

**Appendix 4E**

For the year ended 30 June 2018

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

**Results for announcement to the market**

[ All comparisons to year ended 30 June 2017 ]

	\$'000	up / down	% movement
<b>Revenues from ordinary activities</b>	<b>35,992</b>	<b>up</b>	<b>27%</b>
<b>Net profit after tax</b>	<b>5,081</b>	<b>up</b>	<b>74%</b>
Deduct net profit after tax attributable to The Foundation	(83)		
<b>Net profit attributable to shareholders</b>	<b>4,998</b>	<b>up</b>	<b>71%</b>
Add back employment restructure expense	0		
Deduct reversal of impairment	0		
Add back further provision for remediation	0		
Add back unit pricing project costs	0		
Tax on adjustments	0		
Underlying net profit after tax	4,998	up	18%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Interim 2018 dividend per share (paid 16 March 2018)	165.0	165.0	100%
Final 2018 dividend per share (to be paid 21 September 2018)	235.0	235.0	100%

**Final dividend dates**

Ex-dividend date	<b>6 September 2018</b>
Record date	<b>7 September 2018</b>
Payment date	<b>21 September 2018</b>

The Company's Dividend Reinvestment (DRP) will not operate with respect to the final dividend.

	30 June 2018	30 June 2017
<b>Net tangible assets per security</b>	<b>\$11.92</b>	<b>\$11.21</b>
<b>Net asset value per security</b>	<b>\$13.66</b>	<b>\$12.47</b>

This information should be read in conjunction with the 2018 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4E disclosure requirements can be found in the Directors' Report and the Annual Financial report for the year ended 30 June 2018.

This report is based on the consolidated 2018 financial statements of Australian Ethical Investment Limited which have been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the Annual Financial Report for the period ended 30 June 2018.

# **Australian Ethical Investment Limited and its Controlled Entities**

**ABN 47 003 188 930**

**Annual Report - 30 June 2018**

## **Australian Ethical Investment Limited and its Controlled Entities**

### **Directors' report**

**30 June 2018**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Australian Ethical Investment Limited (referred to hereafter as the 'Company' or 'Parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

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## **Australian Ethical Investment Limited and its Controlled Entities**

### **Directors' report**

**30 June 2018**

#### **Directors**

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

##### **Steve Gibbs**

Non-Executive Director since 2012 and Chair since 2013

BEC, MBA

Steve chairs the People, Remuneration and Nominations Committee, is a member of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees and is Chair of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited. Steve has extensive experience at both an executive and non-executive level in the investment and superannuation industries and has been recognised for his commitment to, and expertise in, ethical and responsible investing.

##### **Mara Bun**

Non-Executive Director since 2013

BA (Political Economy), GAICD

Mara is a member of the People, Remuneration and Nominations Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees. Mara is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar to Australian Ethical. She is also Chair of the Board of the Gold Coast Waterways Authority and a Non-Executive Director of Enova Community Energy, a Byron Bay based social enterprise. Mara consults to research, business and government agencies. Currently she leads Strategy and Development pathways for Food Agility CRC, a ten-year research programme enabling digital solutions across Australian food value chains; and leads development of Simba Global's textiles data transformation strategy. Mara is President of the Australian Conservation Foundation.

##### **Kate Greenhill**

Non-Executive Director since 2013

BEC, FCA, GAICD

Kate is chair of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees and a member of the People, Remuneration and Nominations Committee. Kate is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 20 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients. Kate is also a Director and Chair of the Audit, Finance and Risk Committee of a not-for-profit organisation in the education sector.

##### **Michael Monaghan**

Non-Executive Director since 2017

BA, FIA, FIAA, FAICD

Michael is a member of the People, Remuneration and Nominations Committee and the Audit, Compliance and Risk Committee. He is a director of Australian Ethical Superannuation Pty Limited and the Australian Ethical Foundation Limited.

Michael has more than 30 years' experience in investment, consulting and leadership of financial services organisations both in Australia and internationally. He was Managing Director of State Super Financial Services Australia Limited (StatePlus) from 2011 to 2016 and previously was a partner in the actuarial practice of Deloitte Touche Tohmatsu, the CEO of Intech Investment Consultants and held senior executive positions at Deutsche Bank, IBM and Lend Lease Corporation.

Michael is currently Deputy Chair of HammondCare, an aged care provider and a director of Alpha Vista Financial Services, a start-up global business leveraging large scale data and computing capabilities and artificial intelligence.



## **Australian Ethical Investment Limited and its Controlled Entities**

### **Directors' report**

**30 June 2018**

#### **Julie Orr**

Non-Executive Director since 2018

BEC, MCom, MCom(Hons), CA, GAICD

Julie is a member of the People, Remuneration and Nominations Committee. She has over 20 years of experience in executive and board roles including experience with superannuation, investments, financial planning, stockbroking, research, insurance, audit, finance, acquisitions and business integration.

Julie's most recent executive experience is as Group General Manager Corporate Development and General Manager Operations for IOOF. She was previously Director Finance India and Asia Pacific for Standard and Poor's; Head of Research for Morningstar; Chief Operating Officer at Intech; and Senior Audit Manager with Ernst & Young.

Julie's board experience includes Perennial Value Management, Ord Minnett, Tax Payers Association (NSW) Division and Tax Payers Research foundation.

#### **Phil Vernon**

CEO since 2009 and Managing Director since 2010

BEC, MCom, MBA, FCPA, FAICD

Phil is a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited. He has over 30 years' experience in financial services covering funds management, superannuation, corporate governance and industry regulation.

He is a director of the Responsible Investment Association Australasia and of the not-for-profit environmental group, the Planet Ark Foundation. He is also Chair of Beyond Zero Emissions, a climate change think-tank. Phil is a Fellow of the Australian Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand.

#### **Company secretary**

Tom May BA, LLB, FGIA 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.

Nicholas Parkin BA LLB GDipAppCorpGov is a solicitor with more than 17 years' experience in Australia, England and New Zealand advising corporations and government. He has also been an assistant company secretary for ASX listed entities across multiple industries and acted as the company secretary for the Australian subsidiaries of an international conglomerate.

#### **Principal Activities**

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

#### **Review of operations**

The profit for the Group after providing for income tax amounted to \$5,081,000 (30 June 2017: \$2,924,000).

The profit attributable to shareholders after providing for income tax amounted to \$4,998,000.

Underlying profit after tax was \$4,998,000, up 18% compared with the prior corresponding period. Revenue increased 27% to \$36.0m, up from \$28.3m.

Funds under management (FUM) for the full year increased by 31% to \$2.82 billion, up from \$2.15 billion reported for the previous corresponding period. The increase in FUM was driven by strong member growth, strong inflows, low outflows and positive investment performance.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Directors' report**  
**30 June 2018**

Australian Ethical continues to be one of the fastest growing super funds in Australia with a 17% increase in membership over 2018 to 41,518 members, and a 14% increase in netflows. Our ethical leadership, professional investment management and competitive product offering has ensured we continue to attract new customers. Further, our continued investment in engaging with our customers and enhancing the customer experience is driving market leading customer satisfaction scores and retention rates.

Australian Ethical is facing increased competition from industry funds in general as well as the responsible investment sector, and has experienced a slowing rate of growth in the past 6 months. We continue to accentuate our ethical point of difference to both existing and potential customers, and ensure that customers can reach us through their channel of choice. Strategic investment continues in the areas of enhanced customer experience, increasing brand awareness, and nurturing intermediated channels and non-digital marketing. This will position Australian Ethical well to build on the solid 2018 result, continue growing scale and allowing benefits to flow through to our customers.

**Financial Performance - Management Analysis**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>	<b>% Increase/ (Decrease)</b>
<b>Net Profit after tax (NPAT)</b>	5,081	2,924	74%
Less: Net profit after tax attributable to The Foundation	<u>(83)</u>	<u>(4)</u>	
<b>Net profit after tax attributable to shareholders</b>	4,998	2,920	71%
Adjustments:			
- Reversal of impairment on investment property	-	(228)	
- Add back employment restructure expenses	-	250	
- Add back provision for remediation	-	795	
- Add back unit pricing project costs	-	1,160	
- Tax on adjustments	<u>-</u>	<u>(662)</u>	
<b>Underlying profit after tax (UPAT)</b>	<u>4,998</u>	<u>4,235</u>	18%
Basic EPS on NPAT (cents per share)	466.67	269.98	
Basic EPS on NPAT attributable to shareholders (cents per share)	459.04	269.62	
Basic EPS on UPAT attributable to shareholders (cents per share)	459.04	391.07	
Diluted EPS on UPAT attributable to shareholders (cents per share)	446.19	380.22	

**Dividends**

Dividends paid during the financial year were as follows:

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Final dividend for the year ended 30 June 2017 of 210 cents (2016: 180 cents) per ordinary share - fully franked	2,354	2,009
Interim dividend for the year ended 30 June 2018 of 165 cents (2017: 50 cents) per ordinary share - fully franked	<u>1,849</u>	<u>558</u>
	<u>4,203</u>	<u>2,567</u>

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Since year end the Directors have declared a final dividend of 235 cents per fully paid ordinary share (2017: 210 cents), fully franked based on tax paid at 27.5%. The aggregate amount of the declared dividend expected to be paid on 21 September 2018 out of profits for the year ended at 30 June 2018, but not recognised as a liability at year end, is \$2,634,000 (2017: \$2,350,000).

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

**Share issued during the year and prior to the issue of the report**

During the year and prior to the release of this report the following shares were issued:

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2017	1,115,854		9,923
Shares issued to the Employee Share Trust	8 September 2017	5,076		-
		1,120,930		9,923
Shares vested to employees (5,180 shares)	8 September 2017	-	\$42.85	222
Shares vested to employee (766 shares)	24 April 2018	-	\$77.57	59
Balance	30 June 2018	1,120,930		10,204

No amounts are unpaid on any of the shares.

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the financial year.

**Matters subsequent to the end of the financial year**

Apart from the dividend declared as disclosed in Note 28, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Likely developments and expected results of operations**

Additional information about the Group's business is available to shareholders on our website.

**Environmental regulation**

The Company acts as a responsible entity for the Australian Ethical Balanced Fund which holds a direct investment in one commercial property. The Company also holds one direct investment in a commercial property in Canberra. The directors have ensured that both properties have fulfilled the environment regulations under both Commonwealth and State legislation.

**Meetings of Directors**

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	Full Board		People, Remuneration and Nominations Committee		Audit, Compliance and Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	8	8	8	8	6	6
Kate Greenhill	8	8	8	8	6	6
Mara Bun	8	8	8	8	6	6
Michael Monaghan	4	4	4	4	4	4
Julie Orr	3	3	1	1	-	-
Phil Vernon	8	8	-	-	-	-

**Indemnity and insurance of officers**

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

**Australian Ethical Investment Limited**  
**Directors' report**  
**30 June 2018**

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability 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.

**Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

**Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

**Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 32 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 32 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

**Officers of the Company who are former partners of KPMG**

There are no officers of the Company who are former partners of KPMG.

**Rounding of amounts**

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

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

**Auditor**

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Directors' report**  
**30 June 2018**

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, consisting of a stylized 'P' followed by a long horizontal line.

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Phil Vernon  
Managing Director and Chief Executive Officer

23 August 2018  
Sydney

## **Remuneration Report 2018**

Dear Shareholder,

On behalf of the Board I am pleased to present our Remuneration Report for 2018.

In the financial year ended 30 June 2015, we made changes to our remuneration structure aimed at more effectively incentivising our people and aligning their outcomes with the performance and objectives of the company. It is pleasing to have achieved such strong corporate performance across many measures over the past year which suggests that our approach to remuneration is working.

At the 2017 Annual General Meeting, the Company's remuneration report received a 'no' vote of 76.4% cast on a resolution that the remuneration report be adopted (out of 45.3% of shareholders that voted on the report). This constituted a 'first strike'.

As a result of this vote the Board undertook a detailed review of the Company's remuneration structure for the CEO and key management personnel. The review had four components, including a report by Guerdon Associates (Guerdon) to independently review our remuneration structure, a survey of all shareholders, discussions by the Chairman with some individual shareholders and an in-depth review of the results of these activities by the People, Remuneration and Nominations Committee of the Board. Full details are set out in Section 3 of the Remuneration Report. This was done to ensure we continue to reward our management and employees fairly and provide a direct link between contribution and reward and alignment with the long term performance of the Company. Our remuneration policy aligns to the philosophy of the Company that sees our people as key stakeholders in the Company's success.

After taking into consideration the Guerdon review and shareholder feedback the Board has introduced the following changes to the remuneration structure for 2019 onwards:

- Long term incentive shares will generally be purchased on market;
- The 3-year diluted EPS growth hurdle will apply to all LTI incentives shares; and
- The Board has strengthened the malus provisions with respect to incentive grants.

The Annual Report also details a range of additional benefits offered to our employees as part of our ongoing commitment to making Australian Ethical an employer of choice. We will continue to review our remuneration arrangements to ensure they remain fair to all stakeholders and are effective in attracting and retaining people who are motivated and professional.



**Stephen Gibbs**

Chair

People, Remuneration & Nominations Committee (PRNC)

## **1. About this Report**

This report deals with the remuneration arrangements that were in place for all employees of Australian Ethical Investment Limited (the “Company”) during the financial year 2017-2018. It describes the philosophies behind the remuneration and other employee benefits. The report also deals with the remuneration of Non-Executive Directors, the Managing Director and members of the Senior Management Team (SMT) and has been subject to independent audit as required by section 308(3C) of the *Corporations Act* 2001.

We also describe the changes that are being made to remuneration arrangements for the 2018-2019 financial year onwards following the Board’s review of the CEO and Key Management Personnel (KMP) remuneration structure, based on Guerdon’s independent report and shareholder feedback. The Remuneration Review is summarised in Section 3, along with the changes that will come into effect during the financial year 2018-2019.

## **2. Our Remuneration Philosophy and Structure**

The Company’s remuneration philosophy is designed to create a motivating and engaging environment for employees where they feel appropriately compensated and incentivised for the contribution they make to the performance of the Company.

### **Remuneration principles**

The principles underpinning our remuneration framework are:

<b>Fairness</b>	<ul style="list-style-type: none"><li>▪ attract and retain talented people</li><li>▪ pay people fairly for their work recognising the expertise and value they bring to the Company</li></ul>
<b>Alignment</b>	<ul style="list-style-type: none"><li>▪ build long term ownership in the Company</li><li>▪ align reward with contribution to the Company’s performance</li><li>▪ align shareholder interests and employees</li><li>▪ promote the values of the Ethical Charter included within the Constitution and be aligned with the purpose of the Company</li><li>▪ incorporate risk management performance measures in all employee scorecards</li></ul>
<b>Simplicity</b>	<ul style="list-style-type: none"><li>▪ be motivating for employees</li><li>▪ be simple to administer and to communicate to all stakeholders</li></ul>

The remuneration philosophy is also consistent with the principles of the Company’s Constitution and Charter. In particular, it is designed to:

- ensure that the Company facilitates “the development of workers’ participation in the ownership and control of their work organisations and places” - *Charter element (a)*
- not “exploit people through the payment of low wages or the provision of poor working conditions” - *Charter element (ix)*
- not “discriminate by way of race, religion or sex in employment, marketing, or advertising practices” – *Charter element (x)*

The incentive structure meets the requirements of Rule 15.1(c) of the Constitution which provides that prior to recommending or declaring any dividend to be paid out of the profits of any one year, provision must be made for a bonus or incentive for employees to be paid of up to 30% of what the profit for that year would have been had not the bonus or incentive payment been deducted.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Remuneration Report**  
**For the year ended 30 June 2018**

**Elements of Remuneration (2017 – 2018)**

The following framework applied to all employees (not including Non-Executive Directors) for the financial year ended 30 June 2018. Changes to the remuneration structure for future years are detailed in section 3 Remuneration Review.

Element	Description	Quantum	Paid as
Fixed Remuneration (FR)	Comprises base salary, superannuation, packaged employee benefits and associated fringe benefits tax.	<ul style="list-style-type: none"> <li>Reviewed annually, or on promotion.</li> <li>Benchmarked against market data<sup>1</sup> for comparable roles based on position, skills and experience brought to the role.</li> <li>Target remuneration is based around the median of the relevant comparator group for each job role, taking into consideration companies in a similar industry and of a similar size.</li> </ul>	Cash
Short Term Incentive (STI)	An annual incentive aimed at rewarding employees for achievement of annual objectives. Applies to all employees.	<ul style="list-style-type: none"> <li>Maximum achievable is a percentage of Fixed Remuneration (ranging from 7% to 100%).</li> <li>Actual outcome is linked to performance and contribution against annual KPIs.</li> <li>Short term incentives are treated as follows in the following circumstances: <ul style="list-style-type: none"> <li>resignation – forfeited;</li> <li>termination for serious misconduct – forfeited;</li> <li>retirement – discretion of Board;</li> <li>death or total or permanent disablement – discretion of Board; and</li> <li>redundancy – discretion of Board.</li> </ul> </li> </ul>	Cash
Long Term Incentive (LTI)	Aimed at fostering an interest in the long term performance of the Company, to encourage participation in the affairs of the Company and to encourage the retention of employees.	<ul style="list-style-type: none"> <li>Awarded as percentage of Fixed Remuneration</li> <li>Shares were issued and held in trust for 3 years.</li> <li>Vest in the name of the employee after 3 years, provided that: <ul style="list-style-type: none"> <li>employee remains employed; and</li> <li>50% also subject to 3-year compound annual growth in diluted earnings per Share (EPS) as follows: <ul style="list-style-type: none"> <li>0 – 5% - nil vests</li> <li>5% - 10% - pro rata up to 100%</li> <li>&gt; 10% - fully vests.</li> </ul> </li> </ul> </li> <li>The Board has discretion to adjust EPS for items that do not reflect management and employee performance and day to day business operations and activities.</li> <li>Employees participate in dividends and have voting rights from the date of allocation.</li> <li>Unvested shares are treated as follows in the following circumstances: <ul style="list-style-type: none"> <li>resignation – forfeited;</li> <li>termination for serious misconduct – forfeited;</li> <li>retirement – discretion of Board;</li> <li>death or total or permanent disablement – discretion of Board; and</li> <li>redundancy – discretion of Board.</li> </ul> </li> </ul>	Shares

<sup>1</sup> Benchmarked to data provided by the Financial Institutions Remuneration Group Inc (FIRG). FIRG is a peer group provider of remuneration and benefits data in the financial services industry.



**Australian Ethical Investment Limited and its Controlled Entities**  
**Remuneration Report**  
**For the year ended 30 June 2018**

Element	Description	Quantum	Paid as
Other employee benefits	The Company also provides to all employees a number of other benefits.	Benefits include: <ul style="list-style-type: none"> <li>▪ an employee assistance program;</li> <li>▪ volunteer leave (2 days per annum);</li> <li>▪ self-education/study assistance;</li> <li>▪ professional association memberships, annual health checks and annual flu vaccinations;</li> <li>▪ flexible working arrangements;</li> <li>▪ training subsidies; and</li> <li>▪ parental support including 18 weeks paid leave for primary carers and two weeks for secondary carers and superannuation contributions paid whilst on leave for up to 12 months.</li> </ul>	-

**Australian Ethical Investment Limited and its Controlled Entities**  
**Remuneration Report**  
**For the year ended 30 June 2018**

**Performance measures for Short Term Incentives (financial year ended 30 June 2018)**

Performance measures for Short Term Incentives are based on a Balanced Scorecard. Weightings of each element and specific objectives will vary with each individual and are based on their role. Employees have no contractual right to receive an STI award and the Board retains discretion to amend or withdraw the STI at any time. The following table provides the 'balanced scorecard' and the performance outcomes for each executive KMP for the past financial year.

Measure	Metric	Why this metric is appropriate	Weighting on STI for CEO	Weighting on STI for KMP	Impact on Incentive Award for FY18
Profit	Net profit after tax attributable to shareholders	Provides alignment to the Company's performance	20%	20%	Maximum target achieved
Business growth	<ul style="list-style-type: none"> <li>Net inflows</li> <li>New customers</li> <li>Each measured in both absolute terms and comparison against market</li> </ul>	Growth and scale will benefit our customers through lower fees and better products and service. It also allows us to deliver greater social and environmental impact.	20%	10-30%	Mid-range achieved
Investment performance	<ul style="list-style-type: none"> <li>Performance against investment objectives</li> <li>Performance against market benchmarks</li> <li>Assessed over 1, 3 and 5 year periods</li> </ul>	Delivering long term competitive investment returns for our customers is core to our offering.	20%	0-40%	Some funds achieved maximum Some funds did not achieve minimum
Individual objectives	Each employee will have certain individual objectives to achieve for the year with unique performance metrics.	Motivating our people to achieve specific outcomes for the business	10%	0-40%	Impact is assessed individually
Employee engagement	<ul style="list-style-type: none"> <li>Assessed against AON Hewitt annual engagement score.</li> <li>Assessed according to progress against prior year as well as market comparisons.</li> <li>Employees are also assessed according to adherence to the Company's values.</li> </ul>	Providing a motivating and inspiring workplace and high employee engagement has been proven to drive better business outcomes for customers and shareholders.	20%	20%	Engagement score achieved the maximum as significant progress was achieved against the prior year and we were within the best employer range for financial services.  Adherence to values is assessed individually
Risk	Metrics focus on fostering risk management culture and managing risk within Board approved risk appetite	It is critical for our senior management to have a high degree of ownership for risk management.	10%	10%	Impact is assessed individually

### **3. Remuneration Review**

At the 2017 AGM, the Company's remuneration report received a 'no' vote of 76.4% cast on a resolution that the remuneration report be adopted (out of 45.3% of shareholders that voted on the report). This constituted a 'first strike'. In addition, the shareholders also voted against the grant of deferred shares to the CEO in respect of the 2017-2018 tranche of the Company's employee incentive scheme (grant date 31 August 2017).

As a result of these votes the Board decided to undertake a detailed review of the remuneration structure for the CEO and Key Management Personnel. The non-executive director remuneration was not included in this review. The review comprised four activities:

- the Company engaged Guerdon Associates (Guerdon) to carry out an independent review of the remuneration framework and practices of the Company compared to a range of listed asset management companies. Guerdon was paid \$25,000 for these services;
- in July 2018, the Company sent a survey to all 1,831 shareholders in relation to remuneration matters;
- the Chair engaged individually with interested shareholders following the survey; and
- the PRNC undertook a detailed review of the responses from shareholders as well as the Guerdon report and made suggestions to the Board for several changes to the remuneration structure – these are outlined below.

#### **The Guerdon Report**

Guerdon found that elements of the Company's current remuneration arrangements were reasonable and broadly in accordance with market practice. They provided no recommendations but suggestions for how the remuneration framework might be modified to address any concerns raised by shareholders and respond to market trends.

Guerdon has confirmed that any remuneration suggestions have been made free from undue influence by members of the group's key management personnel. The following arrangements were made to ensure this:

- Guerdon was engaged by and reported directly to, the chair of the PRNC; and
- Guerdon was permitted to speak to management throughout the engagement to understand Company processes, practices and other business issues and obtain management perspectives. However, Guerdon was not permitted to provide any member of management with a copy of their draft report.

As a consequence, the board is satisfied that the review was carried out free from undue influence from any KMP. The Board has decided to make changes to remuneration arrangements commencing in the financial year 2018-2019.

#### **Shareholder Feedback**

In July 2018, the Company sent a survey to 1,831 shareholders who owned shares at that time. 76 responses were received. 32 responses indicated that they had some concerns with the Company's remuneration arrangements. After considering the responses, the Chairman engaged with interested shareholders to ensure concerns were discussed and understood.

The four concerns raised most frequently were:

- i. that industry remuneration is excessive;
- ii. not enough detail is provided in the remuneration report about the remuneration structure;
- iii. concerns about income inequality and ethical considerations; and
- iv. the dilution impact of issuing new shares for the LTI scheme.

A number of shareholders also provided feedback that the remuneration structure was appropriate given the positive company results over the past year. More than half of the shareholders who responded to the survey had no concerns about remuneration structure in light of company performance.

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***i. Industry remuneration is excessive***

The Board agrees that some remuneration arrangements in the financial services industry are excessive. AEI does not seek to match such excessive remuneration. We only make comparisons with medium sized firms and then set remuneration at around the median for comparable roles having regards to the skills and experience of the individual employee. As well as having obvious implications for the recruitment and retention of staff, we believe it is important to reward employees fairly for the work they do and indeed it would be unethical not to have regard to what is paid to employees performing similar roles within the same industry.

***ii. Not enough detail about the remuneration structure***

We acknowledge these concerns and have expanded the level of detail in this year's report in order to provide additional transparency to shareholders.

***iii. Income inequality and ethical considerations***

A number of shareholders raised questions regarding how we consider remuneration from an ethical perspective.

AEI's hiring practices and process of setting remuneration for all employees centres around the Company's values and culture. We rely on a variety of sources to identify values-aligned candidates, including a broad range of agencies, job advertising networks and our existing employees' networks. Intertwined within our hiring practices are our Company's values around remunerating people fairly for the work that they do and our Charter which stipulates that we do not discriminate by way of race, religion or sex in employment, marketing, or advertising practices nor exploit people through the payment of low wages or poor working conditions.

To ensure we reflect the community around us and therefore benefit from a full range of thinking styles and approaches to work, we strive to achieve diversity with our employees across a number of dimensions including gender, age and ethnicity. In FY18, we became one of the few Boards on the ASX with 50:50 gender equality and we have a 30% female representation on the Senior Management team (target 40% of each gender). Our overall workforce gender balance sits at 51.7% females (target 50%).

The Company is aware of scrutiny over senior executive pay, particularly within the Finance sector. As a result, we have paid close attention to setting a fair and equitable remuneration rate for our CEO. The ratio of our CEO's total remuneration to the Company's average staff salary (excluding KMPs) is 5 times and the ratio of our CEO's fixed remuneration compared to average adult earnings<sup>1</sup> is 5 times. Direct comparative data is not available however, a recent market study<sup>2</sup> by ACSI has indicated that average salaries for CEOs in the ASX100 were as high as 23 times the average adult earnings.

***iv. Long term incentive scheme dilution***

In previous years, due to the low trading volumes in our shares, the Company issued new shares for LTI share grants. The issue of additional shares dilutes existing shareholders. Given the increase in trading volumes, the Board now considers it appropriate that new LTI share grants are purchased on market over a period of time, subject to liquidity constraints. The Board will retain the discretion to issue new shares to top up the LTI grant if required.

<sup>1</sup> Australian Bureau of Statistics, Average Weekly Earnings May 2018

<sup>2</sup> Australian Council of Superannuation Investors (ACSI) Annual Survey of S&P/ASX200 Chief Executive Remuneration July 2018

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**Proposed Changes to the Remuneration Structure**

After considering the Guerdon report and shareholder feedback, the PRNC considered various options and resolved to recommend the following changes to the remuneration structure to the Board. As a result, the Board has decided to adopt the following changes with effect from the 2018-2019 financial year:

- LTI shares will generally be purchased on market subject to trading parameters set by the Board and held on trust for employees. This is specifically designed to address concerns raised by some shareholders that issuing shares has a dilutive effect on their holdings;
- The 3-year diluted EPS growth hurdle will apply to all LTI incentive shares to fully align to shareholders; and
- The Board has strengthened the malus provisions with respect to incentive grants.

## 4. Senior Management Team Remuneration Outcomes

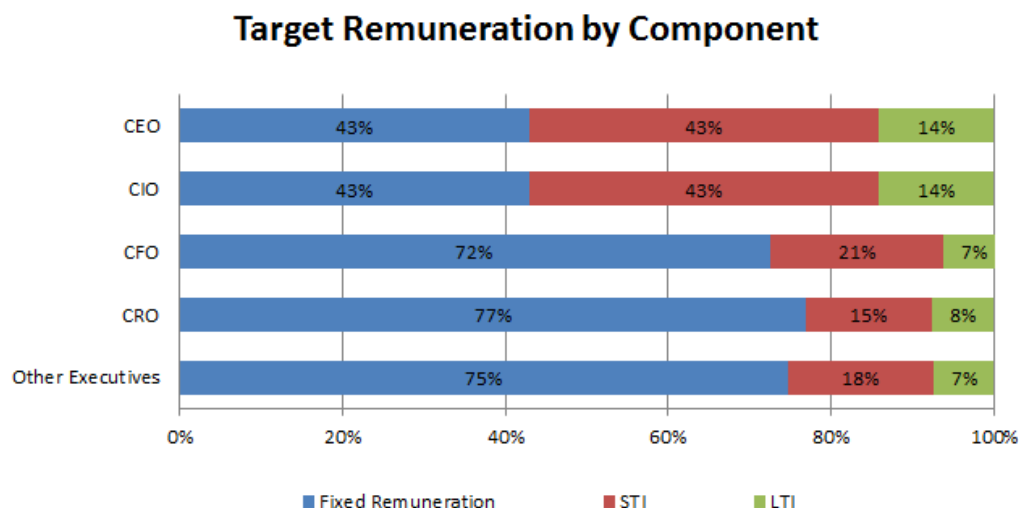
### Corporate performance

In considering the Company's short and long term incentive payments, regard is had to the following measures:

	2014	2015	2016	2017	2018
Net Profit After Tax attributable to shareholders (\$'000)	2,543	1,970	3,010	2,920	4,998
Underlying Profit After Tax (\$'000)	3,111	2,454	3,821	4,235	4,998
Diluted Earnings Per Share (\$ per share)	2.41	1.80	2.88	2.62	4.46
Diluted Earnings Per Share growth (3 years)	-	66.1%	38.5%	2.8%	35.2%
Share price at end of period (\$)	35.45	58.80	81.11	94.60	135.00
Dividends (cents per share)	200	200	300	260	400
Total shareholder return (TSR)	92%	72%	42%	19%	47%

### Weighting of remuneration components

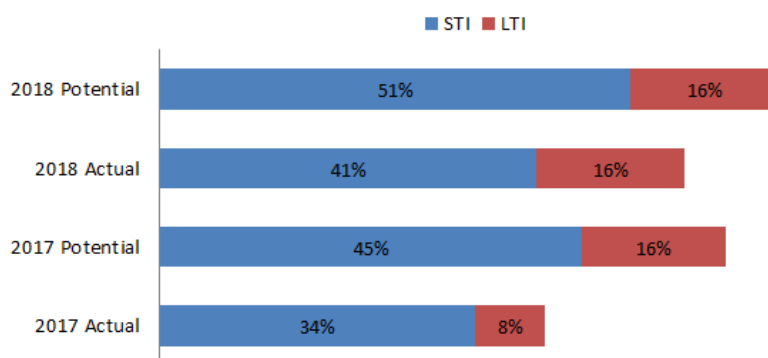
The following are the weightings of the various components of maximum remuneration for certain KMPs.



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The below is the actual incentive compensation received by senior management team in relation to the maximum incentive compensation they were entitled to.

**Potential vs Actual Incentive Compensation  
by Component**



The following two tables set out senior management team remuneration.

- The table 'Senior Management Team Remuneration Outcomes – Statutory Basis' is aligned to the way the Company expenses the remuneration of the senior team under the accounting standards and the Corporations Act.
- The table 'Senior Management Team Remuneration Outcomes – Cash and Vesting Basis' shows amounts received by the senior management team in cash and shares vested during the financial year.

As referenced in Section 3, shareholders voted against the grant of deferred shares to the CEO and Managing Director (Mr Phil Vernon) in respect of the 2017-2018 tranche of the long term incentive scheme. In the context of his total remuneration, the Board (meeting without Mr Vernon) decided to provide an alternative long term incentive payment of \$210,000 subject to the same vesting conditions (continuing employment and EPS growth hurdles). This amount will be expensed over three years and an additional column (Long Term Incentives – Cash) appears in the FY18 table below showing the expense of \$70,290 in respect of FY18.

The movement in the Senior Management Team remuneration outcomes (statutory basis) between FY2017 and FY2018 was driven by the following:

- New senior management roles during the year (Head of People & Culture) and senior management with either no entitlement or only pro-rata entitlement in the prior year (Head of People & Culture, Chief Risk Officer and Chief Customer Officer);
- Changes due to reorganisation of the CFO & COO role;
- Review and adjustment of short term reward percentages (Managing Director & CEO and Chief Investment Officer) after comparison to industry remuneration data and to ensure reward remains competitive and fair;
- Increase in short term incentives as a result of meeting performance objectives
- In 2017, the minimum EPS growth hurdle was not met, so 50% of the 2015 LTI share issuance did not vest, resulting in a reduced long term incentive expense – equity in respect of the CEO and the senior management team.

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**Senior Management Team Remuneration Outcomes – Statutory Basis**

The table below outlines senior management team remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements for the particular year based on the balanced scorecard.

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits				
Name	Title	Salary	Short Term Incentives <sup>1</sup> \$	Super-annuation \$	Termination Benefits \$	Long Service Leave \$	Long Term Incentives – Cash \$	Long Term Incentives – Equity <sup>2</sup> \$	Total \$	Performance Related %
2018 financial year										
Current management team										
P Vernon	Managing Director & CEO	408,319	342,762	20,049	-	11,308	70,290	104,754	957,482	54.1%
F Horan (joined as KMP 2 October 2017)	Head of People & Culture	161,949	32,199	15,385	-	3,712	-	-	213,245	15.1%
K Hughes	Chief Risk Officer	239,951	43,368	20,049	-	5,000	-	10,091	318,459	16.8%
A Lowbridge	Chief Customer Officer	279,951	71,084	20,049	-	5,769	-	23,000	399,853	23.5%
D Macri	Chief Investment Officer	328,091	275,621	20,049	-	2,012	-	139,337	765,110	54.2%
T May	General Counsel & Company Secretary	211,538	29,273	20,049	-	7,274	-	29,523	297,657	19.8%
S Palmer	Head of Ethics Research	258,537	48,126	20,049	-	6,271	-	28,511	361,494	21.2%
R Plow (app 30 January 2018)	Chief Operating Officer	112,954	31,464	8,294	-	2,387	-	9,600	164,699	24.9%
M Simons (app 30 January 2018)	Chief Financial Officer	111,054	31,464	8,294	-	2,387	-	12,120	165,319	26.4%
Departed Management										
M Shanahan (dep 24 April 2018)	CFO & COO	307,745	33,153	20,049	77,274	-	-	59,445	497,666	18.6%
Total 2018		2,420,089	938,514	172,316	77,274	46,120	70,290	416,381	4,140,984	34.4%

1. The Short Term Incentive (STI) expense is the amount accrued for performance during the respective financial year using agreed KPI's plus or minus any prior year over or under accrual. The 2018 amounts will be finalised at an individual level over August and September 2018 after performance reviews are completed and amounts are approved by the PRNC.
2. The Long term incentive (LTI) expense for 2018 includes the relevant 2018 expense impact of each of the 2016, 2017 and 2018 grants under the long term incentive plan. The cost of shares is fixed at time of grant and expensed over a three year period using an annual probability assessment of the hurdles being met. The 2015-2016 tranche will vest at an individual level in September 2018.

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**Senior Management Team Remuneration Outcomes – Statutory Basis (continued)**

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits				
Name	Title	Salary	Short Term Incentives \$	Super-annuation \$	Termination Benefits \$	Long Service Leave \$	Long Term Incentives – Cash \$	Long Term Incentives – Equity \$	Total \$	Performance Related %
2017 financial year										
Current management team										
P Vernon	Managing Director & CEO	394,432	199,006	19,616	-	19,703	-	41,502	674,259	35.7%
K Hughes (app 1 May 2017)	Chief Risk Officer	41,096	-	3,904	-	867	-	-	45,867	0.0%
A Lowbridge (app 10 Oct 2016)	Chief Customer Officer	188,541	45,395	16,267	-	4,384	-	7,000	261,587	20.0%
D Macri	Chief Investment Officer	314,898	127,650	19,616	-	11,243	-	39,798	513,205	32.6%
T May	General Counsel & Company Secretary	212,002	29,149	19,616	-	6,980	-	8,629	276,376	13.7%
S Palmer	Head of Ethics Research	227,780	43,594	19,616	-	8,659	-	7,730	307,379	16.7%
M Shanahan (app 3 Jan 2017)	CFO & COO	181,707	68,274	17,218	-	3,956	-	9,333	280,488	27.7%
Departed Management										
D Barton (dep 2 Sep 2016)	CFO	58,482	-	4,445	-	-	-	(19,918)	43,009	0.0%
A Kirk (dep 14 Oct 2016)	Head of Sales	157,648	34,458	21,842	90,990	21,940	-	10,366	337,244	13.3%
Total		1,776,586	547,526	142,140	90,990	77,732	-	104,440	2,739,414	23.8%



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**Senior Management Team Remuneration Outcomes – Cash and Vesting Basis**

The table below reflects actual benefits received by each KMP during the reporting period including prior year bonus paid in cash in the current year and the vesting of shares granted under the LTI deferred shares program three years previously.

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits			
Name	Title	Salary <sup>1</sup>	Cash Bonus \$	Super-annuation <sup>1</sup> \$	Termination Benefits <sup>1</sup> \$	Long Service Leave \$	Deferred Shares – Equity Vested <sup>2</sup> \$	Total \$	Performance Related %
<b>2018 financial year</b>									
<b>Current management team</b>									
P Vernon	Managing Director & CEO	408,319	166,320	20,049	-	11,308	138,123	744,119	40.9%
F Horan (app 2 October 2017)	Head of People & Culture	161,949	-	15,385	-	3,712	-	181,046	0.0%
K Hughes	Chief Risk Officer	239,951	-	20,049	-	5,000	-	265,000	0.0%
A Lowbridge	Chief Customer Officer	279,951	43,399	20,049	-	5,769	-	349,170	12.4%
D Macri	Chief Investment Officer	328,091	169,678	20,049	-	2,012	132,511	652,341	46.3%
T May	General Counsel & Company Secretary	211,538	15,786	20,049	-	7,274	28,747	283,394	15.7%
S Palmer	Head of Ethics Research	258,537	32,546	20,049	-	6,271	21,875	339,278	16.0%
R Plow (app 30 January 2018)	Chief Operating Officer	112,954	-	8,294	-	2,387	-	123,635	0.0%
M Simons (app 30 January 2018)	Chief Financial Officer	111,054	-	8,294	-	2,387	-	121,733	0.0%
<b>Departed Management</b>									
M Shanahan (dep 24 Apr 2018)	CFO & COO	307,745	92,649	20,049	77,274	0	100,396	598,113	32.3%
<b>Total 2018</b>		2,420,089	520,378	172,316	77,274	46,120	421,652	3,657,829	25.8%

1. Fixed remuneration – includes base salary, payments made to superannuation funds, taxable value of non-monetary benefits received, and one-off termination payments.

2. Long term incentives – the market value of vested shares during the financial year relating to deferred shares granted in relation to the 2014/2015 financial year. The market value on vesting date was \$114.53 (price at grant was \$42.80).

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**Senior Management Team Remuneration Outcomes – Cash and Vesting Basis (continued)**

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits			
Name	Title	Salary	Cash Bonus \$	Super-annuation \$	Termination Benefits \$	Long Service Leave \$	Deferred Shares – Equity Vested <sup>3</sup> \$	Total \$	Performance Related %
<b>2017 financial year</b>									
<b>Current management team</b>									
P Vernon	Managing Director & CEO	394,432	117,036	19,616	-	19,703	327,441	878,228	50.6%
K Hughes (app 1 May 2017)	Chief Risk Officer	41,096	-	3,904	-	867	-	45,867	0.0%
A Lowbridge (app 10 Oct 2016)	Chief Customer Officer	188,541	-	16,267	-	4,384	-	209,192	0.0%
D Macri	Chief Investment Officer	314,898	118,453	19,616	-	11,243	261,418	725,628	52.4%
T May	General Counsel & Company Secretary	212,002	25,764	19,616	-	6,980	58,399	322,761	26.1%
S Palmer	Head of Ethics Research	227,780	32,606	19,616	-	8,659	-	288,661	11.3%
M Shanahan (app 3 Jan 2017)	CFO & COO	181,707	-	17,218	-	3,956	-	202,881	0.0%
<b>Departed Management</b>									
D Barton (resigned 2 Sep 2016)	CFO	58,482	-	4,445	-	-	-	62,927	0.0%
A Kirk (resigned 14 Oct 2016)	Head of Sales	157,648	34,458	21,842	90,990	21,940	97,532	424,410	31.1%
<b>Total 2017</b>		<b>1,776,586</b>	<b>328,317</b>	<b>142,140</b>	<b>90,990</b>	<b>77,732</b>	<b>744,790</b>	<b>3,160,555</b>	<b>34.0%</b>

3. The Settled Share Based Payment amounts for 2017 relates to performance rights issued in the years prior to the introduction of the current Deferred Shares plan. The values represent the market value of the shares on the day that the relevant performance rights were converted into ordinary shares. For 2017 this reflects a price at vesting of \$81.11 per share (price at grant was \$35.45).

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**Unvested and Ordinary Shares**

The movement during the reporting period in the number of unvested shares and ordinary shares in the Company, held directly, or beneficially, by each key management person, including their related parties is as follows:

Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2017	No. of shares granted	No. of shares forfeited/ expired <sup>1</sup>	No. of shares vested	No. of shares sold	Balance at 30 June 2018
<b>Managing Director &amp; CEO</b>									
<b>P Vernon</b>									
Unvested	13-Mar-15	1-Sept-17	42.80	1,206	-	-	(1,206)	-	-
Unvested	31-Aug-15	1-Sep-18	53.97	1,913	-	-	-	-	1,913
Unvested	31-Aug-16	1-Sep-19	68.34	1,556	-	-	-	-	1,556
Ordinary shares				13,449	-	-	1,206	(2,356)	12,299
<b>Total</b>				<b>18,124</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,356)</b>	<b>15,768</b>
<b>Current Management</b>									
<b>F Horan</b>				-	-	-	-	-	-
<b>Total</b>				-	-	-	-	-	-
<b>K Hughes</b>									
Unvested	31-Aug-17	1-Sep-20	88.73	-	341	-	-	-	341
<b>Total</b>				-	<b>341</b>	-	-	-	<b>341</b>
<b>A Lowbridge</b>									
Unvested	31-Aug-16	1-Sep-19	68.34	465	-	-	-	-	465
Unvested	31-Aug-17	1-Sep-20	88.73	-	338	-	-	-	338
<b>Total</b>				<b>465</b>	<b>338</b>	-	-	-	<b>803</b>
<b>D Macri</b>									
Unvested	13-Mar-15	1-Sept-17	42.80	1,157	-	-	(1,157)	-	-
Unvested	31-Aug-15	1-Sep-18	53.97	1,834	-	-	-	-	1,834
Unvested	31-Aug-16	1-Sep-19	68.34	1,492	-	-	-	-	1,492
Unvested	31-Aug-17	1-Sep-20	88.73	-	1,315	-	-	-	1,315
Ordinary shares				1,976	-	-	1,157	(1,976)	1,157
<b>Total</b>				<b>6,459</b>	<b>1,315</b>	-	-	<b>(1,976)</b>	<b>5,798</b>
<b>T May</b>									
Unvested	13-Mar-15	1-Sept-17	42.80	251	-	-	(251)	-	-
Unvested	31-Aug-15	1-Sep-18	53.97	398	-	-	-	-	398
Unvested	31-Aug-16	1-Sep-19	68.34	324	-	-	-	-	324
Unvested	31-Aug-17	1-Sep-20	88.73	-	262	-	-	-	262
Ordinary shares				-	-	-	251	(251)	-
<b>Total</b>				<b>973</b>	<b>262</b>	-	-	<b>(251)</b>	<b>984</b>
<b>S Palmer</b>									
Unvested	13-Mar-15	1-Sept-17	42.80	191	-	-	(191)	-	-
Unvested	31-Aug-15	1-Sep-18	53.97	341	-	-	-	-	341
Unvested	31-Aug-16	1-Sep-19	68.34	294	-	-	-	-	294
Unvested	31-Aug-17	1-Sep-20	88.73	-	316	-	-	-	316
Ordinary shares				149	-	-	191	(340)	-
<b>Total</b>				<b>975</b>	<b>316</b>	-	-	<b>(340)</b>	<b>951</b>
<b>R Plow</b>									
Unvested	31-Aug-17	1-Sep-20	88.73	-	325	-	-	-	325
<b>Total</b>				-	<b>325</b>	-	-	-	<b>325</b>
<b>M Simons</b>									
Unvested	31-Aug-17	1-Sep-20	88.73	-	410	-	-	-	410
<b>Total</b>				-	<b>410</b>	-	-	-	<b>410</b>
<b>Departed management</b>									
<b>M Shanahan</b>									
Unvested	3-Jan-17	24-Apr-18	68.34	856	-	(436)	(420)	-	-
Unvested	31-Aug-17	24-Apr-18	88.73	-	1,352	(1,006)	(346)	-	-
Ordinary shares				-	-	-	766	(766)	-
<b>Total</b>				<b>856</b>	<b>1,352</b>	<b>(1,442)</b>	-	<b>(766)</b>	-

<sup>1</sup> The forfeited shares in the 31 March 2015 grant were recorded in the 2017 remuneration report.

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**Contract terms**

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

	<b>Term</b>	<b>Notice period</b>
Managing Director	3 years concluding on 31 March 2019	52 weeks before the Contract expiry date, the Company may terminate the Managing Director's employment or the Managing Director may resign, 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 Director's employment or the Managing Director may resign by giving notice to the expiry date.
Management team	No fixed term	12 weeks

#### **4. Non-Executive Director Arrangements**

In addition to fixed remuneration, Non-Executive Directors (NEDs) are entitled to be paid reasonable expenses, remuneration for additional services and superannuation contributions. Non-executive Directors are not eligible to participate in employee incentive plans and the Chairman of Australian Ethical Superannuation Ltd (AES) does not receive any additional fees for chairing this Board.

The director fee pool available for payment to non-executive directors of the Company is approved by shareholders. At the AGM in October 2017, an increase in the maximum annual aggregate pool limit to \$540,000 was approved. A review of Non-Executive Directors' remuneration is undertaken annually by the Company Board, taking into account recommendations from the People, Remuneration and Nominations committee.

All directors are directors of Australian Ethical Investment Limited, Australian Ethical Superannuation Pty Ltd, Australian Ethical Foundation Limited and members of each Board's Audit, Compliance and Risk Committee (ACRC) and the People, Remuneration and Nominations Committee (PRNC), with the exception of Ms Orr who sits on the Board of AEI and AEI's PRNC only.

The following table sets out the agreed remuneration for Non-Executive Directors by position for a full year, with effect from 1 December 2017.

	<b>AEI \$</b>	<b>AES \$</b>	<b>AEF \$</b>
<b>Base fees</b>			
Chair	77,000	25,850	-
Other non-executive directors	44,000	25,850	-
<b>Additional fees</b>			
ACRC – chair	15,400	15,400	-
ACRC – member	8,800	8,800	-
PRN – chair	-	-	-
PRN - member	-	-	-

Non-executive directors do not receive performance-related compensation and are not provided with retirement benefits apart from statutory superannuation.

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**Non-Executive Directors remuneration**

The table below outlines Non-Executive reward as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements.

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits		
Name	Salary, Fees and Leave	Cash Bonus	Super-annuation	Termination Benefits	Long Service Leave	Long Term Incentives - Equity	Total
	\$	\$	\$	\$	\$	\$	\$
<b>2018</b>							
S Gibbs	105,833	-	10,054	-	-	-	115,887
K Greenhill	88,436	-	8,401	-	-	-	96,837
M Bun	76,838	-	7,300	-	-	-	84,138
M Monaghan (appointed 22 Sep 2017)	60,363	-	5,734	-	-	-	66,097
J Orr (appointed 20 Feb 2018) <sup>1</sup>	14,476	-	1,375	-	-	-	15,851
<b>Total</b>	<b>345,946</b>	<b>-</b>	<b>32,864</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>378,810</b>
<b>2017</b>							
S Gibbs	99,201	-	9,424	-	-	-	108,625
T Cole (resigned 30 Jun 2017)	71,804	-	6,821	-	-	-	78,625
K Greenhill	82,763	-	7,862	-	-	-	90,625
M Bun	71,804	-	6,821	-	-	-	78,625
<b>Total</b>	<b>325,572</b>	<b>-</b>	<b>30,928</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>356,500</b>

1. J Orr is a director of AEI Limited (appointed 20 February 2018) and a member of AEI's People, Remuneration & Nominations Committee (appointed 28 May 2018).

**Shares owned by Non- Executive Directors**

Name	Purchase Date	Balance at 1 July 2017	No. of shares purchased	No. of shares sold	Balance at 30 June 2018
<b>Non-Executive Directors</b>					
<b>M Bun</b>					
AEF Ordinary shares	13-Nov-17	-	570	-	570
<b>Total</b>		<b>-</b>	<b>570</b>	<b>-</b>	<b>570</b>

## **5. Governance**

### **The Role of the People, Remuneration and Nominations Committee (PRNC)**

The role of the PRNC is to help the Board fulfil its responsibilities to shareholders through a strong focus on governance and in particular, the principles of accountability and transparency. The PRNC operates under delegated authority from the Board.

The terms of reference include oversight of remuneration as well as executive development, talent management and succession planning.

The PRNC members for the 2017/18 financial year were:

- Stephen Gibbs (Chair);
- Mara Bun;
- Kate Greenhill;
- Michael Monaghan (appointed 22 September 2017); and
- Julie Orr (appointed 28 May 2018)

The PRNC met eight times during the year. Attendance at these meetings is set out in the Directors' Report. At the PRNC's invitation, the Managing Director and Head of People and Culture attended all meetings except where matters were associated with their own performance evaluation, development and remuneration were to be considered. The PRNC considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including remuneration consultants.

Annually, an assessment is made on the eligibility for vesting of deferred shares issued under the Long Term Incentive Scheme.

### **Malus Provisions**

The Board has the discretion to reduce or forfeit awards where:

- the participant has acted fraudulently or dishonestly or is in breach of their obligations to the Company;
- the Company becomes aware of material misstatement or omission in the financial statements of the Company; or
- circumstances occur that the Board determines to have resulted in unfair or inappropriate benefit to the recipient.

### **Managing Director (MD) and KMP Performance**

The Managing Director is responsible for reviewing the performance of Executives and determining whether their performance requirements were met. Both quantitative and qualitative data is used to determine whether performance criteria are achieved.

An annual assessment of the MD is completed by the Chairman and is overseen by the Board, with input from the PRNC. The review includes measurement of performance against agreed KPI's and Company performance. The PRNC also has oversight of KMP performance.

### **Hedging Policy**

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.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Remuneration Report**  
**For the year ended 30 June 2018**

**Trading Restrictions and Windows**

All directors and employees are constrained from trading the Company during “blackout periods”. These periods occur between the end of the half year and full year and two days after the release of the half year and full year results. The Directors report, incorporating the Remuneration report, is signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'S. P. Gibbs' with a stylized flourish at the end.

Stephen Gibbs  
Chair  
People, Remuneration & Nominations Committee (PRNC)  
23 August 2018



## 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 of Australian Ethical Investment Limited for the financial year ended 30 June 2018 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

KPMG

Kopri

Karen Hopkins

Partner

Sydney

23 August 2018



## **Australian Ethical Investment Limited and its Controlled Entities**

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### **General information**

The consolidated financial statements were authorised for issue, in accordance with a resolution of Directors, on 23 August 2018. The Directors have the power to amend and reissue the financial statements.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Statements of comprehensive income**  
**For the year ended 30 June 2018**

		<b>Consolidated</b>		<b>Parent</b>	
	<b>Note</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Revenue</b>	5	35,992	28,305	29,491	22,230
Total revenue		35,992	28,305	29,491	22,230
<b>Expenses</b>					
<b>Operating expenses</b>					
Employee benefits	6	(14,207)	(10,239)	(13,741)	(9,950)
Fund related	7	(5,285)	(4,405)	(1,503)	(1,384)
Marketing		(3,356)	(2,023)	(3,354)	(2,024)
External services	8	(1,796)	(2,239)	(1,452)	(1,781)
Occupancy		(808)	(906)	(808)	(906)
Community grants	10	(620)	(380)	(710)	(379)
Depreciation and amortisation		(350)	(284)	(350)	(284)
Other operating expenses	9	(2,172)	(1,834)	(2,059)	(1,736)
Total operating expenses		(28,594)	(22,310)	(23,977)	(18,444)
<b>Non-operating expenses</b>					
Remediation expense		-	(1,955)	-	(1,894)
Loss on disposal of assets		-	(210)	-	(210)
Reversal of impairment of investment property		-	228	-	228
Total non-operating expenses		-	(1,937)	-	(1,876)
Total expenses		(28,594)	(24,247)	(23,977)	(20,320)
<b>Profit before income tax expense</b>		7,398	4,058	5,514	1,910
Income tax expense	11	(2,317)	(1,134)	(793)	(77)
<b>Net profit for the year</b>		5,081	2,924	4,721	1,833
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Loss on revaluation of investments		(2)	-	-	-
Other comprehensive income for the year, net of tax		(2)	-	-	-
<b>Total comprehensive income for the year #</b>		<b>5,079</b>	<b>2,924</b>	<b>4,721</b>	<b>1,833</b>
		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share *	38	466.67	269.98		
Diluted earnings per share *	38	453.60	262.25		

# Comprehensive income includes the results of The Foundation (refer to Note 41)

\* Refer to Note 38 for additional EPS calculations

*The above statements of comprehensive income should be read in conjunction with the accompanying notes*

**Australian Ethical Investment Limited and its Controlled Entities**  
**Statements of financial position**  
**As at 30 June 2018**

		Consolidated		Parent	
	Note	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	12	16,484	12,591	13,412	8,613
Trade and other receivables	13	848	963	526	1,794
Income tax refund due	11	-	303	-	303
Other	14	372	350	293	306
		<u>17,704</u>	<u>14,207</u>	<u>14,231</u>	<u>11,016</u>
Investment property held for sale	15	1,610	1,610	1,610	1,610
Total current assets		<u>19,314</u>	<u>15,817</u>	<u>15,841</u>	<u>12,626</u>
<b>Non-current assets</b>					
Property, plant and equipment	18	1,814	2,060	1,814	2,060
Deferred tax	11	1,449	902	1,359	810
Term deposit	19	504	504	504	504
Investments in subsidiary	16	-	-	316	316
Investments	17	80	-	2	-
Total non-current assets		<u>3,847</u>	<u>3,466</u>	<u>3,995</u>	<u>3,690</u>
<b>Total assets</b>		<u>23,161</u>	<u>19,283</u>	<u>19,836</u>	<u>16,316</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	20	3,357	2,557	2,512	1,895
Employee benefits	21	2,855	1,727	2,855	1,727
Income tax	11	752	-	752	-
Provisions	22	-	207	-	26
Total current liabilities		<u>6,964</u>	<u>4,491</u>	<u>6,119</u>	<u>3,648</u>
<b>Non-current liabilities</b>					
Trade and other payables	23	438	547	438	547
Employee benefits	24	216	104	216	104
Provisions	25	234	228	234	228
Total non-current liabilities		<u>888</u>	<u>879</u>	<u>888</u>	<u>879</u>
<b>Total liabilities</b>		<u>7,852</u>	<u>5,370</u>	<u>7,007</u>	<u>4,527</u>
<b>Net assets</b>		<u>15,309</u>	<u>13,913</u>	<u>12,829</u>	<u>11,789</u>
<b>Equity</b>					
Issued capital	26	10,204	9,923	10,204	9,923
Reserves	27	1,251	1,012	1,253	1,012
Retained profits		<u>3,854</u>	<u>2,978</u>	<u>1,372</u>	<u>854</u>
<b>Total equity</b>		<u>15,309</u>	<u>13,913</u>	<u>12,829</u>	<u>11,789</u>

*The above statements of financial position should be read in conjunction with the accompanying notes*

**Australian Ethical Investment Limited and its Controlled Entities**  
**Statements of changes in equity**  
**For the year ended 30 June 2018**

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Employee share plan reserve \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	8,693	1,929	2,621	13,243
Profit after income tax expense for the year	-	-	2,924	2,924
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	2,924	2,924
<i>Transactions with owners in their capacity as owners:</i>				
Dividends provided for or paid	-	-	(2,567)	(2,567)
Shares issued due to rights vesting during the year	1,201	(1,201)	-	-
Shares vesting during the year	28	(28)	-	-
Employee share scheme - Deferred shares	-	312	-	312
Balance at 30 June 2017	9,923	1,012	2,978	13,913

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Employee share plan reserve \$'000</b>	<b>Available-for-sale reserve \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	9,923	1,012	-	2,978	13,913
Profit after income tax expense for the year	-	-	-	5,081	5,081
Other comprehensive income for the year, net of tax	-	-	-	(2)	(2)
Total comprehensive income for the year	-	-	-	5,079	5,079
<i>Transactions with owners in their capacity as owners:</i>					
Dividends provided for or paid	-	-	-	(4,203)	(4,203)
Shares vesting during the year	281	(281)	-	-	-
Employee share scheme - Deferred shares	-	522	-	-	522
Revaluation of investments	-	-	(2)	-	(2)
Balance at 30 June 2018	10,204	1,253	(2)	3,854	15,309

*The above statements of changes in equity should be read in conjunction with the accompanying notes*

**Australian Ethical Investment Limited and its Controlled Entities**  
**Statements of changes in equity**  
**For the year ended 30 June 2018**

<b>Parent</b>	<b>Issued capital \$'000</b>	<b>Share-based payment Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	8,693	1,929	1,588	12,210
Profit after income tax expense for the year	-	-	1,833	1,833
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	1,833	1,833
<i>Transactions with owners in their capacity as owners:</i>				
Dividends provided for or paid	-	-	(2,567)	(2,567)
Shares issued due to rights vesting during the year	1,201	(1,201)	-	-
Shares vesting during the year	28	(28)	-	-
Employee share scheme - Deferred shares	-	312	-	312
Balance at 30 June 2017	<u>9,923</u>	<u>1,012</u>	<u>854</u>	<u>11,789</u>
<b>Parent</b>	<b>Issued capital \$'000</b>	<b>Share-based payment Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	9,923	1,012	854	11,789
Profit after income tax expense for the year	-	-	4,721	4,721
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	4,721	4,721
<i>Transactions with owners in their capacity as owners:</i>				
Dividends provided for or paid	-	-	(4,203)	(4,203)
Shares vesting during the year	281	(281)	-	-
Employee share scheme - Deferred shares	-	522	-	522
Balance at 30 June 2018	<u>10,204</u>	<u>1,253</u>	<u>1,372</u>	<u>12,829</u>

*The above statements of changes in equity should be read in conjunction with the accompanying notes*

**Australian Ethical Investment Limited and its Controlled Entities**  
**Statements of cash flows**  
**For the year ended 30 June 2018**

		Consolidated		Parent	
	Note	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		35,664	27,617	30,761	18,850
Payments to suppliers and employees		(25,664)	(22,573)	(24,203)	(18,087)
Rental income received		205	157	205	157
Interest received		237	257	194	210
Community grants paid		(320)	(280)	(379)	(395)
Income taxes paid		(1,809)	(1,919)	(690)	(857)
Net cash from/(used in) operating activities	37	8,313	3,259	5,888	(122)
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment	18	(135)	(1,921)	(135)	(1,921)
Payment for term deposit		-	(504)	-	(504)
Payment for purchase of advocacy shares		(2)	-	(2)	-
Payment for purchase of SVA unit trusts		(80)	-	-	-
Dividends received from subsidiary		-	-	3,251	1,378
Net cash from/(used in) investing activities		(217)	(2,425)	3,114	(1,047)
<b>Cash flows from financing activities</b>					
Dividends paid	28	(4,203)	(2,567)	(4,203)	(2,567)
Net cash used in financing activities		(4,203)	(2,567)	(4,203)	(2,567)
Net increase/(decrease) in cash and cash equivalents		3,893	(1,733)	4,799	(3,736)
Cash and cash equivalents at the beginning of the financial year		12,591	14,324	8,613	12,349
Cash and cash equivalents at the end of the financial year	12	16,484	12,591	13,412	8,613

*The above statements of cash flows should be read in conjunction with the accompanying notes*

**Australian Ethical Investment Limited and its Controlled Entities**  
**Notes to the financial statements**  
**30 June 2018**

**Note 1. About this report**

The financial report covers the consolidated entity of Australian Ethical Investment Limited, the ultimate parent entity, and its wholly owned subsidiaries (together referred to as the 'Group' and individually as 'Group entities') and Australian Ethical Investment Limited as an individual parent entity. The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. Australian Ethical Investment Limited is a listed public company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

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

The Group's registered office is at Level 8, 130 Pitt Street, Sydney NSW 2000.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 August 2018. The directors have the power to amend and reissue the financial statements.

**Note 2. Significant accounting policies**

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

**Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*

The financial statements have been prepared under the accruals basis and are based on historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets at fair value through other comprehensive income, and financial assets and liabilities at fair value through profit or loss.

*Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

**Parent entity information**

These financial statements include the results of both the parent entity and the Group in accordance with Class Order 10/654, issued by the Australian Securities and Investments Commission.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Ethical Investments Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 2. Significant accounting policies (continued)**

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Rounding of amounts**

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

**Comparatives**

Comparative information has been reclassified to be consistent with current reporting period. The reclassifications relate to movements between fund related expenses, external services, employee benefits, marketing and other expenses.

Fund related expenses increased by \$227k in both the Consolidated and Parent accounts.

External services decreased by \$278k in both the Consolidated and Parent accounts.

Employee benefits increased by \$54k in both the Consolidated and Parent accounts.

Marketing expenses decreased by \$16k in the Consolidated accounts and \$9k in the Parent accounts.

Other operating expenses increased by \$13k in the Consolidated accounts and \$6k in the Parent accounts.

The total amount of reclassifications did not change the total expenses in the profit or loss statement.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, relevant to the Group, are set out below.

*AASB 9 Financial Instruments*

This standard will apply to annual reporting periods beginning 1 July 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets, financial liabilities, and new hedge accounting rules.

The Group expects the new guidance to have an impact on the classification and measurement of the following financial assets:

- Unlisted unit trusts acquired by the Group's Foundation currently classified as held-to-maturity and measured at fair value with changes in fair value recognised in Other Comprehensive Income, will be reclassified as fair value through other comprehensive income (FVOCI) equity instruments. The financial instruments are not held for trading and hence the Group has elected to take the revaluation to fair value through Other Comprehensive Income. No adjustments are expected to be booked to the opening retained earnings on 1 July 2018.
- Equity shares acquired by the Group for advocacy purposes classified as available for sale and measured at fair value with changes in fair value recognised in Other Comprehensive Income will be reclassified as fair value through Other Comprehensive Income (FVOCI) equity instruments. The Group has elected to take the revaluation to fair value through Other Comprehensive Income.

The new accounting standard requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. Based on historical financial performance and the size of the financial assets, these new requirements are not expected to have a material impact.



**Note 2. Significant accounting policies (continued)**

*AASB 15 Revenue from Contracts with Customers*

This standard will apply to annual reporting periods beginning 1 July 2018. The standard provides a single standard for revenue recognition replacing both AASB 118 'Revenue' and AASB 111 'Construction Contracts'. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard redefines the model for recognising revenue earned from a contract. In addition to giving consideration to credit risk and contracts where performance obligations are satisfied over time, the new standard also requires additional disclosures in both quantitative and qualitative forms.

Based on the Company analysis performed, the amendments are not expected to have a material impact on the Group as currently revenues are recognised or accrued when services have been provided and when there is certainty with regards to the recoverability of the fees. The only revenue to which the standard has a potential impact is the performance fee on the Emerging Companies' fund where the amount of consideration is variable. AEI does not accrue performance fees throughout the year as the fee receivable fluctuates in line with fund performance and only crystallises this at the end of the financial year. Performance fees are therefore variable consideration that has been constrained to nil as it is not until the performance is known at year end that it is highly probable that a significant reversal will not occur. Accordingly, the Group does not expect any material impact from the application of the new accounting standard.

*AASB 16 Leases*

This standard will apply to annual reporting periods beginning 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

The standard will affect primarily the accounting policy for the Group's operating leases with leases recognised on the balance sheet. However, the Group has not yet determined to what extent the Group's profits each year will be impacted over the term of the lease and the classification of cash flows.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**Note 3. Critical accounting judgements, estimates and assumptions**

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

*Share-based payment transactions - refer to Note 39*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a 90-day VWAP price at the date the shares are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities but will impact profit or loss and equity.

*Estimation of useful lives of assets - refer to Note 18*

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Notes to the financial statements**  
**30 June 2018**

**Note 3. Critical accounting judgements, estimates and assumptions (continued)**

*Income tax - refer to Note 11*

The Group is subject to income taxes in the jurisdictions in which it operates. Estimation is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

*Employee benefits provision - refer to Note 24*

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Lease make good provision - refer to Note 25*

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

**Note 4. Business segments**

An operating segment is a component of the Group 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 Group's other components. The Group comprises of one main operating segment being Funds Management.

**Note 5. Revenue**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Management and performance fees (net of rebates)	26,648	20,921	25,842	20,482
Member and withdrawal fees	3,280	2,662	-	-
Administration fees (net of Operational Risk Financial Reserve contributions)	5,622	4,306	-	-
Interest income	237	259	193	213
Rental income	205	157	205	157
Dividends	-	-	3,251	1,378
Revenue	<u>35,992</u>	<u>28,305</u>	<u>29,491</u>	<u>22,230</u>

*Recognition and measurement*

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Fee revenue*

Fee revenue is earned from provision of funds management services to customers outside the Group. Revenue is recognised when services are provided.

The superannuation administration fee entitlement in accordance with the Product Disclosure Statement ('PDS') is net of \$1,170k (2017: \$753k) paid directly to the Operational Risk Financial Reserve ('ORFR') of the superannuation fund.

*Dividends*

Dividends are recognised as revenue when the right to receive payment is established.

*Interest income*

Interest revenue is recognised as interest accrues using the effective interest method.

**Australian Ethical Investment Limited and its Controlled Entities**  
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**Note 5. Revenue (continued)**

*Rental income*

Rental income is recognised using the straight line method over the term of the lease.

**Note 6. Employee benefits**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employee remuneration	13,474	9,683	13,140	9,520
Directors fees	373	356	241	230
Other employment costs	360	200	360	200
	<u>14,207</u>	<u>10,239</u>	<u>13,741</u>	<u>9,950</u>

*Recognition and measurement*

Employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of 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 is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

**Note 7. Fund related**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Administration and custody fees	4,597	3,738	956	834
Licence fees	434	440	293	323
Ethical research and other fund related	254	227	254	227
	<u>5,285</u>	<u>4,405</u>	<u>1,503</u>	<u>1,384</u>

*Recognition and measurement*

Expenses are recognised at the fair value of the consideration paid or payable for services received.

**Note 8. External services**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Audit and accounting	831	638	623	331
Consultants	310	442	220	318
Legal services	181	245	175	232
Other	474	914	434	900
	<u>1,796</u>	<u>2,239</u>	<u>1,452</u>	<u>1,781</u>

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**Note 9. Other operating expenses**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
IT	1,439	1,148	1,439	1,161
Insurance	208	157	118	79
Travel	181	238	181	238
Subscriptions and listing	128	106	128	106
Printing and postage	102	46	86	39
Other	114	139	107	113
	<u>2,172</u>	<u>1,834</u>	<u>2,059</u>	<u>1,736</u>

**Note 10. Community grants**

The Group'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:

- 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% of what the profit for that year would have been had the bonus or incentive payment not been deducted.
- gifted or provisioned for gifting an amount equivalent to 10% of what the profit for that year would have been had the above mentioned bonus and amount gifted not been deducted.

Community grants to third parties amounting to \$620,000 (2017: \$380,000) have been provided for in the current year (refer to Note 20). In the parent entity, \$710k has been expensed and will be paid to The Foundation.

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**Note 11. Income tax**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>				
Current tax	2,721	1,122	1,207	246
Deferred tax - origination and reversal of temporary differences	(547)	12	(549)	(169)
Adjustment recognised for prior periods	12	-	12	-
Adjustment due to change in income tax rate	131	-	123	-
	<u>2,317</u>	<u>1,134</u>	<u>793</u>	<u>77</u>
Aggregate income tax expense				
Deferred tax included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets	(547)	12	(549)	(169)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>				
Profit before income tax expense	7,398	4,058	5,514	1,910
Tax at the statutory tax rate of 30%	2,219	1,217	1,654	573
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Profit in relation to The Foundation not subject to tax	(24)	(2)	-	-
Reversal of impairment of property, plant and equipment	-	(68)	-	(68)
Non-taxable intercompany dividends from Australian Ethical Superannuation Pty Limited (AES)	-	-	(975)	(413)
Other non-taxable items	(21)	(13)	(21)	(15)
Adjustment due to change in income tax rate	131	-	123	-
	<u>2,305</u>	<u>1,134</u>	<u>781</u>	<u>77</u>
Adjustment recognised for prior periods	12	-	12	-
Income tax expense	<u>2,317</u>	<u>1,134</u>	<u>793</u>	<u>77</u>

As at year end, the carrying value of deferred tax assets and liabilities were revalued as a result of the change in income tax rate from 30.0% to 27.5% which takes effect from 1 July 2018.

The applicable weighted average effective tax rate for the consolidated group is 31.3% (2017: 27.9%) and for the parent entity is 14.4% (2017: 4.0%).

The effective tax rate for the consolidated group increased due to the adjustment against deferred tax assets and liabilities for the change in the tax rate with effect from 1 July 2018 (29.5% without tax adjustment). The parent entity effective tax rate is lower than the consolidated group due to the receipt of fully franked intercompany dividends from its subsidiary, Australian Ethical Superannuation Pty Limited.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Amounts recognised directly in equity</i>				
Deferred tax: Employee share plan 2014/2015	-	98	-	98
Deferred tax: Employee share plan 2015/2016	35	83	35	83
Deferred tax: Employee share plan 2016/2017	48	167	48	167
Deferred tax: Employee share plan 2017/2018	78	-	78	-
	<u>161</u>	<u>348</u>	<u>161</u>	<u>348</u>

**Note 11. Income tax (continued)**

### Recognition and measurement

Australian Ethical Investment Limited and its wholly owned subsidiary, 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 tax assets and liabilities for the tax consolidated Group.

**Australian Ethical Investment Limited and its Controlled Entities**  
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**Note 11. Income tax (continued)**

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 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 Australian Taxation Office for group tax liabilities.

**Note 12. Current assets - cash and cash equivalents**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	118	108	112	102
Deposits at call	11,266	7,383	8,300	3,511
Term deposits	5,100	5,100	5,000	5,000
	<u>16,484</u>	<u>12,591</u>	<u>13,412</u>	<u>8,613</u>

*Recognition and measurement*

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Note 13. Current assets - trade and other receivables**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	<u>848</u>	<u>963</u>	<u>526</u>	<u>1,794</u>

*Recognition and measurement*

Trade and other receivables are initially recognised at fair value and are generally due for settlement within 30 days. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

There are currently no past due receivables as at 30 June 2018 (2017: nil).

**Note 14. Current assets - other**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Prepayments	<u>372</u>	<u>350</u>	<u>293</u>	<u>306</u>

**Note 15. Current assets - investment property held for sale**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Investment property held for sale	<u>1,610</u>	<u>1,610</u>	<u>1,610</u>	<u>1,610</u>

**Note 15. Current assets - investment property held for sale (continued)**

*Recognition and measurement*

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

In 2016, the Canberra premises (Trevor Pearcey House) ceased to be owner-occupied. As a result, the property asset (land and buildings) was remeasured to fair value and reclassified from Property, Plant and Equipment to Investment Property. Subsequently, the property was classified as held for sale as a result of the Group's intention to dispose of the property and the commencement of an active sales campaign.

Prior to its reclassification to assets classified as held for sale, the property was measured at cost less accumulated depreciation and impairment losses. The property and its fixtures and fittings are depreciated over their estimated useful life (5-40 years) on a straight-line basis. The asset is currently measured at the lower of carrying amount and fair value less costs of disposal (\$40k). The assets are not depreciated or amortised while they are classified as held for sale.

As at 30 June 2018, a valuation of the property was conducted in accordance with the Group's policy by Knight Frank (2017: Jones Lang LaSalle), independent valuers not related to the Group, to determine the fair value. The valuation was determined by reference to capitalisation of market rents and recent market transactions on arms' length terms. The property was valued at \$1.65m (2017: \$1.65m) and as a result the current carrying value is considered to be fair and not impaired.

**Note 16. Non-current assets - investments in subsidiary**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Investment in Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	-	-	316	316
Australian Ethical Foundation Limited	-	-	-	-

**Note 17. Non-current assets - investments**

During the period, The Foundation purchased an investment in the Social Ventures Australia (SVA)'s Diversified Impact Fund (DIF) unit trust, in line with the Australian Ethical Charter and the Objectives of The Foundation. The investments are funded by cash accumulated in The Foundation with the intention of being utilised for social impact investments.

SVA is a social purpose organisation that works with partners to improve the lives of people in need. They offer funding, investment and advice services to social impact organisations. The Foundation has committed to an overall investment of \$200,000 in the SVA DIF, of which \$80,000 was paid in the year ended 30 June 2018. The investment is revalued to fair value based on the Net Asset Value (NAV) unit price. Any revaluation is taken directly to the Available-for-sale reserve.

The Group also purchased nominal holdings of shares in listed entities that the Group would not normally invest in, in order to advocate change in these companies as a shareholder. The shares have been revalued to fair value through OCI at reporting date. Any dividends received on these investments are recognised in profit or loss.



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**Note 17. Non-current assets - investments (continued)**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Listed shares in Advocacy program	2	-	2	-
Investment in Social Impact programs	78	-	-	-
	<u>80</u>	<u>-</u>	<u>2</u>	<u>-</u>

*Reconciliation*

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	-	-	-	-
Additions	82	-	2	-
Revaluation decrements	(2)	-	-	-
Closing fair value	<u>80</u>	<u>-</u>	<u>2</u>	<u>-</u>

Refer to Note 30 for further information on fair value measurement.

*Recognition and measurement*

Investments, other than interests in subsidiaries or associates, are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets, principally equity securities that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the Available-for-sale reserve in equity. Cumulative gain or loss previously reported in the Available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

*Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the Available-for-sale reserve.

**Note 18. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Leasehold improvements - at cost	2,207	2,142	2,207	2,142
Less: Accumulated depreciation	(502)	(194)	(502)	(194)
	<u>1,705</u>	<u>1,948</u>	<u>1,705</u>	<u>1,948</u>
Plant and equipment - at cost	231	193	231	193
Less: Accumulated depreciation	(122)	(81)	(122)	(81)
	<u>109</u>	<u>112</u>	<u>109</u>	<u>112</u>
	<u><u>1,814</u></u>	<u><u>2,060</u></u>	<u><u>1,814</u></u>	<u><u>2,060</u></u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated and Parent</b>	<b>Land</b>	<b>Buildings</b>	<b>Leasehold improvement</b>	<b>Plant and equipment</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 July 2016	230	1,063	465	65	1,823
Additions	-	-	2,072	75	2,147
Classified as held for sale (Note 15)	(230)	(1,063)	(134)	-	(1,427)
Disposals	-	-	(197)	-	(197)
Write off of assets	-	-	-	(2)	(2)
Depreciation expense	-	-	(258)	(26)	(284)
Balance at 30 June 2017	-	-	1,948	112	2,060
Additions	-	-	97	38	135
Make-good expense	-	-	(32)	-	(32)
Depreciation expense	-	-	(308)	(41)	(349)
Balance at 30 June 2018	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,705</u></u>	<u><u>109</u></u>	<u><u>1,814</u></u>

*Recognition and measurement*

In the prior year, the land and buildings were reclassified as Non-Current assets held for sale and the assets are presented separately on the face of the statement of financial position, in current assets (refer Note 15).

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually to ensure that it is not in excess of the recoverable amount. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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**Note 18. Non-current assets - property, plant and equipment (continued)**

*Depreciation*

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	3-10 years
Plant and equipment	3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter. During the prior year, the Group undertook a refurbishment of the Sydney office resulting in \$1.8m of assets capitalised and a new 7-year lease for the offices at 130 Pitt Street, Sydney was also signed.

**Note 19. Non-current assets - term deposit**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Long term deposit	504	504	504	504

The long term deposit is held with National Australia Bank on a rolling 6 month term as security for a bank guarantee over the Company's Sydney Office property lease. The intention is that the deposit will be held for the term of the lease.

**Note 20. Current liabilities - trade and other payables**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade payables	442	380	429	314
Accrued expenses	2,093	1,687	1,171	1,032
Unamortised lease incentive	202	170	202	170
Community grant payable	620	320	710	379
	<b>3,357</b>	<b>2,557</b>	<b>2,512</b>	<b>1,895</b>

Refer to Note 30 for further information on financial instruments.

*Recognition and measurement*

Trade payables and accruals represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Note 21. Current liabilities - employee benefits**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Annual leave	524	340	524	340
Long service leave	468	394	468	394
Short-term incentives	1,863	993	1,863	993
	<u>2,855</u>	<u>1,727</u>	<u>2,855</u>	<u>1,727</u>

*Recognition and measurement*

Employee benefit provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

*Short-term employee benefits*

Liabilities for wages and salaries, including employee short-term incentive compensation, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating benefits, such as sick leave, are not provided for but are expensed as the benefits are taken by the employees.

**Note 22. Current liabilities - provisions**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Provision for remediation	-	207	-	26

*Recognition and measurement*

In the prior year, there was a provision for remediating a unit pricing error that was identified in 2016. During the year, the remaining provision was fully utilised and all costs in relation to the unit pricing error have been paid.

*Movements in provisions*

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	<b>Provision for remediation</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated</b>		
Carrying amount at the start of the year	207	900
Additional provisions recognised	-	2,205
Amounts used	(207)	(2,648)
Unused amounts reversed	-	(250)
Carrying amount at the end of the year	<u>-</u>	<u>207</u>
	<b>Provision for remediation</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Parent</b>		
Carrying amount at the start of the year	26	-
Additional provisions recognised	-	1,894
Amounts used	(26)	(1,868)
Carrying amount at the end of the year	<u>-</u>	<u>26</u>

**Note 23. Non-current liabilities - trade and other payables**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Unamortised lease incentive	438	547	438	547

Refer to Note 29 for further information on financial instruments.

**Note 24. Non-current liabilities - employee benefits**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Long-term incentives	70	-	70	-
Long service leave	146	104	146	104
	216	104	216	104

*Recognition and measurement*

The liability for annual leave, long service leave and long-term incentives not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**Note 25. Non-current liabilities - provisions**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Lease make-good	234	228	234	228

*Recognition and measurement*

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with maturity of the lease. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

**Note 26. Equity - issued capital**

	<b>Consolidated</b>			
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	1,120,930	1,115,854	10,204	9,923

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**Note 26. Equity - issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	1,094,209		8,693
Issue of deferred shares to the Employee Share Trust	1 September 2016	6,833		-
Vesting of AEFAC Rights	8 September 2016	14,812	\$81.11	1,202
Vesting of deferred shares in the Employee Share Trust (593 shares)	14 October 2016	-	\$47.43	28
Balance	30 June 2017	1,115,854		9,923
Issue of deferred shares to the Employee Share Trust	8 September 2017	5,076		-
Vesting of deferred shares in the Employee Share Trust (5,180 shares)	1 September 2017	-	\$42.85	222
Vesting of deferred shares in the Employee Share Trust (766 shares)	24 April 2018	-	\$77.60	59
Balance	30 June 2018	<u>1,120,930</u>		<u>10,204</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote, including deferred shares.

*Recognition and measurement*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

*Capital risk management*

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The capital risk management policy remains unchanged during the year.

*(i) Regulatory capital requirements*

In connection with operating a funds management business in Australia, the Parent entity is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities & Investments Commission (ASIC) requires the Company 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:
  - (a) \$150,000;
  - (b) 0.5% of the average value of scheme property (capped at \$5m); or
  - (c) 10% of the historical 3-year average responsible entity revenue (uncapped).

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

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

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**Note 26. Equity - issued capital (continued)**

(ii) Dividend policy

Dividends paid to shareholders are typically in the range of 80-100% of the Group's net profit after tax attributable to shareholders, which is in line with the historical dividend range paid to shareholders. In certain circumstances, the Board may declare a dividend outside that range. Refer also to Note 10 which discusses the provisioning of staff incentive payments and community grants prior to recommending or declaring a dividend under the Group's constitution.

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

**Note 27. Equity - reserves**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employee share plan reserve	1,253	1,012	1,253	1,012
Available-for-sale reserve	(2)	-	-	-
	<u>1,251</u>	<u>1,012</u>	<u>1,253</u>	<u>1,012</u>

*Employee share plan reserve*

This reserve relates to shares granted by the Group to its employees under its current share-based payment arrangement.

Further information about share-based payments to employees is set out in Note 39.

*Available-for-sale reserve*

The reserve is used to recognise increments and decrements in the fair value of investments held by the Group, including listed shares held in the advocacy program and investment in the SVA unit trusts by the Foundation (refer Note 41).

*Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Share-based payments reserve \$'000</b>	<b>Employee share plan reserve \$'000</b>	<b>Available- for-sale reserve \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2016	1,201	728	-	1,929
Issue of shares held by entity to employee	(1,201)	(28)	-	(1,229)
Employee share plan - deferred	-	312	-	312
Balance at 30 June 2017	-	1,012	-	1,012
Issue of shares held by entity to employee	-	(281)	-	(281)
Employee share plan - deferred	-	522	-	522
Revaluation of investments	-	-	(2)	(2)
Balance at 30 June 2018	<u>-</u>	<u>1,253</u>	<u>(2)</u>	<u>1,251</u>

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**Note 27. Equity - reserves (continued)**

<b>Parent</b>	<b>Share-based payments reserve \$'000</b>	<b>Employee share plan reserve \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2016	1,201	728	1,929
Issue of shares held by entity to employee	(1,201)	(29)	(1,230)
Employee share plan - deferred	-	313	313
Balance at 30 June 2017	-	1,012	1,012
Issue of shares held by entity to employee	-	(281)	(281)
Employee share plan - deferred	-	522	522
Balance at 30 June 2018	-	1,253	1,253

**Note 28. Equity - dividends**

*Dividends*

Dividends paid during the financial year were as follows:

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Final dividend for the year ended 30 June 2017 of 210 cents (2016: 180 cents) per ordinary share - fully franked	2,354	2,009
Interim dividend for the year ended 30 June 2018 of 165 cents (2017: 50 cents) per ordinary share - fully franked	1,849	558
	<b>4,203</b>	<b>2,567</b>

Since year end the Directors have declared a final dividend of 235 cents per fully paid ordinary share (2017: 210 cents), fully franked based on tax paid at 27.5%. The aggregate amount of the declared dividend expected to be paid on 21 September 2018 out of profits for the year ended at 30 June 2018, but not recognised as a liability at year end, is \$2,634,000 (2017: \$2,350,000).

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

*Franking credits*

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Franking credits available for subsequent financial years	4,255	4,185

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

*Recognition and measurement*

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.



**Note 29. Financial instruments**

***Financial risk management objectives and framework***

The Group's activities expose it to a variety of financial risks, including market risk arising from Funds under Management, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not have a material exposure to currency and interest rate risk.

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 Management Strategy and the Risk Appetite Statement. The Chief Risk Officer is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Audit, Compliance and Risk Committee (ACRC). The Board regularly monitors the overall risk profile of the Group and sets the risk appetite, usually in conjunction with the annual planning process.

The Board is responsible for ensuring that management has appropriate processes in place for managing all types of risk. To assist in providing ongoing assurance and comfort to the Board, responsibility for risk management oversight has been delegated to the ACRC. The main functions of the Committee are to identify emerging risks and determine treatment and monitoring of emerging and current risks. In addition, the Committee is responsible for seeking assurances from management that the systems and policies in place to assist the Group to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained. The Group is complying with its Licences, and that there is a structure, methodology and timetable in place for monitoring material service providers.

The following discussion relates to financial risks the Group is exposed to.

***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

***Exposure***

The Group's revenue is significantly dependent on Funds Under Management (FUM) which is influenced by equity market movements. Management calculates that a 10% movement in FUM changes annualised revenue by approximately \$2,635,000 (2017: \$2,141,000).

***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is predominantly exposed to credit risk on its deposits with banks and financial institutions. The Group manages this risk by holding cash and cash equivalents at financial institutions with a Standard and Poor's rating of 'A' or higher. The maximum exposure of the Group to credit risk on financial assets which have been recognised on the Consolidated Statements of Financial Position is the carrying amount of cash and cash equivalents. For all financial instruments other than those measured at fair value their carrying value approximates fair value.

All trade and other receivables are short term in nature and are not past due or impaired.

***Liquidity risk***

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents).

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and 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 rolling forecast of liquid assets, cash flows and balance sheet is reviewed by the Board quarterly to ensure there is sufficient liquidity within the Group.

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**Note 29. Financial instruments (continued)**

*Remaining contractual maturities*

The following tables detail the Group's and Company's remaining contractual maturity for its financial instrument liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Consolidated - 2018</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables and employee benefits	5,610	-	-	-	5,610
Income tax payable	752	-	-	-	752
Total non-derivatives	6,362	-	-	-	6,362
<b>Consolidated - 2017</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables and employee benefits	3,691	-	-	-	3,691
Total non-derivatives	3,691	-	-	-	3,691
<b>Parent - 2018</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables and employee benefits	4,758	-	-	-	4,758
Income tax payable	752	-	-	-	752
Total non-derivatives	5,510	-	-	-	5,510
<b>Parent - 2017</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables and employee benefits	3,025	-	-	-	3,025
Total non-derivatives	3,025	-	-	-	3,025

*Fair value of financial instruments*

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**Note 30. Fair value measurement**

*Recognition and measurement*

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

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**Note 30. Fair value measurement (continued)**

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

*Fair value hierarchy*

During the period, The Foundation purchased an investment in the Social Ventures Australia (SVA)'s Diversified Impact Fund (DIF) unit trust. The investments are funded by cash accumulated in The Foundation with the intention of being utilised for social impact investments that are consistent with the Australian Ethical Charter and the Objectives of The Foundation.

The Foundation has committed to an overall investment of \$200,000 in the SVA DIF, of which \$80,000 was paid in the half-year ended 31 December 2017. The remainder of the committed investment will be called in 2018 and 2019.

The investment has been revalued based on the net asset value (NAV) to OCI at reporting date.

The Group also purchased small holdings of shares to advocate change in these companies as a shareholder. The shares will be revalued at fair value to OCI at reporting date. Any dividends received on these investments are to be recognised in profit or loss.

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

The following tables detail the group's assets measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements 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). The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, referenced to the current fair value of a substantially similar other instrument or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

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). This category includes instruments valued using quoted prices in active markets for similar instruments in markets that are considered less than active or other valuation techniques.

<b>Consolidated - 2018</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<i>Financial assets measured at fair value</i>				
Investments	2	78	-	80
Total assets	2	78	-	80
<b>Parent - 2018</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<i>Financial assets measured at fair value</i>				
Investments	2	-	-	2
Total assets	2	-	-	2

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

There were no transfers between levels during the financial year.

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**Note 31. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	3,629,711	2,649,684	3,532,576	2,530,259
Post-employment benefits	275,346	264,060	275,346	252,714
Long-term benefits	116,410	77,731	116,410	77,731
Share-based payments	416,381	104,440	416,381	104,440
	<b>4,437,847</b>	<b>3,095,915</b>	<b>4,340,712</b>	<b>2,965,144</b>

Information regarding key management personnel's remuneration and shares held in Australian Ethical Investment Limited is provided in the Remuneration Report.

**Note 32. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Audit Services for the consolidated group and subsidiaries - KPMG</i>				
Audit or review of the financial statements	75,019	151,710	53,949	111,450
Audit services in accordance with regulatory requirements	39,572	44,950	39,572	44,950
Assurance services in relation to the Sustainability Report	19,500	19,500	19,500	19,500
	<b>134,091</b>	<b>216,160</b>	<b>113,021</b>	<b>175,900</b>
<i>Audit Services for the non-consolidated trusts and superannuation fund – KPMG*</i>				
Audit and review of managed funds for which the Company acts as Responsible Entity	139,470	137,400	139,470	137,400
Audit of superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity	55,956	26,160	-	-
Audit services in accordance with regulatory requirements	54,870	62,760	-	-
	<b>250,296</b>	<b>226,320</b>	<b>137,470</b>	<b>137,400</b>
<i>Non-audit services – KPMG</i>				
Tax compliance and advisory services	89,635	150,087	66,470	121,637
IT advisory services	138,872	-	138,872	-
Other accounting advice	85,680	106,023	83,256	106,023
	<b>314,187</b>	<b>256,110</b>	<b>288,598</b>	<b>227,660</b>
	<b>698,574</b>	<b>698,590</b>	<b>539,089</b>	<b>540,960</b>

\* These fees are incurred by the Company and are effectively recovered from the funds via management fees.

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**Note 32. Remuneration of auditors (continued)**

The Board considered the non-audit services provided by the auditor and is satisfied that the provision of the non-audit services above by the auditor is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor, and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

**Note 33. Commitments**

Operating lease commitments relate to the lease of office premises, and the lease of printing and copying equipment for the office.

The 7-year operating lease for the Sydney office, which began on 1 July 2016, does not include an option to purchase the premises at the expiry of the lease period. Lease incentives were received and are recognised as Trade and other payables. 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.

The current lease of printing and copying equipment for the office began on 1 January 2016 for a period of 5 years. No lease asset or liability has been recognised in the Statement of Financial Position as AASB 16 Leases has not yet been implemented.

The Group has provided a guarantee of \$504,000 to the property owners over the rental of building premises at 130 Pitt Street, Sydney.

Other financial commitments include commitments as part of the social impact program within The Foundation. Refer to Note 17 for additional information.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Lease &amp; other commitments - operating</i>				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	590	510	590	510
One to five years	2,312	2,194	2,312	2,194
More than five years	-	588	-	588
	<u>2,902</u>	<u>3,292</u>	<u>2,902</u>	<u>3,292</u>
<i>Liabilities recognised in respect of non-cancellable operating leases</i>				
Lease incentives:				
Current	109	162	109	162
Non-current	438	547	438	547
	<u>547</u>	<u>709</u>	<u>547</u>	<u>709</u>

**Note 34. Related party transactions**

*Parent entity*

Australian Ethical Investments Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in Note 35.

*KMP remuneration*

Disclosures relating to key management personnel are set out in Note 31 and the remuneration report included in the Directors' report.

On 9 February 2018, the combined Chief Financial Officer/Chief Operations Officer role was replaced by two separate roles: Chief Operating Officer and Chief Financial Officer.

*Other related parties*

Australian Ethical Superannuation Pty Limited (AES) acts as trustee for Australian Ethical Retail Superannuation Fund (AERSF).

Australian Ethical Investment Limited (AEI) acts as the responsible entity for the following Australian Ethical Trusts (AETs):

- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Income Fund
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Emerging Companies Fund
- Australian Ethical Balanced Fund

The Funds listed above are considered structured entities that have not been consolidated by the Group, as the Group does not have control over these entities. The table below sets out the transactions that occurred during the year between the Group and these entities.

Australian Ethical Employee Share Trusts (EST) acts as trustee for the employee deferred shares scheme.

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**Note 34. Related party transactions (continued)**

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	-	-	3,800,000	3,800,000
Investment management fees	-	-	9,953,300	7,337,121
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	-	-	1,523,860	1,056,928
Dividends from the subsidiary	-	-	3,251,176	1,378,114
Director fees reimbursed by the subsidiary	-	-	132,552	133,308
Receipt from the Australian Ethical Trusts:				
Provision of investment management services to the AETs as identified above in accordance with the Constitution	11,411,700	9,288,631	11,411,700	9,288,631
Receipts from Australian Ethical Retail Superannuation Fund:				
Provision of Administration/Trustee & management services to AERSF	20,181,765	16,073,237	-	-
Provision of Member Administration services to AERSF	3,280,178	2,662,247	-	-
Trustee fee rebate given to AERSF	-	(192,055)	-	-
Payments to Australian Ethical Foundation Limited:				
Community grants paid to The Foundation	-	-	379,141	395,314

*Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current receivables:				
Amounts receivable from the AETs	66,304	431,977	66,304	431,977
Amounts receivable from AES	-	-	235,245	1,313,740
Amounts receivable from AERSF	312,128	286,423	-	-
Current payables:				
Amounts payable to AERSF	-	(1,855)	-	-
Amounts payable to The Foundation	-	-	(709,813)	(379,141)
Amounts payable to AES	-	-	-	(6,492)

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

**Note 35. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Australian Ethical Superannuation Pty Limited (AES) - Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100.00%	100.00%
Australian Ethical Foundation Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100.00%	100.00%

Australian Ethical Foundation Limited (The Foundation) was established for the purpose of being a vehicle for the disbursement of profits that are subject to Clause 15.1(c)(ii) of the Parent entity's constitution which requires a portion of profits to be provided for charitable, benevolent or conservation purposes. The creation of The Foundation allows for flexibility when allocating money, to manage multi-year grants and for the creation of a corpus for long-term impact investing in worthwhile causes and organisations.

All income received and net assets including cash of The Foundation are restricted to activities of The Foundation and are not available for distribution to AEI's shareholders or to settle liabilities of other group entities. Refer to Note 41 for further details about The Foundation's activities.

**Note 36. Events after the reporting period**

Apart from the dividend declared as disclosed in Note 28, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Note 37. Reconciliation of profit after income tax to net cash from/(used in) operating activities**

	Consolidated		Parent	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Profit after income tax expense for the year	5,081	2,924	4,721	1,833
Adjustments for:				
Depreciation and amortisation	350	284	350	284
Loss on disposal of property, plant and equipment	-	210	-	210
Non-cash employee benefits expense - deferred shares	585	200	585	200
Reversal of impairment loss	-	(228)	-	(228)
Unamortised lease incentive	(109)	568	(109)	568
Dividend received from subsidiary	-	-	(3,251)	(1,378)
Change in operating assets and liabilities:				
Decrease/(increase) in trade and other receivables	115	(470)	1,266	(1,638)
Decrease/(increase) in deferred tax assets	(244)	12	(246)	(169)
Decrease/(increase) in other current assets	(22)	18	13	6
Increase in trade and other payables	766	882	587	425
Increase in employee benefits	1,240	232	1,240	232
Decrease in other provisions	(201)	(465)	(20)	254
Increase/(decrease) in current tax liability	752	(908)	752	(721)
Net cash from/(used in) operating activities	8,313	3,259	5,888	(122)



**Note 38. Earnings per share**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax attributable to the owners of Australian Ethical Investment Limited	5,081	2,924
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	466.67	269.98
Diluted earnings per share	453.60	262.25
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	1,088,830	1,082,877
Adjustments for calculation of diluted earnings per share:		
Deferred shares	31,380	31,889
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,120,210	1,114,766

*Additional EPS calculations*

NPAT and UPAT attributable to shareholders exclude the results of The Foundation. Profits attributable to the Foundation are restricted to The Foundation's activities and are not available for distribution to AEI's shareholders (refer Note 41)

	<b>Cents</b>	<b>Cents</b>
Basic EPS on NPAT attributable to shareholders (cents per share)	459.04	269.62
Basic EPS on UPAT attributable to shareholders (cents per share)	459.04	391.07
Diluted EPS on UPAT attributable to shareholders (cents per share)	446.19	380.22

*Recognition and measurement*

*Basic earnings per share*

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

*Diluted earnings per share*

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

**Note 39. Share-based payments**

The following share-based payment arrangements existed as at 30 June 2018.

*Deferred shares*

Under the long term incentive scheme introduced in 2014, participants are granted shares subject to meeting specified performance criteria over the performance period. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration with the shares having voting rights and employees receive dividends over the vesting period.

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is \$585,000 (2017: \$200,000) relating to the deferred shares granted.

Deferred shares are held in an Employee Share Trust until vesting conditions are met. Refer to the remuneration report for details on the vesting conditions.

**Australian Ethical Investment Limited and its Controlled Entities**  
**Notes to the financial statements**  
**30 June 2018**

**Note 39. Share-based payments (continued)**

**2018**

Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
13/03/2015	31/08/2017	5,145	-	(5,145)	-	-
31/08/2015	31/08/2018	8,560	-	(32)	(561)	7,967
31/08/2016	31/08/2019	8,578	-	-	(435)	8,143
03/01/2017	31/08/2019	1,321	-	(420)	(436)	465
31/08/2017	31/08/2020	-	12,762	(346)	(1,363)	11,053
		<u>23,604</u>	<u>12,762</u>	<u>(5,943)</u>	<u>(2,795)</u>	<u>27,628</u>

Unallocated treasury shares 4,325

Total deferred shares in the Employee Share Trust 31,953

**2017**

Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
13/03/2015	31/08/2017	12,394	-	(388)	(6,861)	5,145
31/08/2015	31/08/2018	10,358	-	(173)	(1,625)	8,560
31/08/2016	31/08/2019	-	10,663	(31)	(2,054)	8,578
03/01/2017	31/08/2019	-	1,321	-	-	1,321
		<u>22,752</u>	<u>11,984</u>	<u>(592)</u>	<u>(10,540)</u>	<u>23,604</u>

Unallocated treasury shares 9,219

Total deferred shares in the Employee Share Trust 32,823

**Recognition and measurement**

Equity-settled transactions are awards of shares that are provided to employees in exchange for the rendering of services.

The grant-date fair value of equity-settled transactions are recognised as an employee expense with a corresponding increase in Share based payment reserve. Upon vesting, the employees become unconditionally entitled to the awards and the shares are transferred from the Share based payment reserve to Contributed equity.

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

Following shareholder votes on remuneration related resolutions at the 2017 AGM, the Company has reviewed the employee remuneration structure as outlined in the remuneration report.

**Note 40. Contingent liabilities**

A claim for specified damages was lodged by a subsidiary of the Company during the prior year against the Company relating to the unit pricing matter to recover costs already incurred (refer to Note 22). In turn, the Company has lodged an insurance claim in respect of the claim against it by the subsidiary. No further information is disclosed as such information may prejudice the Company's position in the claim. The outcome of the insurance claim is not yet known.

**Note 41. Results of The Foundation**

All income received and net assets including cash of The Foundation are restricted to The Foundation's activities and are not available for distribution to the Company's shareholders or to settle liabilities of other Group entities.

As at and for the year ended 30 June 2018, the impact of The Foundation before intercompany eliminations is noted below:

**Australian Ethical Investment Limited**  
**Notes to the financial statements**  
**30 June 2018**

**Note 42. Results of the Foundation (continued)**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Statement of comprehensive income</b>		
Revenue from parent entity	710	379
Interest income	3	5
Community grants expense	(620)	(380)
Audit fees	(10)	-
Fair value adjustment of investment (through Other Comprehensive Income)	(2)	-
	<u>81</u>	<u>4</u>
Profit for the period	<u>81</u>	<u>4</u>
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Statement of financial position</b>		
<i>Assets:</i>		
Cash and cash equivalents	354	372
Receivables from parent entity	710	379
Investments	78	-
<i>Liabilities:</i>		
Payables	<u>(630)</u>	<u>(320)</u>
Net Assets	<u>512</u>	<u>431</u>
<i>Equity:</i>		
Current year profit	81	4
Retained earnings	<u>431</u>	<u>427</u>
Total equity	<u>512</u>	<u>431</u>

**Australian Ethical Investment Limited and its Controlled Entities**

**Directors' declaration**

**30 June 2018**

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's and Group's financial position as at 30 June 2018 and of their performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in dark ink, appearing to be 'P. Vernon', with a long horizontal line extending to the right.

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Phil Vernon  
Managing Director and Chief Executive Officer

23 August 2018  
Sydney

# Independent Auditor's Report

To the shareholders of Australian Ethical Investment Limited

## Report on the audits of the Financial Reports

### Opinions

We have audited the consolidated **Financial Report** of Australian Ethical Investment Limited (the Group Financial Report). We have also audited the Financial Report of Australian Ethical Investment Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** and of the **Company's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective **Financial Reports** of the Group and the Company comprise:

- Statements of financial position as at 30 June 2018
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of Australian Ethical Investment Limited (the **Company**) and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinions

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

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

We are independent of the Group and Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

The **Key Audit Matters** we identified for the Group and Company are:

- Management and performance fees (net of rebates) and Administration fees
- Investment property held for sale

**Key Audit Matters** are those matters that, in our professional judgment, were of most significance in our respective audits of the Financial Reports of the current period.

These matters were addressed in the context of our audits of each of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

### Management and Performance Fees (net of rebates) – (\$26.6m) and Administration fees (\$5.6m) – Group and Company

Refer to Note 5 to the Group Financial Report and Company Financial Report

The Key Audit Matter	How the matter was addressed in our audits
<p>Management and performance fees (net of rebates) and administration fees were a key audit matter due to the:</p> <ul style="list-style-type: none"> <li>• individual fee arrangements in place for each of the managed funds and the Australian Ethical Retail Superannuation Fund (the superannuation fund) which necessitated considerable audit effort.</li> <li>• significance of the revenue to the Group and Company, constituting 90% and 88% of total revenue, respectively.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We read and understood the individual management and performance fee arrangements in the Product Disclosure Statements ("PDS") of each of the funds and the superannuation fund.</li> <li>• We performed a recalculation of a sample of fees charged using the fee percentages and funds under management, obtained from each of the Product Disclosure Statements and underlying fund financial records respectively. We compared the independently calculated fee revenue to those of the Group and Company and investigated significant differences.</li> <li>• We assessed funds under management ("FUM") by: <ul style="list-style-type: none"> <li>- testing key controls over the input of valuation data into the Group's system such as daily price movement checks performed by management;</li> <li>- checking the data output of the Group's system by selecting a sample of balances and comparing to source documentation;</li> <li>- checking the quantity of assets held to external custodian service provider reports at balance date, and</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>- using valuation specialists, we tested the fair value of a sample of investment valuations performed by the Group and Company by comparing to market data such as global and domestic equity prices, or using alternative valuation techniques such as discounted cash flow models, at balance date.</li> <li>• We read and understood the administration and management fee arrangement in the Investment Management and Trustee Service Agreements between the Company and its subsidiary, Australian Ethical Superannuation Limited (AES).</li> <li>• We performed a recalculation of the management fee between the Company and AES using the fee percentages obtained from the Investment Management and Trustee Service Agreements and average asset values, by asset class. We compared the independently calculated fee revenue to the fee revenue recorded by the Company and investigated significant differences.</li> <li>• We assessed the allocation of asset values to asset classes as at balance date for consistency against the Group's policy for asset class classification. We evaluated the Group's policy for asset class classification against the requirements in the accounting standards.</li> </ul>
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#### Investment Property held for sale - \$1.6m – Group and Company

Refer to Note 15 to the Group Financial Report and Company Financial Report

The Key Audit Matter	How the matter was addressed in our audits
<p>The valuation of the property classified as held for sale was a key audit matter due to the:</p> <ul style="list-style-type: none"> <li>• quantum of the balance; and</li> <li>• assumptions applied by the Group and Company in estimating the fair value of the property which included estimated capitalisation rates.</li> </ul> <p>This necessitated increased audit effort to assess these assumptions and the methodology</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Considered the competence, scope and objectivity of the external valuer.</li> <li>• We obtained the external valuer's report and assessed the valuation methodologies and key assumptions used based on our knowledge of the property, its location and the industry as a whole. These included:</li> </ul>

<p>employed. The Company engaged an external valuer to provide a valuation of the investment property. The external valuer used the Capitalisation of Net Income Approach and the Direct Comparison Approach from which an adopted value is provided. The Group and Company then assessed the valuation and based on their knowledge of the property and location, estimated an overall value for the property.</p>	<ul style="list-style-type: none"> <li>- Assessing the valuation methodologies for consistency with accounting standards and industry practice.</li> <li>- Comparing key inputs such as rental income and rental duration against signed rental agreements.</li> <li>- Comparing estimated capitalisation rates to external market data, such as market analysis published by industry experts;</li> <li>- Assessing the expected rental income following expiry of the current leases based on our knowledge of the property and the rental market in the area.</li> <li>• Assessing the comparability of the properties determined by the external valuer in their Direct Comparison Approach, by comparing the property size, location and rental income to our knowledge of the property.</li> <li>• Assessing the appropriateness of the classification as held for sale against the requirements of the accounting standards. We did this by: <ul style="list-style-type: none"> <li>- Inquiries with the Group to understand the current status of sale and physical condition of the asset and current marketing strategy for the asset, and</li> <li>- Obtaining copies of recent correspondence with potential buyers.</li> </ul> </li> </ul>
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## Other Information

Other Information is financial and non-financial information in Australian Ethical Investment Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, and the Remuneration Report. The Sustainability Report is expected to be made available to us after the date of the Auditor's Report.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and Sustainability Report and our related assurance opinions.

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

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



## Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

## Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included on pages 8 to 25 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Karen Hopkins  
Partner  
Sydney  
23 August 2018