u>
Segment liabilities						
Liabilities	2,105,827	875,959	2,981,786	1,516,554	453,000	1,969,554
Inter-segment eliminations			-			(38,588)
Total Group liabilities			<u>2,981,786</u>			<u>1,930,966</u>

**Economic dependence**

The consolidated entity is dependent upon management fees received in its capacity as responsible entity of the Australian Ethical Trusts and as trustee of the Australian Ethical Retail Superannuation Fund.

Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

## Notes to the consolidated financial statements for the year ended 30 June 2013

	Consolidated entity 2013	2012
	\$	\$
<b>Note 24 - Cash flow information</b>		
<b>(a) Reconciliation of cash</b>		
Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash on hand	300	300
Cash at bank	1,310,004	185,773
Deposits at call	2,584,362	2,123,514
	<u>3,894,666</u>	<u>2,309,587</u>
<b>(b) Reconciliation of cash flow from operations with net profit from ordinary activities after income tax expense</b>		
Net profit from ordinary activities after income tax expense	1,063,037	402,155
Non-cash flows in operating profit		
Depreciation and amortisation	392,436	426,395
Loss on disposal of property, plant & equipment	12,322	11,433
Loss on sale of investment	50,985	6,432
Tax effect on sale of investments recognised in financing activities	( 52,060)	-
Share rights expensed	165,705	231,478
Impairment loss	552,811	210,000
Recognition of unearned income	( 28,017)	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	( 758,110)	1,529,355
(Increase)/decrease in other current assets	( 46,441)	58,709
(Increase)/decrease in deferred tax assets	48,520	232,320
Increase/(decrease) in trade and other payables	359,680	( 612,336)
Decrease in provisions	( 6,347)	( 668,633)
Increase/(decrease) in current tax liability	428,250	( 462,702)
(Decrease)/increase in deferred tax liability	( 4,191)	160
Net cash provided by (used in) operating activities	<u>2,178,580</u>	<u>1,364,766</u>

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 25 – Related party transactions**

Australian Ethical Investment Limited is the ultimate parent entity and owns 100% of Australian Ethical Superannuation Pty Limited.

Australian Ethical Investment Limited acts as the responsible entity for the Australian Ethical Trusts (Australian Ethical Balanced Trust, Australian Ethical Smaller Companies Trust, Australian Ethical Cash Trust, Australian Ethical Larger Companies Trust, Australian Ethical International Equities Trust, Australian Ethical World Trust, Australian Ethical Property Trust, Australian Ethical Fixed Interest Trust and the Advocacy Fund).

Australian Ethical Superannuation Pty Limited acts as trustee for the Australian Ethical Retail Superannuation Fund.

Transactions between related parties are on commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	<b>Consolidated entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>i) Australian Ethical Trusts</b>		
Transactions between Australian Ethical Investment Limited, as responsible entity, and the Australian Ethical Trusts during the financial year consisted of:		
a) Transactions whereby Australian Ethical Investment Limited provides investment services to and seeks expense reimbursement from the Australian Ethical Trusts in accordance with the trust deed.	<b>11,174,132</b>	773,886
b) Transactions whereby Australian Ethical Investment Limited provides accounting services to the Australian Ethical Trusts.	<b>587,184</b>	1,894,209
c) Transactions whereby Australian Ethical Investment Limited seeks expense reimbursement from the Australian Ethical Trusts in accordance with the trust deed.	<b>886,829</b>	( 982,551)
d) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust and Advocacy Fund.	-	2,883
e) Outstanding balances at balance date:		
i) Amounts receivable from the Australian Ethical Trusts	<b>1,170,980</b>	4,281
ii) Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	-	223,108
iii) Distribution receivable from Australian Ethical Balanced Trust	-	4,281
<b>ii) Australian Ethical Retail Superannuation Fund</b>		
a) Transactions whereby Australian Ethical Superannuation Pty Limited provides investment services/ (rebate of investment services) to the Australian Ethical Retail Superannuation Fund.	<b>( 6,717,098)</b>	( 206,395)
b) Transactions whereby Australian Ethical Superannuation Pty Limited provides Administration/Trustee services to the Australian Ethical Retail Superannuation Fund.	<b>6,929,928</b>	55,939
c) Transactions whereby Australian Ethical Superannuation Pty Limited seeks reimbursement of contribution fee from the Australian Ethical Retail Superannuation Fund.	-	959,687
d) Transactions whereby Australian Ethical Superannuation Pty Limited provides Member Administration services to the Australian Ethical Retail Superannuation Fund.	<b>1,348,303</b>	6,139,279
e) Transactions whereby Australian Ethical Superannuation Pty Limited seeks reimbursement of expenses from the Australian Ethical Retail Superannuation Fund.	<b>1,945,517</b>	1,070,471
f) Amounts receivable from the Australian Ethical Retail Superannuation Fund.	<b>1,303,228</b>	654,021

**Terms and conditions**

No provision for doubtful debts has been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Outstanding balances are unsecured and are repayable in cash.

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Notes to the consolidated financial statements for the year ended 30 June 2013

Note 26 - Key management personnel compensation

i) Key management personnel

Names and positions of key management personnel (directors and named executives) at any time during the financial year

Parent entity directors

Name	Position
Stephen Gibbs	Chairperson, non-executive
André Morony	Director, non-executive
Stephen Newnham	Director, Business Development, executive
Mara Bun	Director, non-executive
Tony Cole	Director, non-executive
Kate Greenhill	Director, non-executive
Phillip Vernon	Managing Director ,executive
<b>Departed Parent entity directors</b>	
Justine Hickey	Director, non-executive
Louise Herron	Director, non-executive
Howard Pender	Director, executive

Other key management personnel

Name	Position
Adam Kirk	General Manager, Business Development
Paul Smith	General Manager, Strategy & Communications
David Macri	Chief Investment Officer

Departed other key management personnel

Phillip George	Head of Product & Client Services
Gary Leckie	CFO
Tim Xirakis	Head of Distribution
James Jordan	Chief Investment Officer

ii) Key management personnel compensation

	2013	2012
	\$	\$
Short term employment benefits	1,391,480	1,817,102
Post-employment benefits	121,613	170,705
Other long-term benefits	21,313	34,939
Termination benefits	-	221,528
Share-based payments	150,310	151,310
Total compensation	<u>1,684,716</u>	<u>2,395,584</u>

Further key management personnel remuneration details are included in the Remuneration Report section of the Directors' Report.

Notes to the consolidated financial statements for the year ended 30 June 2013

Note 26 - Key management personnel compensation (continued)

iii) Equity instrument disclosures relating to key management personnel

a) Option Holdings

Number of options held by key management personnel.

KMP Options Holdings	Option Class	Balance at beginning of year	Movements during the year			Balance at end of year	Vested at end of year	Vested & exercisable at end of year	Vested & un-exercisable at end of year
			Granted	Expired	Vested & exercised				
<b>Departed Parent Entity Directors</b>									
Howard Pender	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	1,326	-	(1,326)	-	-	-	-	-
<b>Departed Named executives (including other key management personnel)</b>									
Philip George	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	2,169	-	(2,169)	-	-	-	-	-
Gary Leckie	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	1,919	-	(1,919)	-	-	-	-	-
Tim Xirakis	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	1,895	-	(1,895)	-	-	-	-	-
James Jordan	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	1,243	-	(1,243)	-	-	-	-	-

b) Rights Holdings

Number of rights held by key management personnel.

KMP Rights Holdings	Rights Class	Balance at beginning of year	Movements during the year			Balance at end of year	Vested at end of year	Vested & exercisable at end of year	Vested & un-exercisable at end of year
			Granted	Expired	Vested & exercised				
<b>Parent Entity Directors</b>									
Phil Vernon	AEFAD	-	608	-	-	608	-	-	-
	AEFAC	-	2,432	-	-	2,432	-	-	-
	AEFAB	1,474	-	-	(1,474)	-	-	-	-
	AEFAA	1,472	-	-	-	1,472	-	-	-
	AEFAY	2,481	-	-	-	2,481	-	-	-
	AEFAW	317	-	(317)	-	-	-	-	-
	2013 Total	5,744	3,040	(317)	(1,474)	6,993	-	-	-
	2012 Total	2,798	2,946	-	-	5,744	-	-	-
<b>Departed Parent Entity Directors</b>									
Howard Pender	AEFAY	736	-	-	-	736	-	-	-
	AEFAW	320	-	(320)	-	-	-	-	-
	2013 Total	1,056	-	(320)	-	736	-	-	-
	2012 Total	1,056	-	-	-	1,056	-	-	-

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## Notes to the consolidated financial statements for the year ended 30 June 2013

## Note 26 - Key management personnel compensation (continued)

## iii) Equity instrument disclosures relating to key management personnel (continued)

## b) Rights Holdings (continued)

KMP Rights Holdings	Rights Class	Balance at beginning of year	Movements during the year			Balance at end of year	Vested at end of year	Vested & exercisable at end of year	Vested & unexercisable at end of year
			Granted	Expired	Vested & exercised				
<b>Named executives (including other key management personnel)</b>									
Adam Kirk	AEFAD	-	378	-	-	378	-	-	-
	AEFAC	-	1,142	-	-	1,142	-	-	-
	2013 Total	-	1,520	-	-	1,520	-	-	-
	2012 Total	-	-	-	-	-	-	-	-
Paul Smith	AEFAD	-	289	-	-	289	-	-	-
	AEFAC	-	968	-	-	968	-	-	-
	2013 Total	-	1,257	-	-	1,257	-	-	-
	2012 Total	-	-	-	-	-	-	-	-
David Macri	AEFAD	-	1,790	-	-	1,790	-	-	-
	AEFAC	-	1,379	-	-	1,379	-	-	-
	AEFAB	2,362	-	(100)	(2,262)	-	-	-	-
	AEFAA	827	-	-	-	827	-	-	-
	AEFAY	666	-	-	-	666	-	-	-
	AEFAW	150	-	(150)	-	-	-	-	-
	2013 Total	<b>4,005</b>	<b>3,169</b>	<b>(250)</b>	<b>(2,262)</b>	<b>4,662</b>	-	-	-
	2012 Total	816	3,189	-	-	4,005	-	-	-
<b>Departed named executives (including other key management personnel)</b>									
Philip George	AEFAD	-	474	(474)	-	-	-	-	-
	AEFAC	-	1,270	(1,270)	-	-	-	-	-
	AEFAB	390	-	-	(390)	-	-	-	-
	AEFAA	1,105	-	(1,105)	-	-	-	-	-
	AEFAY	985	-	(985)	-	-	-	-	-
	AEFAW	501	-	(501)	-	-	-	-	-
	2013 Total	<b>2,981</b>	<b>1,744</b>	<b>(4,335)</b>	<b>(390)</b>	-	-	-	-
	2012 Total	1,486	1,495	-	-	2,981	-	-	-
Gary Leckie	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	-	-	-	-	-	-	-	-
	2013 Total	1,514	1,830	(3,344)	-	-	-	-	-
Tim Xirakis	AEFAB	646	-	-	(646)	-	-	-	-
	2013 Total	<b>646</b>	-	-	<b>(646)</b>	-	-	-	-
	2012 Total	1,475	646	(1,475)	-	646	-	-	-
James Jordan	2013 Total	-	-	-	-	-	-	-	-
	2012 Total	1,277	3,260	(4,537)	-	-	-	-	-

Notes to the consolidated financial statements for the year ended 30 June 2013

Note 26 - Key management personnel compensation (continued)

iii) Equity instrument disclosures relating to key management personnel (continued)

c) Share Holdings

Number of Shares held by key management personnel.

		Balance at beginning of year	Acquired / Granted as Remuneration	On exercise of options/ rights	Net Change other <sup>(1)</sup>	Balance at end of year <sup>(2) and (3)</sup>
<b>Departed Parent Entity Directors</b>						
Howard Pender	2013	49,882	-	-	900	50,782
	2012	50,683	-	-	(801)	49,882
Justine Hickey	2013	1,200	-	-	-	1,200
	2012	1,200	-	-	-	1,200
<b>Named executives (including other key management personnel)</b>						
Phil Vernon	2013	-	-	1,474	-	1,474
	2012	-	-	-	-	-
David Macri	2013	-	-	2,262	(1,996)	266
	2012	-	-	-	-	-
<b>Departed Named executives (including other key management personnel)</b>						
Phillip George	2013	1,104	-	390	(700)	794
	2012	1,104	-	-	-	1,104
Tim Xirakis	2013	25	646	-	-	671
	2012	25	-	-	-	25
James Jordan	2013	-	-	-	-	-
	2012	909	-	-	(909)	-

(1) "Net change other" incorporates changes resulting from purchases, sales, forfeitures during the year.

(2) Shares issued are fully paid

(3) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124 Related Party Disclosures

d) Key Management Personnel Loans

Loans with key management personnel at the start and end of the year.

	Balance at beginning of year	Interest charged	On exercise of options/ rights	Net Change other	Balance at end of year	No. of Individuals
<b>Key Management Personnel</b>	\$	\$	\$	\$	\$	
2013	7,455	204	-	-	-	1
2012	12,250	778	-	-	7,455	1

(a) The loan was fully repaid on 17 December 2012.

(b) In the 2012/13 reporting period, there were no loans to individuals that exceeded \$100,000 at any time.

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## Notes to the consolidated financial statements for the year ended 30 June 2013

### Note 27 - Share based payments

The following share-based payment arrangements existed at 30 June 2013:

During this reporting period, Australian Ethical Investment Limited issued 12,051 ordinary shares on conversion of 12,051 AEFAB performance rights for nil consideration granted under its employee share incentive scheme in December 2011. This conversion of performance rights resulted in an increase in ordinary shares of 12,051.

During the 2011 reporting period, 25,432 performance rights in two classes (identifiers: AEFAY and AEFMZ) were granted.

During the 2012 reporting period 33,837 performance rights in two classes (identifiers: AEFMA and AEFMB) were granted.

During the 2013 reporting period 30,926 performance rights in two classes (identifiers: AEFAC and AEFAD) were granted.

Under the Australian Ethical Investment Limited employee share incentive scheme (ESIS) participants are granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. The number of shares that the participant will ultimately receive will depend on the extent to which the performance criteria are met by the Group and the individual employee. These rights were issued for nil consideration. These rights hold no voting or dividend rights. Subject to the terms and conditions of the ESIS rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights.

ASX Code	Number Granted	Attributes
AEFAC	23,357	<p>i) employment must continue until 30 June 2015.</p> <p>ii) the average return on equity over the performance period ('AROE') must exceed 15% p.a. or no shares shall be awarded at the end of the performance period;</p> <ul style="list-style-type: none"> <li>- if the AROE exceeds 15% p.a. but is less than 20% p.a., half the maximum number of shares shall be awarded;</li> <li>- if the AROE is equal to or greater than 20% p.a. the maximum number of shares shall be awarded.</li> </ul> <p>AROE is determined as the average of return on equity over six month periods calculated using audited half-year financial statements.</p> <p>- The performance period is the financial years 2012/13, 2013/14 and 2014/15.</p>
AEFAD	7,569	<p>i) employment must continue until 1 July 2013;</p> <p>ii) the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the Group's managed investment schemes, for which the employee has responsibility or provides significant input; a managed investment scheme has been agreed between the Group and the employee. Performance will be measured over a performance period of 1 July 2012 to 30 June 2013.</p>

#### i) Performance rights reconciliation

	Consolidated Entity	
	2013	2012
	Number of	Number of
Outstanding at the beginning of the financial year	41,513	32,416
Granted	30,926	34,199
Forfeited	(11,939)	(19,980)
Exercised	(12,051)	(5,122)
Expired	(3,406)	-
Outstanding at year-end	45,043	41,513
Exercisable at year-end	-	-

Notes to the consolidated financial statements for the year ended 30 June 2013

Note 27 - Share based payments (continued)

ii) Performance rights summary

Rights Class	Performance Year	Grant Date	Vesting Date	No. granted	No. forfeited	No. vested	No. expired	Balance
AEFAW	FY10 - FY12	2010	30/06/2013	10,819	(7,413)	-	(3,406)	-
AEFAY	FY11 - FY13	2011	30/06/2013	20,582	(12,189)	-	-	8,393
AEFAA	FY12 - FY14	2012	30/06/2014	19,195	(9,784)	-	-	9,411
AEFAB	FY12	2012	30/06/2012	14,642	(2,591)	(12,051)	-	-
AEFAC	FY13 - FY15	2013	30/06/2015	23,357	(3,213)	-	-	20,144
AEFAD	FY13	2013	30/06/2013	7,569	(474)	-	-	7,095

Fair value - Rights

All rights were calculated at grant date based on the underlying share prices minus estimated net present value of future dividends that the holders of rights are not entitled for.

Weighted average fair value - Options

	Consolidated Entity		2012	
	2013		2012	Weighted
	Number of Options	Weighted Average Exercise Price	Number of Options	Average Exercise Price
		\$		\$
Outstanding at the beginning of the financial year	-	-	32,394	32.27
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(32,394)	32.27
Outstanding at year-end	-	-	-	-
Exercisable at year-end	-	-	-	-

There were no options outstanding at 30 June 2013.

Included under employee benefits expense in the consolidated statement of profit or loss and other comprehensive income is:

- \$0 (2012: \$14,070) relating to options issued under the employee share ownership plan.
- \$165,705 (2012: \$217,407) relating to rights issued under the employee share ownership plan.

Note 28 - Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- Market Risk
- Credit risk
- Liquidity risk

i) Risk management framework

The Group 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 Appetite Statement. The Risk & Compliance Manager 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 Board, the Audit, Compliance & Risk Committee (ACRC). The Board regularly monitors the overall risk profile of the group and sets the risk appetite for the group, usually in conjunction with the annual planning process.

The Board is responsible for ensuring that management have appropriate processes in place for managing all types of risk, ranging from financial risk to operational risk. To assist in providing ongoing assurance and comfort to the Board, responsibility for risk management oversight has been delegated to the ACR. The main functions of this Committee are to oversee the consolidated entity's accounting policies and practices, the integrity of financial statements and reports, the scope, quality and independence of external audit arrangements, the monitoring of the internal audit function, the effectiveness of risk management policies and the adequacy of insurance programs. This Committee is also responsible for monitoring overall legal and regulatory compliance.

The activities of the consolidated entity expose it to the following financial risks: credit risk, liquidity risk and market risk. These are distinct from the financial risks borne by customers which arise from financial assets managed by the consolidated entity in its role as fund manager, trustee and responsible entity.

The following discussion relates to financial risks exposure of the consolidated entity in its own right.

**Notes to the consolidated financial statements for the year ended 30 June 2013****Note 28 - Financial risk management (continued)****ii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market exposure. The Group is only exposed to interest rate and price risk through its cash and cash equivalents, loans and available-for-sale investments.

**a) Currency risk**

The exposure to currency risk, as defined in AASB 7 Financial Instruments: Disclosures, arises when financial instruments are denominated in a currency that is not the functional currency of the entity and are of a monetary nature. Hence the gains/(losses) arising from the translation of the controlled entities' financial statements into Australian dollars are not considered in this note.

All of the monetary financial instruments held by the consolidated entity, being liquid assets, receivables, interest-bearing liabilities and payables are denominated in Australian dollars. Hence fluctuations in exchange rates do not impact the profit/(loss) for the year or shareholders' equity.

**b) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The consolidated entity's exposure to interest rate risk arises predominantly on cash balances held with banks. In order to manage the interest rate risk relating to bank deposits the CFO reviews the interest rates on those deposits on a regular basis.

At the end of the reporting period, the Group had the following exposure to interest rate risk:

	2013	2012
	\$	\$
Cash and cash equivalents	3,894,666	2,309,587
Loans to staff	-	5,202
Total	<u>3,894,666</u>	<u>2,314,789</u>

An increase of 1% in interest rates at the end of the period would have increased equity and profit for the year by \$38,947 (2012: \$23,096). A decrease of 1% would have an equal and opposite effect.

**c) Market risks arising from Funds Under Management**

The Group's revenue is significantly dependent on Funds Under Management ('FUM') which is influenced by equity market movements. Management calculates the expected impact on revenue for each 1 per cent movement in the S&P/ASX All Ordinaries Index. Based on the level of the S&P/ASX All Ordinaries Index at the end of 30 June 2013, a 1 per cent movement in the market changes annualised revenue by approximately \$70,000. It is worth noting this movement is not linear to the overall value of the market. This means that as the market reaches higher or lower levels, a 1 per cent movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity market and non-equity market-sensitive asset classes.

**d) Equity price risk**

The Group is exposed to equity price risk through its investments held in listed securities and investments in unlisted unit trusts. Market securities are held to support its advocacy activities. In order to manage the risk of adverse price movements securities are only held for the period in which the Group is engaging with the target company.

At the end of the reporting period, the Group had the following exposure to market securities price risk:

	2013	2012
	\$	\$
Listed securities	107,150	108,947
Units in unit trusts	-	223,108
	<u>107,150</u>	<u>332,055</u>

An increase of 10% of market prices at the end of the period would have increased equity by \$10,715 (2012: \$33,206). A decrease of 10% would have an equal and opposite effect. The impact on the profit or loss of the Group would be immaterial.

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 28 - Financial risk management (continued)**

**iii) Credit Risk**

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Group is predominantly exposed to credit risk on its deposits with banks and financial institutions, outstanding receivables and committed transactions. The maximum exposure of the Group to credit risk on financial assets which have been recognised on the balance sheet is the carrying amount, net of any provision for doubtful debts.

The Group manages this risk by settling the receivables from the managed investment schemes and superannuation funds on a monthly basis and holding cash and cash equivalents at financial institutions with a Standard & Poor's rating of 'A' or higher.

The table below outlines the Group's maximum exposure to credit risk as at reporting date.

	2013	2012
	\$	\$
Cash and cash equivalents	3,894,666	2,309,587
Trade and other receivables	2,474,109	1,715,999
Loans	-	52,114
Total	<u>6,368,775</u>	<u>4,077,700</u>

There is currently no past due receivables as at 30 June 2013 (2012: nil).

**iv) Liquidity risk**

Liquidity risk is the risk that the financial obligations of the Group cannot be met as and when they fall due without incurring significant costs. The Group's approach to managing liquidity is to maintain a level of cash or liquid investments sufficient to meet its ongoing financial obligations. The Group manages liquidity risk by continually monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. In addition, a twelve month forecast of liquid assets, cash flows and balance sheet is reviewed by the Board annually as part of the budget process to ensure there is sufficient liquidity within the Group.

Trade and other payables have the following remaining contractual maturities at the end of the reporting period of financial liabilities:

	Group	
	2013	2012
	\$	\$
Less than 6 months	1,564,843	1,193,671
6 months to 1 year	291,807	303,299
	<u>1,856,650</u>	<u>1,496,970</u>

**Notes to the consolidated financial statements for the year ended 30 June 2013****Note 28 - Financial risk management (continued)****v) Capital management****a) Capital requirements**

The Group manages its capital to ensure that the level of financial conservatism is appropriate for the Company's businesses including acting as custodian and manager of clients' assets. Capital is managed to provide business stability and accommodate the growth needs of the Group.

Part of the capital management of the Company is to determine the dividend policy. Dividends paid to shareholders are typically in the range of 80–100 per cent of the Group's net profit after tax attributable to members of the Company, which is in line with the historical dividend range paid to shareholders. In certain circumstances, the Board may declare a dividend outside that range.

As at year end the Company had no long term debt arrangements.

**b) External requirements**

In connection with operating a funds management business in Australia the Group is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities & Investment Commission (ASIC) requires the Group to:

- prepare 12-month cash-flow projections which must be approved at least quarterly by directors, and reviewed annually by auditors;
- hold at all times minimum Net Tangible Assets (NTA) the greater of:
  - \$150,000
  - 0.5% of the average value of scheme property (capped at %=\$5 million); or
  - 10% of the average responsible Entity (RE) revenue (uncapped).

The Group must hold at least 50% of its minimum NTA requirement as cash or cash equivalents and hold at least \$50,000 in Surplus Liquid Funds (SLF).

The Group has complied with these requirements at all times during the year.

**vi) Fair value measurements**

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2013			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale financial assets</b>				
- Listed securities at fair value	107,150	-	-	107,150
	<u>107,150</u>	<u>-</u>	<u>-</u>	<u>107,150</u>
	2012			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale financial assets</b>				
- Listed securities at fair value	108,947	-	-	108,947
- Units in unit trust at fair value	-	223,108	-	223,108
	<u>108,947</u>	<u>223,108</u>	<u>-</u>	<u>332,055</u>

There were no transfers between Level 1 and 2 in the year.

**Notes to the consolidated financial statements for the year ended 30 June 2013**

**Note 29 - Parent entity information**

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 2 for a summary of the significant accounting policies relating to the Group.

	<b>Parent Entity</b>	
	<b>30 June 2013</b>	30 June 2012
	\$	\$
<b>Assets</b>		
Current assets	4,092,743	3,715,141
Non-current assets	3,898,448	4,384,419
Total assets	<u>7,991,191</u>	<u>8,099,560</u>
<b>Liabilities</b>		
Current liabilities	1,982,870	1,407,350
Non-current liabilities	122,957	109,204
Total liabilities	<u>2,105,827</u>	<u>1,516,554</u>
<b>Equity</b>		
Issued capital	6,278,225	6,038,301
Retained earnings	(742,189)	242,634
Reserves	349,328	302,071
Total equity	<u>5,885,364</u>	<u>6,583,006</u>
<b>Parent entity</b>		
	<b>30 June 2013</b>	30 June 2012
	\$	\$
Profit/(loss) for the year	(223,509)	188,778
Other comprehensive income	121,476	(50,172)
Total comprehensive income/(loss)	<u>(102,033)</u>	<u>138,606</u>

**Note 30 - Subsidiaries**

Details of the Group's subsidiaries at the end of the reporting period are as follows.

Name of the subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			30 June 2013	30 June 2012
Australian Ethical Superannuation Pty Limited	Trustee of the Australian Ethical Retail Superannuation Fund	Australia	100%	100%

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Australian Ethical Investment Limited A.B.N. 47 003 188 930 and controlled entity

### Directors' Declaration

1. In the opinion of the directors of Australian Ethical Investment Limited ('the Company'):
  - (a) report in pages 14 to 23 in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 30 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2013.
4. The directors draw attention to Note 2(i) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Phillip Vernon  
Managing Director  
Dated this 29 August 2013

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# Independent Auditor's Report



## Independent auditor's report to the members of Australian Ethical Investment Limited

### Report on the financial report

We have audited accompanying financial report of Australian Ethical Investment Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entity it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Australian Ethical Investment Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

### **Report on the remuneration report**

We have audited the Remuneration Report included in pages 14 to 24 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Australian Ethical Investment Limited for the year ended 30 June 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Tanya Gilerman  
*Partner*

Sydney  
29 August 2013

# Shareholder Information

## *Top 20 Holdings of fully paid ordinary shares at 11 October 2013*

Holdings Ranges	Holders	Total Units	%
SELECT MANAGED FUNDS PTY LTD	196,472	19.203	Yes
CITICORP NOMINEES PTY LIMITED	96,820	9.463	Yes
JAMES ANDREW THIER	51,367	5.020	Yes
HOWARD PENDER	49,852	4.872	Yes
CAROLINE MARGARET LE COUTEUR	49,436	4.832	
TREVOR ROLAND LEE	36,933	3.610	
JUDITH MARGARET BOAG	33,683	3.292	
ERIC Y W & PATTY B Y TSE	26,525	2.592	
BRUCE ALLAN MCGREGOR & MRS ANN MARION MCGREGOR	24,447	2.389	
HB SARJEANT & ASSOC PTY LTD	20,140	1.968	
GARRETT SMYTHE LTD	17,169	1.678	
DAISY THIER	15,297	1.495	
JUDITH INGROUILLE AJANI	13,000	1.271	
DR EDWARD ARTHUR ICETON	12,000	1.173	
ANTHONY SCOTT COOK	10,562	1.032	
MICHEL & ANN BEUCHAT	9,667	0.945	
RODNEY MATTHEW MYER	7,332	0.717	
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	7,160	0.700	
JAMES GROESSLER	6,622	0.647	
ROGER W SAWKINS & GARY R Y GEE	5,756	0.563	
	690,240	67.462	
Total IC	1,023,147		

## *Analysis of Holdings as at 11 October 2013*

### Security Classes

#### Fully Paid Shares

Holdings Ranges	Holders	Total Units	%
1-1,000	655	164,251	16.054
1,001-5,000	74	158,370	15.479
5,001-10,000	7	46,823	4.576
10,001-100,000	14	457,231	44.689
100,000+	1	196,472	19.203
Totals	751	1,023,147	100.000



## Contact us

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