australianethical ASX Announcement

Appendix 4E

For the year ended 30 June 2019

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 2018)

	$'000	up / down	% movement
Revenues from ordinary activities	**40,977**	**up**	**14%**
Net profit after tax	**6,614**	**up**	**30%**
Deduct net profit after tax attributable to The Foundation	(149)		
Net profit attributable to shareholders	**6,465**	**up**	**29%**
Add back impairment on investment property held for sale	75		
Underlying net profit after tax	6,540	up	31%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Interim 2019 dividend per share (paid 15 March 2019)	2.0	2.0	100%
Final 2019 dividend per share (to be paid 18 September 2019)	3.0	3.0	100%

Final dividend dates	
Ex-dividend date	**3 September 2019**
Record date	**4 September 2019**
Payment date	**18 September 2019**

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

	30 June 2019	30 June 2018
Net tangible assets per security	**$0.13**	**$0.12**
Net asset value per security	**$0.15**	**$0.14**

This information should be read in conjunction with the 2019 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 2019.

This report is based on the consolidated 2019 financial statements of Australian Ethical Investment Limited which have been audited by KPMG. The Independent Auditor’s Report by KPMG is included in the Annual Financial Report for the period ended 30 June 2019.

Australian Ethical Investment Limited and its Controlled Entities

ABN 47 003 188 930

Annual Report - 30 June 2019

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 2019.

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
BEcon, MBA

Steve chairs the People, Remuneration and Nominations Committee, is a member of the Investment Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. He 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, including being a former CEO of the Australian Institute of Superannuation Trustees, a former CEO of what is now Commonwealth Superannuation Corporation and a non-executive director of Hastings Funds Management and Westpac Funds Management. Steve has been recognised for his commitment to, and expertise in, ethical and responsible investing.

Mara Bûn
Non-Executive Director since 2013
BA (Political Economy), GAICD

Mara is a member of the People, Remuneration and Nominations Committee, the Investment Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance 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, Risk & Compliance Committee and is a member of the People, Remuneration and Nominations Committee and the Investment 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 25 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 Chair of the Investment Committee and a member of the People, Remuneration and Nominations Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. 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, a director of Alpha Vista Financial Services Holdings Pty Ltd, a start-up global investment management business leveraging large scale data and computing capabilities and artificial intelligence and Chair of Flag Income Notes No. 3 Pty Limited, an issuer of wholesale fixed income securities.

Julie Orr
Non-Executive Director since 2018
BEc, MCom, MCom(Hons), CA, GAICD

Julie is a member of the People, Remuneration and Nominations Committee, the Australian Ethical Investment Limited Audit, Risk & Compliance Committee and the Investment Committee. She is a director of Australian Ethical Foundation Limited. 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 was 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, of the not-for-profit environmental group, the Planet Ark Foundation and 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 and New Zealand.

On 26 June 2019, Phil Vernon announced he will be resigning from his role as Managing Director and CEO with effect from 31 August 2019. Mr Steve Gibbs, Chair of Australian Ethical will step in as Acting CEO following Mr Vernon's departure until a successor is appointed.

Company secretary

Tom May BA, LLB, FGIA oversees governance including the company secretarial and legal functions to ensure that the Group meets its regulatory obligations and maintains industry leading governance practices. Tom has worked in financial services in Australia, the UK and Japan.

Nicholas Parkin BCom, LLB(Hons) GDipAppCorpGov is a lawyer and governance professional with more than 18 years’ experience in Australia, England and New Zealand advising corporations and government. He has worked as a lawyer and company secretary for ASX listed entities across multiple industries.

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 $6.61m (30 June 2018: $5.08m).

The profit attributable to shareholders after providing for income tax amounted to $6.47m, up 29%. Underlying profit after tax was $6.54m, up 31%. Revenue increased 14% to $40.98m, up from $35.99m.

Australian Ethical remains one of the fastest growing super funds[1] in Australia. Funds under management (FUM) for the full year increased by 21% to $3.42 billion, up from $2.82 billion reported for the previous corresponding period. The increase was driven by member growth, positive net flows and strong investment performance.

Membership of Australian Ethical continues to grow with funded members growing 11% from the previous corresponding period. In a market where many funds are losing members, Australian Ethical is finding that what was once a marginal interest in ethical investing is becoming mainstream as more people realise our style of investing is achieving better risk-adjusted returns and delivering social good.

However, with ethical investing on the rise the marketplace is becoming increasingly crowded as more providers take advantage of emerging “green opportunities” to meet demand. In response, Australian Ethical continues to focus on what we see as our unique point of difference: our proven ethical conviction and professional approach to managing money which is delivering strong investment outcomes alongside benefitting people and the planet.

Looking forward, Australian Ethical remains committed to enhancing the customer experience to pave the way for the next phase of growth. Australian Ethical has begun working on its new digital platform which will be a key focus in FY20, with rollout occurring incrementally, and will continue to invest in brand awareness and extending customer reach. We are also developing our products and accessibility to ensure our customers can reach us through their channel of choice.

This will position Australian Ethical to build on the strong 2019 result which will allow us to deliver better products and service to our customers, provide greater returns to our shareholders and have greater social and environmental impact.

[1] Source: KPMG 2019 Super Insights Report – published April 2019

Financial Performance - Management Analysis

At the AGM held on 25 October 2018, a share capital split was approved on the basis of 1 share be subdivided into 100 shares. The share split took effect on 21 December 2018. The share split had no impact on the total value of shares on issue. Comparative numbers for the earnings and dividend per share have been restated to be comparable to current period disclosure.

	2019 $'000	2018 $'000	% Increase/ (Decrease)
Net Profit after tax (NPAT)	6,614	5,081	30%
Less: Net profit after tax attributable to The Foundation*	(149)	(83)	
Net profit after tax attributable to shareholders	6,465	4,998	29%
Adjustments:			
- Impairment of investment property held for sale	75	-	
Underlying profit after tax (UPAT)	6,540	4,998	31%
Basic EPS on NPAT (cents per share)	6.05	4.67	
Basic EPS on NPAT attributable to shareholders (cents per share)	5.92	4.59	
Basic EPS on UPAT attributable to shareholders (cents per share)	5.99	4.59	
Diluted EPS on UPAT attributable to shareholders (cents per share)	5.84	4.46	

* Refer to Note 41 for additional details in relation to The Foundation's financial results.

Dividends
Dividends paid during the financial year were as follows:

	2019 $'000	2018 $'000
Final dividend for the year ended 30 June 2018 of 2.35 cents (2017: 2.10 cents) per ordinary share - fully franked	2,634	2,354
Interim dividend for the year ended 30 June 2019 of 2.00 cents (2018: 1.65 cents) per ordinary share - fully franked	2,242	1,849
	4,876	4,203

Since year end the Directors have declared a final dividend of 3.00 cents per fully paid ordinary share (2018: 2.35 cents), fully franked based on tax paid at 27.5%. The aggregate amount of the declared dividend expected to be paid on 18 September 2019 out of profits for the year ended at 30 June 2019, but not recognised as a liability at year end, is $3,363,000 (2018: $2,634,000).

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 2018	1,120,930		10,204
Shares vested to employees (7,967 shares)	1 September 2018	-	$53.98	430
Share split of 1 to 100 shares	21 December 2018	110,972,070		-
Balance	30 June 2019	112,093,000		10,634

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
The Board has started a search for Mr Vernon’s successor (departing 31 August 2019) and the Chairman, Mr Steve Gibbs will step in as Acting CEO following Mr Vernon’s departure. During this period, the Acting Chair will be Mr Michael Monaghan.

Apart from the above, and the dividend declared as disclosed in Note 28, no other matter or circumstance has arisen since 30 June 2019 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 holds a direct investment in one commercial property in Canberra. To the best of the directors’ knowledge, the relevant environmental regulations under Commonwealth and State legislation have been complied with.

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 2019, and the number of meetings attended by each Director were:

	Full Board		People, Remuneration and Nominations Committee		Audit, Risk and Compliance Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	7	7	7	7	6	6
Kate Greenhill	7	7	7	7	6	6
Mara Bun	7	7	7	7	6	6
Michael Monaghan	7	7	7	7	6	6
Julie Orr	7	7	7	7	3	3
Phil Vernon	7	7	-	-	-	-

	Product Disclosure Statement Committee		Investment Committee	
	Eligible	Attended	Eligible	Attended
Steve Gibbs	2	2	1	1
Kate Greenhill	-	-	1	1
Mara Bun	-	-	1	1
Michael Monaghan	2	2	1	1
Julie Orr	-	-	1	1
Phil Vernon	-	-	1	1

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.

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.

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

Phil Vernon
Managing Director and Chief Executive Officer

27 August 2019
Sydney

Remuneration Report 2019

Dear Shareholder,

On behalf of the Board I am pleased to present our Remuneration Report for 2019.

Following an independent review of our remuneration policy in 2018, 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.

The 2019 remuneration framework was changed as follows:

- The LTI incentives plan was changed with 3-year diluted EPS growth hurdle applying to the entire incentive;
- Long term incentive shares will generally be purchased on market to eliminate dilution of existing shareholders; and
- The Board strengthened the malus provisions with respect to incentive grants.

Our remuneration framework continues 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.

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 framework and practices in response to the recommendations made by the Royal Commission into Misconduct in the Banking and Financial Services. Specifically, our remuneration outcomes will continue to take into account financial and non-financial objectives, as well as risk and our cultural values.

We are committed to ensuring our remuneration arrangements remain fair to all stakeholders and are effective in attracting and retaining people who are motivated and professional.

Steve Gibbs
Chair
People, Remuneration & Nominations Committee

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 ended 30 June 2019. It describes the philosophies behind the remuneration and other employee benefits, incorporating changes to our remuneration structure that was brought in last year.

This remuneration report also deals with the remuneration of Non-Executive Directors, the Managing Director and members of the Senior Management Team (SMT), collectively referred to as Key Management Personnel ("KMP"), and has been subject to independent audit as required by section 308(3C) of the Corporations Act 2001.

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:

Fairness	• attract and retain talented people • pay people fairly for their work recognising the expertise and value they bring to the Company
Alignment	• build long term ownership in the Company • align reward with contribution to the Company's performance • align shareholder interests and employees • promote the values of the Ethical Charter included within the Constitution and be aligned with the purpose of the Company • incorporate risk management performance measures in all employee scorecards
Simplicity	• be motivating for employees • be simple to administer and to communicate to all stakeholders

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 remuneration framework is also designed to encompass the Company's values of wisdom, authenticity, action, and empathy. The values are also incorporated in the performance metrics of all employees including KMP.

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.

Income Inequality and Ethical Considerations

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 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. We are one of the few Boards on the ASX with 50:50 gender equality and we have a 44% female representation on the Senior Management team (target minimum 40% of each gender). Our overall workforce gender balance sits at 54% females (target 50%).

The Company is aware of scrutiny over senior executive pay, particularly within the Financial Services 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[2] is 5 times.

[2] Australian Bureau of Statistics, Average Weekly Earnings November 2018

Elements of Remuneration (financial year ended 30 June 2019)

The following framework applied to **ALL** employees (not including Non-Executive Directors) for the financial year ended 30 June 2019.

Element	Description	Quantum	Paid as
Fixed Remuneration (FR)	Comprises base salary, superannuation, packaged employee benefits and associated fringe benefits tax.	• Reviewed annually, or on promotion. • Benchmarked against market data[3] for comparable roles based on position, skills and experience brought to the role. • 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.	Cash
Short Term Incentive (STI)	An annual incentive aimed at rewarding employees for achievement of annual objectives. Applies to all employees.	• Maximum achievable is a percentage of Fixed Remuneration (ranging from 7% to 100%) depending on the role. • Actual outcome is linked to performance and contribution against annual KPIs. • Short term incentives are treated as follows in the following circumstances: o resignation – usually forfeited, subject to Board discretion; o termination for serious misconduct – forfeited; o retirement – discretion of Board; o death or total or permanent disablement – discretion of Board; and o redundancy – discretion of Board.	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.	• Awarded as percentage of Fixed Remuneration • Shares are issued or purchased and held in trust for 3 years. • Vest in the name of the employee after 3 years, provided that: o employee remains employed; and o subject to 3-year compound annual growth in diluted earnings per Share (EPS) as follows: ▪ 0 – 5% - nil vests ▪ 5% - 10% - pro rata up to 100% ▪ > 10% - fully vests. o For the September 2016 and 2017 grants, only 50% of the shares were subject to the 3-year compound annual growth hurdle. For the September 2018 and future grants, 100% of the shares are subject to the hurdle. • 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. • Employees participate in dividends and have voting rights from the date the shares are issued or purchased. • On cessation of employment, no unvested shares shall vest unless the Board in its absolute discretion determines otherwise.	Shares

[3] 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.

Element	Description	Quantum	Paid as
Other employee benefits	The Company also provides to all employees a number of other benefits.	Benefits include: ▪ an employee assistance program; ▪ volunteer leave (2 days per annum); ▪ self-education/study assistance; ▪ professional association memberships, annual health checks and annual flu vaccinations; ▪ flexible working arrangements; ▪ training subsidies; and ▪ 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 24 months.	-

Performance measures for Short Term Incentives (financial year ended 30 June 2019)

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 all executive KMP's for the financial year ended 30 June 2019.

Measure	Metric	Why this metric is appropriate	Weighting on STI for CEO	Weighting on STI for KMP	Impact on Incentive Award for FY19
Profit	Net profit after tax attributable to shareholders	Provides alignment to the Company's performance	20%	10-20%	Maximum target achieved
Business growth	◦ Net inflows ◦ New customers ◦ Each measured in both absolute terms and comparison against market	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.	10%	10-30%	Mid-range achieved
Customer focus	◦ Net Promoter Score (NPS) surveys ◦ Brand awareness surveys	Customer satisfaction with product, service and brand is measured using customer surveys conducted by independent industry consultants.	10%	0-10%	Mid-range achieved
Investment performance	◦ Performance against investment objectives ◦ Performance against market benchmarks ◦ Assessed over 1, 3 and 5 year periods	Delivering long term competitive investment returns for our customers is core to our offering.	20%	0-40%	Super Fund Balanced Option (MySuper) – exceeded 5-year objective Super Fund Balanced Option (MySuper) – exceeded 5-year benchmark Australian Shares performance against benchmark over 1 and 3 years – mid-range achieved
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	◦ Assessed against AON Hewitt annual engagement score ◦ Assessed against market comparisons ◦ Assessed according to adherence to the Company's values	Providing a motivating and inspiring workplace and high employee engagement has been proven to drive better business outcomes for customers and shareholders.	20%	10-30%	Engagement score achieved the maximum, 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%	10-40%	Impact is assessed individually

3. Developments in Remuneration practices

Over the past year APRA, the Royal Commission (RC) into Misconduct in the Banking, Superannuation and Financial Services Industry, shareholders and media have put the spotlight on remuneration practices at financial service institutions. The main focus has been on the variable incentive assessment criteria driving the wrong behaviour and poor customer outcomes.

Special reports and guidance papers have been released as follows:

- APRA review of remuneration practices at large financial institutions – 4 April 2018
- APRA's prudential Inquiry into CBA – 30 April 2018
- Banking Executive Accountability Regime (BEAR) – 17 October 2018
- APRA's Strengthening prudential requirements for Remuneration discussion paper – 23 July 2019

Our balanced scorecard combines both financial objectives and non-financial customer outcomes, balancing risk management, and ensuring adherence to our desired cultural values. All employees, including KMPs have objectives that incorporate the company's core values and incentivise ethical behaviour and positive customer outcomes. There are clear criteria determining how performance objectives are met and consequences where they are not met.

Our remuneration structure also comprises both short- and long-term incentives to ensure support for a strong risk culture. Our short term incentives relating to investment performance incorporate 1, 3 and 5 year performance against benchmarks and objectives to ensure incentives aligned to long term customer outcomes.

4. Senior Management Team Remuneration Outcomes

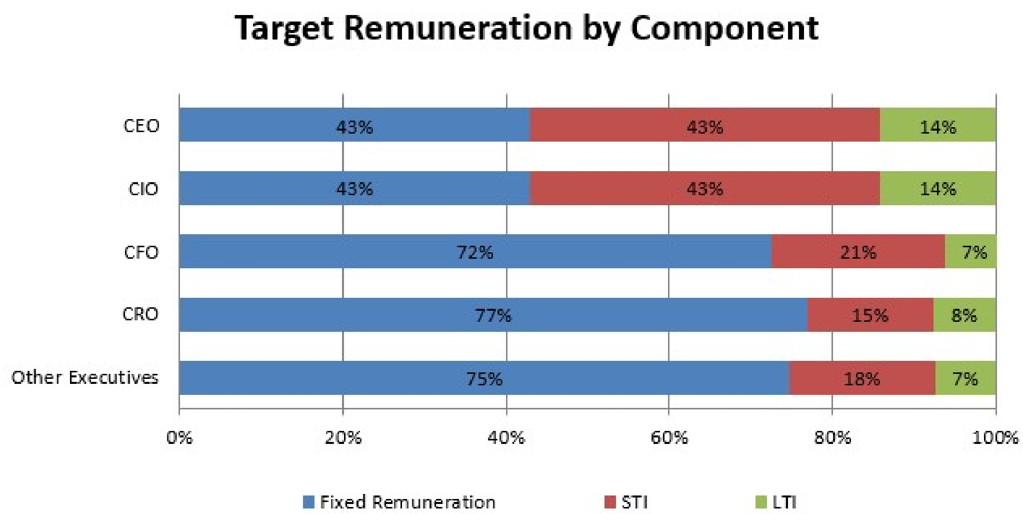
Corporate performance

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

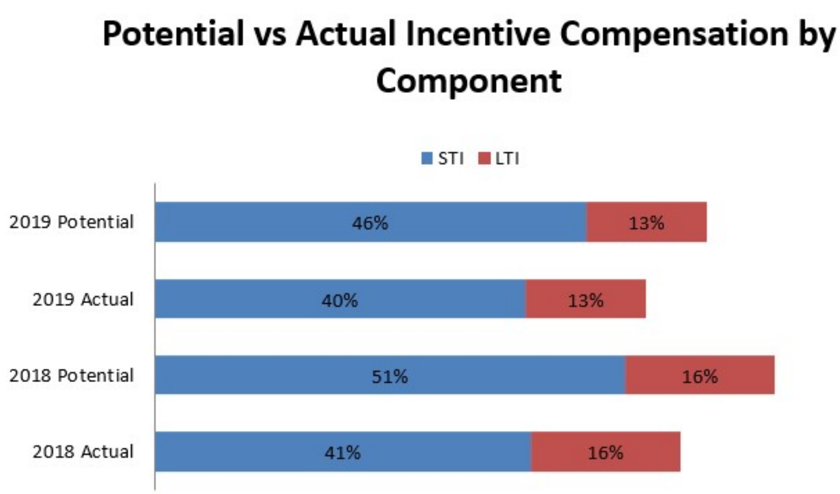
	2015	2016	2017	2018	2019
Net Profit After Tax attributable to shareholders ($'000)	1,970	3,010	2,920	4,998	6,465
Underlying Profit After Tax ($'000)	2,454	3,821	4,235	4,998	6,540
Diluted Earnings Per Share (cents per share)	1.80	2.88	2.62	4.46	5.84
Diluted Earnings Per Share growth (3 years)	66.1%	38.5%	2.8%	35.2%	28.5%
Share price at end of period ($, restated for share split)	0.59	0.81	0.94	1.35	1.77
Dividends (cents per share, restated for share split)	2.00	3.00	2.60	4.00	5.00
Total shareholder return (TSR)	72%	42%	19%	47%	34%

Weighting of remuneration components

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



The below is the actual incentive compensation received by senior management team in relation to the maximum incentive compensation they were entitled to. The percentages equate to the ratio of STI and LTI components against fixed salary.



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 ended 30 June 2019.

The movement in the Senior Management Team remuneration outcomes (statutory basis) between FY2018 and FY2019 was driven by the following:

- New Chief Operating Officer (COO) in the senior management team hired part way through the year;
- Full year cost of CFO recognised in current year, compared with the prior year which only included 5 months of costs due to appointment part way through the prior year;
- Forfeiture of LTI previously granted to the CEO upon resignation on 26 June 2019;
- 2.5 months of unpaid leave taken by Chief Customer Officer (CCO) during the year;
- Increase in short term incentives as a result of meeting performance objectives; and
- Increase in some individual salaries in line with industry benchmarking to ensure reward remains competitive and fair.

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 [1] $**	**Super-annuation $**	**Termination Benefits $**	**Long Service Leave $**	**Long Term Incentives – Cash [3] $**	**Long Term Incentives – Equity [2] $**	**Total $**	**Performance Related %**	**Performance-based forfeited [4] %**
2019 financial year											
Current management team											
P Vernon	Managing Director & CEO	407,802	355,921	20,531	-	13,531	70,000	35,446	903,231	51.1%	18.6%
K Heng (app 14 January 2019)	Chief Operating Officer	133,205	38,766	12,654	-	2,805	-	-	187,430	20.7%	8.9%
F Horan	Head of People & Culture	289,478	55,440	20,531	-	5,345	-	16,263	387,057	18.5%	7.9%
K Hughes	Chief Risk Officer	251,969	51,088	20,531	-	5,639	-	19,258	348,485	20.2%	10.9%
A Lowbridge	Chief Customer Officer	234,546	64,972	20,531	-	5,284	-	20,333	345,666	24.7%	17.5%
D Macri	Chief Investment Officer	338,385	309,563	20,531	-	12,179	-	112,475	793,133	53.2%	14.9%
T May	General Counsel & Company Secretary	234,849	44,106	20,531	-	11,946	-	23,779	335,211	20.3%	13.4%
S Palmer	Head of Ethics Research	277,157	55,350	20,531	-	6,342	-	26,047	385,427	21.1%	10.8%
M Simons	Chief Financial Officer	304,469	94,601	20,531	-	6,688	-	23,121	449,410	26.2%	7.9%
Departed Management											
R Plow (dep 24 October 2018) [5]	Chief Operating Officer	196,151	-	20,531	-	-	-	-	216,682	0.0%	
Total 2019		2,668,011	1,069,807	197,433	-	69,759	70,000	276,722	4,351,732	32.6%	

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 2019 amounts have been finalised at an individual level and approved by the PRN in August 2019.
2. The Long term incentive (LTI) expense for 2019 includes the relevant 2019 expense impact of each of the 2017, 2018 and 2019 grants under the long term incentive plan. The expense for allocating the 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 2016-2017 tranche will vest at an individual level in September 2019.
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 two-thirds of $210,000 subject to the same vesting conditions (continuing employment and EPS growth hurdles).
4. The percentage of STI forfeited in the year represents the reduction from the maximum STI the KMP may be eligible to receive due to performance criteria not being fully achieved.
5. On 24 October 2018, Rob Plow resigned from his role as Chief Operating Officer with a 4-month notice period. Kim Heng commenced as the new Chief Operating Officer on 14 January 2019.

Australian Ethical Investment Limited and its Controlled Entities
Remuneration Report
For the year ended 30 June 2019

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 %**	**Performance-based forfeited %**
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%	20.9%
F Horan (joined as KMP 2 October 2017)	Head of People & Culture	161,949	32,199	15,385	-	3,712	-	-	213,245	15.1%	6.6%
K Hughes	Chief Risk Officer	239,951	43,368	20,049	-	5,000	-	10,091	318,459	16.8%	12.6%
A Lowbridge	Chief Customer Officer	279,951	71,084	20,049	-	5,769	-	23,000	399,854	23.5%	15.8%
D Macri	Chief Investment Officer	328,091	275,621	20,049	-	2,012	-	139,337	765,110	54.2%	25.0%
T May	General Counsel & Company Secretary	211,538	29,273	20,049	-	7,274	-	29,523	297,657	19.8%	18.6%
S Palmer	Head of Ethics Research	258,537	48,126	20,049	-	6,271	-	28,511	361,494	21.2%	15.7%
R Plow (app 30 January 2018)	Chief Operating Officer	112,954	31,464	8,294	-	2,387	-	9,600	164,699	24.9%	21.6%
M Simons (app 30 January 2018)	Chief Financial Officer	111,054	31,464	8,294	-	2,387	-	12,120	165,318	26.4%	6.6%
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%	

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 [1]**	**Cash Bonus $**	**Super-annuation [1] $**	**Termination Benefits $**	**Long Service Leave $**	**Deferred Shares – Equity Vested [2] $**	**Total $**	**Performance Related %**
2019 financial year									
Current management team									
P Vernon	Managing Director & CEO	424,902	332,220	20,531	-	13,531	309,026	1,100,210	58.3%
K Heng (app 14 January 2019)	Chief Operating Officer	133,205	-	12,654	-	2,805	-	148,664	0.0%
F Horan	Head of People & Culture	290,220	36,060	20,531	-	5,345	-	352,156	10.2%
K Hughes	Chief Risk Officer	253,870	45,448	20,531	-	5,639	-	325,488	14.0%
A Lowbridge	Chief Customer Officer	238,509	75,780	20,531	-	5,284	-	340,104	22.3%
D Macri	Chief Investment Officer	352,399	265,122	20,531	-	12,179	296,264	946,495	59.3%
T May	General Counsel & Company Secretary	237,792	37,815	20,531	-	11,946	64,293	372,377	27.4%
S Palmer	Head of Ethics Research	280,267	47,345	20,531	-	6,342	55,085	409,570	25.0%
M Simons	Chief Financial Officer	306,752	65,528	20,531	-	6,688	-	399,499	16.4%
Departed Management									
R Plow (dep 24 October 2018)	Chief Operating Officer	196,151	55,735	20,531	-	-	-	272,417	20.5%
Total 2019		2,714,067	961,053	197,433	-	69,759	724,668	4,666,980	36.1%

1. Fixed remuneration – includes base salary, payments made to superannuation funds and dividend income on unvested shares.
2. Long term incentives FY19 – the market value of vested shares during the financial year relating to deferred shares granted in September 2015. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was $1.61 (price at grant was $0.54 (converted, post December 2018 share split)).

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 [1] $	Long Service Leave $	Deferred Shares – Equity Vested [3] $	Total $	Performance Related %
2018 financial year									
Current management team									
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	-	349,168	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%
Departed Management									
M Shanahan (dep 24 Apr 2018)	CFO & COO	307,745	92,649	20,049	77,274	-	100,396	598,113	32.3%
Total 2018		2,420,089	520,378	172,316	77,274	46,120	421,652	3,657,829	25.8%

3. Long term incentives FY18 – the market value of vested shares during the financial year relating to deferred shares granted in September 2014. 50% of these shares vested and 50% were forfeited as the performance criteria was not fully achieved. The market value on the vesting date was $1.15 (price at grant was $0.43 (converted, post December 2018 share split)).

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 outlined in the table below. Opening balances and share prices have been adjusted for the share split (refer Note 26 of Notes to the Financial Statements).

Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2018	No. of shares granted	No. of shares forfeited/ expired	No. of shares vested	No. of shares sold	Balance at 30 June 2019
Managing Director & CEO (refer Contract terms)									
P Vernon									
Unvested	1-Sep-15	1-Sep-18	0.5397	191,300	-	-	(191,300)	-	-
Unvested	1-Sep-16	1-Sep-19	0.6834	155,600	-	-	-	-	155,600
Unvested	1-Sep-18	1-Sep-21	1.3175	-	107,700	(107,700)	-	-	-
Ordinary shares				1,229,900	-	-	191,300	(100,000)	1,321,200
Total				**1,576,800**	**107,700**	**(107,700)**	**-**	**(100,000)**	**1,476,800**
Current Management									
F Horan									
Unvested	1-Sep-18	1-Sep-21	1.3175	-	37,100	-	-	-	37,100
Ordinary shares				-	-	-	-	-	-
Total				**-**	**37,100**	**-**	**-**	**-**	**37,100**
K Hughes									
Unvested	1-Sep-17	1-Sep-20	0.8873	34,100	-	-	-	-	34,100
Unvested	1-Sep-18	1-Sep-21	1.3175	-	20,900	-	-	-	20,900
Ordinary shares				-	-	-	-	-	-
Total				**34,100**	**20,900**	**-**	**-**	**-**	**55,000**
A Lowbridge									
Unvested	10-Oct-16	1-Dec-19	0.6834	46,500	-	-	-	-	46,500
Unvested	1-Sep-17	1-Sep-20	0.8873	33,800	-	-	-	-	33,800
Unvested	1-Sep-18	1-Sep-21	1.3175	-	23,500	-	-	-	23,500
Ordinary shares				-	-	-	-	-	-
Total				**80,300**	**23,500**	**-**	**-**	**-**	**103,800**
D Macri									
Unvested	1-Sep-15	1-Sep-18	0.5397	183,400	-	-	(183,400)	-	-
Unvested	1-Sep-16	1-Sep-19	0.6834	149,200	-	-	-	-	149,200
Unvested	1-Sep-17	1-Sep-20	0.8873	131,500	-	-	-	-	131,500
Unvested	1-Sep-18	1-Sep-21	1.3175	-	90,200	-	-	-	90,200
Ordinary shares				115,700	-	-	183,400	(244,215)	54,885
Total				**579,800**	**90,200**	**-**	**-**	**(244,215)**	**425,785**
T May									
Unvested	1-Sep-15	1-Sep-18	0.5397	39,800	-	-	(39,800)	-	-
Unvested	1-Sep-16	1-Sep-19	0.6834	32,400	-	-	-	-	32,400
Unvested	1-Sep-17	1-Sep-20	0.8873	26,200	-	-	-	-	26,200
Unvested	1-Sep-18	1-Sep-21	1.3175	-	19,700	-	-	-	19,700
Ordinary shares				-	-	-	39,800	(39,800)	-
Total				**98,400**	**19,700**	**-**	**-**	**(39,800)**	**78,300**
S Palmer									
Unvested	1-Sep-15	1-Sep-18	0.5397	34,100	-	-	(34,100)	-	-
Unvested	1-Sep-16	1-Sep-19	0.6834	29,400	-	-	-	-	29,400
Unvested	1-Sep-17	1-Sep-20	0.8873	31,600	-	-	-	-	31,600
Unvested	1-Sep-18	1-Sep-21	1.3175	-	22,800	-	-	-	22,800
Ordinary shares				-	-	-	34,100	(34,100)	-
Total				**95,100**	**22,800**	**-**	**-**	**(34,100)**	**83,800**
K Heng									
Ordinary shares				-	-	-	-	-	-
Total				**-**	**-**	**-**	**-**	**-**	**-**
M Simons									
Unvested	1-Sep-17	1-Sep-20	0.8873	41,000	-	-	-	-	41,000
Unvested	1-Sep-18	1-Sep-21	1.3175	-	25,000	-	-	-	25,000
Ordinary shares				-	-	-	-	-	-
Total				**41,000**	**25,000**	**-**	**-**	**-**	**66, 000**

Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2018	No. of shares granted	No. of shares forfeited/ expired	No. of shares vested	No. of shares sold	Balance at 30 June 2019
Departed management									
R Plow									
Unvested	1-Sep-17	1-Sep-20	0.8873	32,500	-	(32,500)	-	-	-
Unvested	1-Sep-18	1-Sep-21	1.3175	-	23,200	(23,200)	-	-	-
Ordinary shares				-	-	-	-	-	-
Total				**32,500**	**23,200**	**(55,700)**	**-**	**-**	**-**

Contract terms

On 26 June 2019, the Company announced the resignation of the Managing Director and CEO, Phil Vernon. Mr Vernon will work closely with management to ensure a smooth transition until his departure date. Mr Vernon had a fixed term contract which was extended until 31 August 2019. The Board has started a search for Mr Vernon's successor and the Chairman, Mr Steve Gibbs will step in as Acting CEO following Mr Vernon's departure. During this period, the Acting Chair will be Mr Michael Monaghan.

Upon completing his 9 years of service, Mr Vernon will be paid the STI for the year ended 30 June 2019 in accordance with the balanced scorecard, along with the vesting of the LTI shares granted on 1 September 2016, two-thirds of the cash settled LTI relative to the period of service and company performance for the 3 years ending 30 June 2020. These incentive payments have been expensed during the year.

All KMP's (other than the CEO), have formal contracts of employment and are permanent employees with a 12-week notice period.

5. 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 NEDs of the Company is approved by shareholders. The maximum annual aggregate pool for directors' remuneration is $540,000, which was approved at the AGM in October 2017. A review of NEDs' remuneration is undertaken annually by the Company Board, taking into account recommendations from the PRN.

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, Risk and Compliance Committee ("ARC") and the PRN, with the exception of Ms Orr who sits on the Board of AEI, and AEI's PRN and ARC only. All directors also sit on the Board of AEI's Investment Committee. AEI's Product Disclosure Statements (PDS) Committee comprises Mr Gibbs and Mr Monaghan, and AES's Insurance Benefits Committee comprises Mr Gibbs and Ms Bun.

The following table sets out the agreed remuneration for Non-Executive Directors by position for a full year, with effect from 1 December 2018. Non-executive directors do not receive performance-related compensation and are not provided with retirement benefits apart from statutory superannuation.

From 1 December 2018	AEI $	AES $	AEF $
Base fees			
Chair	79,310	26,626	-
Other non-executive directors	45,350	26,626	-
Additional fees			
ARC - chair	15,862	15,862	-
ARC - member	9,064	9,064	-
Investment Committee (IC) - chair	10,000	-	-
Investment Committee (IC) - member	5,000	-	-
PDS Committee - chair	2,000	-	-
PDS Committee - member	2,000	-	-
Insurance Benefits Committee (IBC) - chair	-	3,000	-
Insurance Benefits Committee (IBC) - member	-	3,000	-
PRN - chair	-	-	-
PRN - member	-	-	-

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

From 1 December 2017	AEI $	AES $	AEF $
Base fees			
Chair	77,000	25,850	-
Other non-executive directors	44,000	25,850	-
Additional fees			
ARC – chair	15,400	15,400	-
ARC – member	8,800	8,800	-
PRN – chair	-	-	-
PRN - member	-	-	-

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** $	**Termin-ation Benefits** $	**Long Service Leave** $	**Long Term Incentive s - Equity** $	**Total** $
2019							
S Gibbs	117,252	-	11,139	-	-	-	128,391
K Greenhill	96,190	-	9,138	-	-	-	105,328
M Bun	85,522	-	8,125	-	-	-	93,647
M Monaghan	87,653	-	8,327	-	-	-	95,980
J Orr [1]	48,378	-	4,596	-	-	-	52,974
Total	**434,995**	**-**	**41,325**	**-**	**-**	**-**	**476,320**
2018							
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) [1]	14,476	-	1,375	-	-	-	15,851
Total	**345,946**	**-**	**32,864**	**-**	**-**	**-**	**378,810**

1. J Orr is a director of AEI Limited (appointed 20 February 2018) and a member of AEI's PRN (appointed 28 May 2018).

Shares owned by Non- Executive Directors

Name	Purchase Date	Balance at 1 July 2018	No. of shares purchased	No. of shares sold	Balance at 30 June 2019
Non-Executive Directors					
M Bun AEF Ordinary shares	13-Nov-17	57,000	-	-	57,000
Total		**57,000**	**-**	**-**	**57,000**

6. Governance

The Role of the People, Remuneration and Nominations Committee (PRN)

The role of the PRN 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 PRN 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 PRN members for the financial year ended 30 June 2019 were:
- Steve Gibbs (Chair);
- Mara Bun;
- Kate Greenhill;
- Michael Monaghan; and
- Julie Orr

The PRN met seven times during the year. Attendance at these meetings is set out in the Directors' Report. At the PRN'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 PRN 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 and KMP Performance

The Managing Director (MD) 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 PRN. The review includes measurement of performance against agreed KPI's and Company performance. The PRN also has oversite 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.

Trading Restrictions and Windows

All directors and employees are constrained from trading the Company's shares during "blackout periods". These periods occur between the end of the half year and two days after the release of the half-year results, and between the end of the full year and two days after the release of the full year results.

The Directors report, incorporating the Remuneration report, is signed is accordance with a resolution of the Board of Directors.

Steve Gibbs
Chair
People, Remuneration & Nominations Committee
27 August 2019

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 2019 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

Hopkins

Karen Hopkins

Partner

Sydney

27 August 2019

Australian Ethical Investment Limited and its Controlled Entities
Statements of comprehensive income
For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000	Parent 2019 $'000	Parent 2018 $'000
Revenue	5	40,977	35,992	33,247	29,491
Total revenue		40,977	35,992	33,247	29,491
Expenses					
Operating expenses					
Employee benefits	6	(15,431)	(14,207)	(15,280)	(13,741)
Fund related	7	(6,077)	(5,285)	(1,850)	(1,503)
Marketing		(3,798)	(3,356)	(3,796)	(3,354)
External services	8	(2,126)	(1,796)	(1,644)	(1,452)
Occupancy		(837)	(808)	(837)	(808)
Community grants	10	(780)	(620)	(937)	(710)
Depreciation and amortisation expense		(362)	(350)	(362)	(350)
Other expenses	9	(2,409)	(2,172)	(2,281)	(2,059)
Total operating expenses		(31,820)	(28,594)	(26,987)	(23,977)
Non-operating expenses					
Impairment of investment property held for sale		(75)	-	(75)	-
Total non-operating expenses		(75)	-	(75)	-
Total expenses		(31,895)	(28,594)	(27,062)	(23,977)
Profit before income tax expense		9,082	7,398	6,185	5,514
Income tax expense	11	(2,468)	(2,317)	(489)	(793)
Net profit for the year		6,614	5,081	5,696	4,721
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Loss on revaluation of investments		(2)	(2)	-	-
Other comprehensive income for the year, net of tax		(2)	(2)	-	-
Total comprehensive income for the year [1]		6,612	5,079	5,696	4,721
		Cents	**Cents**		
Basic earnings per share [2]	38	6.05	4.67		
Diluted earnings per share [2]	38	5.90	4.54		

[1] Comprehensive income includes the results of The Foundation (refer to Note 41)
[2] Comparatives have been restated following the share split (refer to Note 26)

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 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000	Parent 2019 $'000	Parent 2018 $'000
Assets					
Current assets					
Cash and cash equivalents	12	18,825	16,484	14,400	13,412
Trade and other receivables	13	2,375	848	1,875	526
Other	14	447	372	339	293
		21,647	17,704	16,614	14,231
Investment property held for sale	15	1,535	1,610	1,535	1,610
Total current assets		23,182	19,314	18,149	15,841
Non-current assets					
Deferred tax	11	1,805	1,449	1,737	1,359
Property, plant and equipment	18	1,753	1,814	1,753	1,814
Term deposit	19	504	504	504	504
Investments in subsidiary	16	-	-	316	316
Financial assets through other comprehensive income	17	78	80	2	2
Total non-current assets		4,140	3,847	4,312	3,995
Total assets		27,322	23,161	22,461	19,836
Liabilities					
Current liabilities					
Trade and other payables	20	5,052	3,357	3,587	2,512
Employee benefits	22	3,608	2,855	3,608	2,855
Income tax	21	808	752	808	752
Total current liabilities		9,468	6,964	8,003	6,119
Non-current liabilities					
Trade and other payables	23	328	438	328	438
Employee benefits	24	272	216	272	216
Provisions	25	240	234	240	234
Total non-current liabilities		840	888	840	888
Total liabilities		10,308	7,852	8,843	7,007
Net assets		17,014	15,309	13,618	12,829
Equity					
Issued capital	26	10,634	10,204	10,634	10,204
Reserves	27	788	1,251	792	1,253
Retained profits		5,592	3,854	2,192	1,372
Total equity		17,014	15,309	13,618	12,829

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 2019

Consolidated	Issued capital $'000	Employee share plan reserve $'000	Available-for-sale reserve $'000	Retained profits $'000	Total equity $'000
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
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(4,203)	(4,203)
Shares vesting during the year	281	(281)	-	-	-
Employee share plan - deferred shares	-	522	-	-	522
Revaluation of investments	-	-	(2)	-	(2)
Balance at 30 June 2018	10,204	1,253	(2)	3,854	15,309

Consolidated	Issued capital $'000	Employee share plan reserve $'000	FVOCI [3] reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	10,204	1,253	(2)	3,854	15,309
Profit after income tax expense for the year	-	-	-	6,614	6,614
Other comprehensive income for the year, net of tax	-	-	-	(2)	(2)
Total comprehensive income for the year	-	-	-	6,612	6,612
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(4,876)	(4,876)
Shares vesting during the year	430	(430)	-	-	-
Employee share plan - deferred shares	-	824	-	-	824
Purchase of shares under employee share plan		(855)			(855)
Revaluation of investments	-	-	(2)	2	-
Balance at 30 June 2019	10,634	792	(4)	5,592	17,014

[3] The ‘Fair Value through Other Comprehensive Income’ (FVOCI) reserve was previously named ‘Available for Sale’ reserve (refer to Note 2)

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 2019

Parent	Issued capital $'000	Share-based payment Reserves $'000	Retained profits $'000	Total equity $'000
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
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(4,203)	(4,203)
Shares vesting during the year	281	(281)	-	-
Employee share plan - deferred shares	-	522	-	522
Balance at 30 June 2018	10,204	1,253	1,372	12,829

Parent	Issued capital $'000	Share-based payment Reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	10,204	1,253	1,372	12,829
Profit after income tax expense for the year	-	-	5,696	5,696
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	5,696	5,696
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(4,876)	(4,876)
Shares vesting during the year	430	(430)	-	-
Employee share plan - deferred shares	-	824	-	824
Purchase of shares under employee share plan		(855)		(855)
Balance at 30 June 2019	10,634	792	2,192	13,618

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 2019

	Note	Consolidated		Parent	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers		38,918	35,664	27,356	30,761
Payments to suppliers and employees		(27,628)	(25,664)	(23,327)	(24,203)
Rental income received		223	205	223	205
Interest received		279	237	230	194
Community grants paid		(620)	(320)	(710)	(379)
Income taxes paid		(2,767)	(1,809)	(1,166)	(690)
Net cash from operating activities	37	8,405	8,313	2,606	5,888
Cash flows from investing activities					
Payments for property, plant and equipment	18	(333)	(135)	(333)	(135)
Payment for purchase of advocacy shares		-	(2)	-	(2)
Payment for purchase of SVA unit trusts		-	(80)	-	-
Dividends received from subsidiary		-	-	4,446	3,251
Net cash from/(used in) investing activities		(333)	(217)	4,113	3,114
Cash flows from financing activities					
Purchase of employees deferred shares		(855)	-	(855)	-
Dividends paid	28	(4,876)	(4,203)	(4,876)	(4,203)
Net cash used in financing activities		(5,731)	(4,203)	(5,731)	(4,203)
Net increase in cash and cash equivalents		2,341	3,893	988	4,799
Cash and cash equivalents at the beginning of the financial year		16,484	12,591	13,412	8,613
Cash and cash equivalents at the end of the financial year	12	18,825	16,484	14,400	13,412

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

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 'Company' or '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 27 August 2019. 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 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 as at 30 June 2019 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.

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 9 Financial Instruments
AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'.

Classification and measurement of financial assets and financial liabilities
The adoption of AASB 9 'Financial Instruments' from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with transitional provisions in AASB 9, comparative figures have not been restated.

The Company elected to present in Other Comprehensive Income ("OCI") changes in the fair value of its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments. As a result, assets with a fair value of $80,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income (“FVOCI”) and a FVOCI reserve was created on 1 July 2018. Dividends and future distributions are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

The following table and the accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets as at 1 July 2018.

Note 2. Significant accounting policies (continued)

	Classification		Carrying amount	
Financial assets	**Original under AASB 139**	**New under AASB 9**	**Original amount: AASB 139 $'000**	**New amount: AASB 9 $'000**
Unlisted unit trusts acquired by the Group's Foundation	Available for sale, revalued through OCI	FVOCI	78	78
Listed equity shares acquired by the Group for advocacy purposes	Available for sale, revalued through OCI	FVOCI	2	2
Trade and other receivables	Loans and receivables	Amortised cost	848	848
Cash and cash equivalents	Loans and receivables	Amortised cost	16,484	16,484
Total financial assets			17,412	17,412

The impact of these changes on the Group's equity is as follows:

	Effect on Available-for-sale reserve $'000	**Effect on FVOCI reserve $'000**
Opening balance - AASB 139	(2)	-
Reclassify investments in the Foundation from available-for-sale to FVOCI	2	(2)
Reclassify listed equity shares held by the Group for advocacy purposes from available-for-sale to FVOCI	-	-
Total impact	-	(2)
Opening balance - AASB 9	-	(2)

Impairment of financial assets
AASB 9 replaces the 'incurred loss' model in AASB 139 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments in FVOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The financial assets at amortised cost consist of trade receivables, and cash and cash equivalents.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Based on historical financial performance and the nature of these financial assets, impairment losses on trade and other receivables are estimated to be nil.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers
AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaced AASB 118 'Revenue', AASB 11 'Construction Contracts' and related interpretations.

Although the new accounting standard changes the recognition of revenue, the measurements of revenues remains the same. Revenue is recognised when there is certainty with regards to the recoverability of the fees in the reporting period.

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 at the end of the financial year. Performance fees are therefore variable consideration that has been constrained to nil until the performance is known at year end when it is highly probable that a significant reversal will not occur.

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 2019. 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 16 Leases
AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

A review of the Group's leasing arrangements has been carried out over the last year in light of the new lease accounting rules in AASB 16. The most significant impact identified is that the Group will recognise new assets and liabilities for its operating lease of the Sydney Office at 130 Pitt St, Sydney. The group expects to recognise right-of-use assets of approximately $1.7m on 1 July 2019 and lease liabilities of $2.1m with no impact on opening retained earnings due to transition to the new standard. The Group expects that net profit after tax will increase by approximately $8k for the year ended 30 June 2020 as a result of adopting the new rules.

The Group will apply the standard from 1 July 2019 and intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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.

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.

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.

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

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.

Share-based payment transactions - refer to Note 39
The consolidated entity 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.

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

	Consolidated		Parent	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Management fees	28,719	26,648	23,779	22,042
Performance fees	769	-	769	-
Administration fees (net of Operational Risk Financial Reserve contributions)	7,301	5,622	3,800	3,800
Member and withdrawal fees	3,685	3,280	-	-
Interest income	280	237	230	193
Rental income	223	205	223	205
Dividends	-	-	4,446	3,251
Revenue	40,977	35,992	33,247	29,491

Note 5. Revenue (continued)

Recognition and measurement
Until 30 June 2018, the Group recognised fee revenue when the services were provided, except for performance fees which were recognised when the fee was highly probable.

From 1 July 2018, the following accounting policies applied to the recognition and measurement of fee revenue.

Management, administration, member and withdrawal fees
Fee revenue is earned from provision of funds management services to customers outside the Group. Fee revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue as the services are provided.

The superannuation administration fee entitlement in accordance with the Product Disclosure Statement (‘PDS’) is net of $644k (2018: $1,170k) paid directly to the Operational Risk Financial Reserve (‘ORFR’) of the superannuation fund.

Performance fees
Performance fees that are dependent on fund performance are recognised when it is highly probable that a significant reversal will not occur.

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

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

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

Note 6. Employee benefits

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Employee remuneration	14,610	13,474	14,610	13,140
Directors fees	476	373	325	241
Other employment costs	345	360	345	360
	15,431	14,207	15,280	13,741

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, during the period to vesting of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and 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 performance conditions at the vesting date.

Note 7. Fund related

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Administration and custody fees	5,280	4,597	1,199	956
Licence and platform fees	713	599	567	458
Ethical research	84	89	84	89
	6,077	5,285	1,850	1,503

Recognition and measurement
Expenses are recognised at the fair value of the consideration paid or payable for services rendered.

Note 8. External services

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Audit and accounting	728	831	514	623
Consultants	542	310	373	220
Legal services	265	181	218	175
Other	591	474	539	434
	2,126	1,796	1,644	1,452

Note 9. Other expenses

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
IT	1,562	1,439	1,562	1,439
Travel	255	181	255	181
Insurance	250	208	135	118
Subscriptions and listing	150	128	150	128
Printing and postage	59	102	47	86
Other	133	114	132	107
	2,409	2,172	2,281	2,059

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 amounting to $937,000 (2018: $710,000) have been expensed and will be paid to The Foundation. Of this amount, $780,000 (2018: $620,000) has been provided for in the current year to be paid as community grants. The remainder of the funds will be retained in the Foundation for future impact investments.

Note 11. Income tax

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Income tax expense				
Current tax	2,818	2,721	861	1,207
Deferred tax - origination and reversal of temporary differences	(356)	(547)	(378)	(549)
Adjustment recognised for prior periods	6	12	6	12
Adjustment due to change in income tax rate	-	131	-	123
Aggregate income tax expense	2,468	2,317	489	793
Deferred tax included in income tax expense comprises:				
Increase in deferred tax assets	(356)	(547)	(378)	(549)
Numerical reconciliation of income tax expense and tax at the statutory rate				
Profit before income tax expense	9,082	7,398	6,185	5,514
Tax at the statutory tax rate of 27.5% (2018: 30%)	2,498	2,219	1,701	1,654
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Profit in relation to The Foundation not subject to tax	(41)	(24)	-	-
Non-taxable intercompany dividends from Australian Ethical Superannuation Pty Limited (AES)	-	-	(1,223)	(975)
Other non-taxable items	5	(21)	5	(21)
Adjustment due to change in income tax rate	-	131	-	123
	2,462	2,305	483	781
Adjustment recognised for prior periods	6	12	6	12
Income tax expense	2,468	2,317	489	793

The applicable weighted average effective tax rate for the consolidated group is 27.2% (2018: 31.3%) and for the parent entity is 7.8% (2018: 14.4%). The effective tax rate for the consolidated group excluding The Foundation is 27.6% (2018: 31.7%).

The effective tax rate for the consolidated group was higher in the prior period due to the change in the tax rate with effect from 1 July 2018. 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.

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Amounts recognised directly in equity				
Deferred tax: Employee share plan 2015/2016	-	35	-	35
Deferred tax: Employee share plan 2016/2017	52	48	52	48
Deferred tax: Employee share plan 2017/2018	70	78	70	78
Deferred tax: Employee share plan 2018/2019	95	-	95	-
	217	161	217	161

Note 11. Income tax (continued)

	Consolidated 2019 $'000	Consolidated 2018 $'000	Parent 2019 $'000	Parent 2018 $'000
Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Employee benefits	698	532	698	532
Accruals	123	121	103	64
Community grants	258	195	258	195
Provision for employee leave	370	314	370	314
Provision for lease make-good	66	64	66	64
Lease incentives	94	119	94	119
Trade and other payables	196	104	148	71
Deferred tax asset	1,805	1,449	1,737	1,359
Movements:				
Opening balance	1,449	902	1,359	810
Credited to profit or loss	356	547	378	549
Closing balance	1,805	1,449	1,737	1,359

	Consolidated 2019 $'000	Consolidated 2018 $'000	Parent 2019 $'000	Parent 2018 $'000
Provision for income tax				
Provision for income tax	808	752	808	752

Recognition and measurement
Tax expense comprises of current and deferred tax expense recognised in the profit and loss except where related to items recognised directly in equity. Tax expense is measured at the tax rates that have been enacted or substantially enacted based on the national tax rate for each applicable jurisdiction at the reporting date.

Current tax is the expected tax payable or receivable on taxable income or loss for the year and any adjustment in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. The carry forward values of deferred tax assets and liabilities have been reduced due to the change in the corporate income tax rate which takes effect from 1 July 2018.

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.

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. The tax liability for the subsidiary entities is recognised through intercompany payable or receivable.

Note 12. Current assets - cash and cash equivalents

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Cash at bank	128	118	121	112
Term deposits	5,100	5,100	5,000	5,000
Deposits at call	13,597	11,266	9,279	8,300
	18,825	16,484	14,400	13,412

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

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade receivables	2,375	848	1,875	526

Recognition and measurement
Trade receivables are initially recognised when they are originated and are measured at the transaction price. Subsequently, trade receivables are measured at amortised cost.

The relevant accounting policy until 30 June 2018 was as follows:
Trade 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.

Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables as at 30 June 2019 (2018: nil).

Note 14. Current assets – other

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Prepayments	447	372	339	293

Note 15. Current assets - investment property held for sale

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Investment property held for sale (less cost of disposal)	1,535	1,610	1,535	1,610

Recognition and measurement
On 30 June 2017, the Canberra premises (Trevor Pearcey House) was reclassified from Investment Property to Investment Property Held for Sale as a result of the Group's intention to dispose of the property and the commencement of an active sales campaign. As at 30 June 2019, the property remains unsold, however it continues to be actively marketed for sale and therefore, management have determined that the classification remains appropriate.

The asset is 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 2019, a valuation of the property was conducted in accordance with the Group's policy by Knight Frank (2018: Knight Frank), 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 $1.58m (2018: $1.65m) and management believe this remains a reasonable and appropriate valuation as at 30 June 2019.

Note 16. Non-current assets - investments in subsidiary

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Investment in Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	-	-	316	316

Note 17. Non-current assets - financial assets through other comprehensive income

The Foundation holds 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 prior year. The investment is revalued to fair value based on the Net Asset Value (NAV) unit price.

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.

Note 17. Non-current assets - financial assets through other comprehensive income (continued)

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Listed shares in Advocacy program	2	2	2	2
Investment in Social Impact programs	76	78	-	-
	78	80	2	2

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

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Opening fair value	80	-	2	-
Additions	-	82	-	2
Revaluation decrements	(2)	(2)	-	-
Closing fair value	78	80	2	2

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

Recognition and measurement
Financial assets at fair value through other comprehensive income (FVOCI) comprise:
- Unlisted unit trusts acquired by the Group's Foundation; and
- Equity securities acquired by the Group for advocacy purposes, which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considered this classification to be more relevant.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

In the prior financial year, the group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term.

Note 2 explains the change of accounting policy and the reclassification of equity investments from available-for-sale to FVOCI.

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

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Leasehold improvements - at cost	2,179	2,207	2,179	2,207
Less: Accumulated depreciation	(814)	(502)	(814)	(502)
	1,365	1,705	1,365	1,705
Plant and equipment - at cost	197	231	197	231
Less: Accumulated depreciation	(122)	(122)	(122)	(122)
	75	109	75	109
Platform development - at cost	313	-	313	-
	1,753	1,814	1,753	1,814

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

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

Consolidated	Leasehold improvements $'000	Plant and equipment $'000	Platform development $'000	Total $'000
Balance at 1 July 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	1,705	109	-	1,814
Additions	3	17	313	333
Make-good expense	(32)	-	-	(32)
Depreciation expense	(312)	(50)	-	(362)
Balance at 30 June 2019	1,364	76	313	1,753

During the 2019 financial year, AEI initiated a strategic project to internally develop a new Integrated Customer Experience Platform (Platform) comprising web-based marketing automation, web CMS, data warehouse, and an integrated client relationship management (CRM) system. It is expected to enrich customer experiences by personalising the website to dynamically deliver relevant, engaging and inspiring content, and improve customer retention and attract new customers. Costs in relation to the development of this Platform have been capitalised as an intangible asset, and depreciation over its useful life will begin at each stage of completion.

Recognition and measurement
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.

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	3-7 years
Plant and equipment	3-7 years
Platform development	5 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.

Note 19. Non-current assets - term deposit

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
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

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Trade payables	112	442	144	429
Accrued expenses	3,945	2,093	2,291	1,171
Unamortised lease incentive	215	202	215	202
Community grant payable	780	620	937	710
	5,052	3,357	3,587	2,512

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 consolidated entity 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 invoice being rendered.

Note 21. Current liabilities - income tax

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Provision for income tax	808	752	808	752

Note 22. Current liabilities - employee benefits

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Annual leave	597	524	597	524
Long service leave	476	468	476	468
Employee benefits	2,535	1,863	2,535	1,863
	3,608	2,855	3,608	2,855

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.

Note 22. Current liabilities - employee benefits (continued)

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 23. Non-current liabilities - trade and other payables

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Unamortised lease incentive	328	438	328	438

Refer to note 29 for further information on financial instruments.

Note 24. Non-current liabilities - employee benefits

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Long service leave	272	146	272	146
Long-term incentives	-	70	-	70
	272	216	272	216

Recognition and measurement
The liability for annual leave and long service leave 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

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Lease make-good	240	234	240	234

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

	Consolidated			
	2019 Shares	**2018 Shares**	**2019 \$'000**	**2018 \$'000**
Ordinary shares - fully paid	112,093,000	1,120,930	10,634	10,204

Movements in ordinary share capital

Details	**Date**	**Shares**	**Issue price**	**\$'000**
Balance	1 July 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	-	\$42.81	222
Vesting of deferred shares in the Employee Share Trust (766 shares)	24 April 2018	-	\$77.60	59
Balance	30 June 2018	1,120,930		10,204
Vesting of deferred shares in the Employee Share Trust (7,967 shares)	1 September 2018	-	\$53.98	430
Share split of 1 to 100 shares	21 December 2018	110,972,070	\$0.00	-
Balance	30 June 2019	112,093,000		10,634

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.

At the AGM held on 25 October 2018, a share capital split was approved on the basis of 1 share be subdivided into 100 shares. The share split took effect on 21 December 2018. Comparative numbers for the earnings and dividend per share have been restated to be comparable to current period disclosure.

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.

The capital risk management policy remained unchanged during the year.

Note 26. Equity - issued capital (continued)

(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.

(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.

Note 27. Equity - reserves

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Employee share plan reserve	792	1,253	792	1,253
Available-for-sale reserve	-	(2)	-	-
FVOCI reserve	(4)	-	-	-
	788	1,251	792	1,253

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.

Financial assets at FVOCI reserve
The Group has elected to recognise changes in the fair value of certain investments in equity financial instruments in OCI (refer Note 2). These include listed shares held in the advocacy program and investment in the SVA unit trusts held by The Foundation. These changes are accumulated within the FVOCI reserve within Equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Available-for-sale reserve - until 30 June 2018
The reserve was used to recognise increments and decrements in the fair value of the above-mentioned investments held by the Group up until 30 June 2018 (refer Note 2). The balance was transferred to the FVOCI reserve on 1 July 2018.

Note 27. Equity - reserves (continued)

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

Consolidated	Employee share plan reserve $'000	Available-for-sale reserve $'000	FVOCI reserve $'000	Total $'000
Balance at 1 July 2017	1,012	-	-	1,012
Issue of shares held by entity to employees	(281)	-	-	(281)
Employee share plan - deferred	522	-	-	522
Revaluation of investments	-	(2)	-	(2)
Balance at 30 June 2018	1,253	(2)	-	1,251
Issue of shares held by entity to employees	(430)	-	-	(430)
Purchase of shares under employee share plan	(855)			(855)
Employee share plan - deferred	824	-	-	824
Revaluation of investments	-	-	(2)	(2)
Transfer between reserves	-	2	(2)	-
Balance at 30 June 2019	792	-	(4)	788

Parent	Employee share plan reserve $'000	Total $'000
Balance at 1 July 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
Issue of shares held by entity to employee	(430)	(430)
Purchase of shares under employee share plan	(855)	(855)
Employee share plan - deferred	824	824
Balance at 30 June 2019	792	792

Note 28. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	2019 $'000	2018 $'000
Final dividend for the year ended 30 June 2018 of 2.35 cents (2017: 2.10 cents) per ordinary share - fully franked	2,634	2,354
Interim dividend for the year ended 30 June 2019 of 2.00 cents (2018: 1.65 cents) per ordinary share - fully franked	2,242	1,849
	4,876	4,203

Note 28. Equity - dividends (continued)

Franking credits

	2019 $'000	2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 27.5% (2018: 30%)	5,154	4,255

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

Since year end the Directors have declared a final dividend of 3.00 cents per fully paid ordinary share (2018: 2.35 cents), fully franked based on tax paid at 27.5%. The aggregate amount of the declared dividend expected to be paid on 18 September 2019 out of profits for the year ended at 30 June 2019, but not recognised as a liability at year end, is $3,363,000 (2018: $2,634,000).

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 2019 and will be recognised in subsequent financial reports.

Accounting policy for dividends
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, Risk & Compliance Committee (ARC). The Board regularly monitors the overall risk profile of the Group and sets the risk appetite, usually in conjunction with the annual strategy and 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 ARC. One of the main functions of the Committee is 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.

Note 29. Financial instruments (continued)

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 $3,416,000 (2018: $2,635,000).

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.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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

The consolidated entity 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.

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.

Consolidated - 2019	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
Non-derivatives					
Non-interest bearing					
Trade payables	7,967	-	-	-	7,967
Income tax payable	808	-	-	-	808
Total non-derivatives	8,775	-	-	-	8,775

Consolidated - 2018	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
Non-derivatives					
Non-interest bearing					
Trade payables	5,610	-	-	-	5,610
Income tax payable	752	-	-	-	752
Total non-derivatives	6,362	-	-	-	6,362

Note 29. Financial instruments (continued)

Parent - 2019	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
Non-derivatives					
Non-interest bearing					
Trade payables	6,502	-	-	-	6,502
Income tax payable	808	-	-	-	808
Total non-derivatives	7,310	-	-	-	7,310

Parent - 2018	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
Non-derivatives					
Non-interest bearing					
Trade payables	4,758	-	-	-	4,758
Income tax payable	752	-	-	-	752
Total non-derivatives	5,510	-	-	-	5,510

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.

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.

Note 30. Fair value measurement (continued)

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.

Consolidated - 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	76	-	78
Total assets	2	76	-	78

Consolidated - 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	78	-	80
Total assets	2	78	-	80

Parent - 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	-	-	2
Total assets	2	-	-	2

Parent - 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
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.

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:

	Consolidated		Parent	
	2019	2018	2019	2018
	$	$	$	$
Short-term employee benefits	4,172,814	3,629,711	4,034,694	3,532,576
Post-employment benefits	238,763	275,346	225,641	275,346
Long-term benefits	139,759	116,410	139,759	116,410
Share-based payments	276,721	416,381	276,721	416,381
	4,828,057	4,437,848	4,676,815	4,340,713

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:

	Consolidated		Parent	
	2019	2018	2019	2018
	$	$	$	$
Audit services for the consolidated group and subsidiaries - KPMG				
Audit or review of the financial statements	103,208	75,019	76,391	53,949
Audit services in accordance with regulatory requirements	41,372	39,572	41,372	39,572
Assurance services in relation to the Sustainability Report	24,450	19,500	24,450	19,500
Assurance services in relation to Carbon Footprint calculator	10,350	-	10,350	-
	179,380	134,091	152,563	113,021
*Audit services for the non-consolidated trusts and superannuation fund – KPMG**				
Audit and review of managed funds for which the Company acts as Responsible Entity	145,817	139,470	145,817	139,470
Audit of superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity	38,514	55,956	-	-
Audit services in accordance with regulatory requirements	57,367	54,870	-	-
	241,698	250,296	145,817	139,470
Non-audit services - KPMG				
Tax compliance and advisory services	93,516	89,635	52,347	66,470
IT advisory services	-	138,872	-	138,872
Other consulting services	90,303	85,680	90,303	83,256
	183,819	314,187	142,650	288,598
	604,897	698,574	441,030	541,089

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

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 leases relate to leases of office premises, and a lease for printing and copying equipment for the office.

The group entered a long-term operating lease for its Sydney office for a period of 7 years including additional office space on 1 July 2016. Lease incentives were received and are recognised as a liability in the Statement of Financial Position. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term. The Group does not have an option to purchase the premises at the expiry of the lease period. A bank guarantee of $504,000 has been provided by the Group to the property owners over the rental of building premises at 130 Pitt Street, Sydney.

The current lease of printing and copying equipment for the office began in January 2016 for a period of 5 years. No lease asset or liability has been recognised in the Statement of Financial Position as the new leasing standard is adopted from 1 July 2019.

The Group entered into a new lease commitment with Harbour IT for the provision of IT hardware, software and support for a period of 2 years. No lease asset or liability has been recognised in the Statement of Financial Position as the lease begins after implementation of new hardware and software licences, estimated to be August 2019.

During the financial year, the Group also entered into a commitment with Studio60 for the provision of website design and development services in relation to the strategic project referred to in Note 18. The commitment totals $148,000 over the financial year ending 30 June 2020.

Note 33. Commitments (continued)

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Capital commitments				
Committed at the reporting date but not recognised as liabilities, payable:				
Software development	148	-	148	-
Lease commitments - operating				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	1,062	590	1,062	590
One to five years	2,293	2,312	2,293	2,312
	3,355	2,902	3,355	2,902
Liabilities recognised in respect of non-cancellable operating leases				
Lease incentives:				
Current	109	109	109	109
Non-current	328	438	328	438
	437	547	437	547

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.

Note 34. Related party transactions (continued)

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 Trust (EST) holds the employee deferred shares scheme. Pacific Custodian Pty Limited acts as trustee to the trust.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	-	-	3,800,000	3,800,000
Investment management fees	-	-	11,927,644	9,953,300
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	-	-	1,978,324	1,523,860
Dividends from the subsidiary	-	-	4,446,460	3,251,176
Director fees reimbursed by the subsidiary	-	-	151,241	132,552
Receipt from the Australian Ethical Trusts:				
Provision of investment management services to the AETs as identified above in accordance with the Constitution and PDS	11,864,161	11,411,700	11,864,161	11,411,700
Receipts from Australian Ethical Retail Superannuation Fund:				
Provision of investment management / administration services to AERSF	24,168,191	20,181,765	-	-
Provision of member administration services to AERSF	3,685,401	3,280,178	-	-
Payments to Australian Ethical Foundation Limited:				
Community grants paid to The Foundation	-	-	709,813	379,141

Note 34. Related party transactions (continued)

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

	Consolidated		Parent	
	2019	2018	2019	2018
	$	$	$	$
Current receivables:				
Amounts receivable from the AETs	1,005,050	66,304	1,005,050	66,304
Amounts receivable from AES	-	-	591,616	235,245
Amounts receivable from AERSF	1,122,584	312,128	-	-
Current payables:				
Amounts payable to The Foundation	-	-	(936,756)	(709,813)

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

On 24 October 2018, Rob Plow resigned from his role as Chief Operating Officer. Kim Heng commenced as the new Chief Operating Officer on 14 January 2019.

On 26 June 2019, Phil Vernon announced he will be resigning from his role as Managing Director and CEO with effect from 31 August 2019. Mr Steve Gibbs, Chair of Australian Ethical will step in as Acting CEO following Mr Vernon's departure until a successor is appointed.

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:

		Ownership interest	
	Principal place of business /	2019	2018
Name	Country of incorporation	%	%
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

The Board has started a search for Mr Vernon's successor (departing 31 August 2019) and the Chairman, Mr Steve Gibbs will step in as Acting CEO following Mr Vernon's departure. During this period, the Acting Chair will be Mr Michael Monaghan.

Apart from the above and the dividend declared as disclosed in Note 28, no other matter or circumstance has arisen since 30 June 2019 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 operating activities

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Profit after income tax expense for the year	6,614	5,081	5,696	4,721
Adjustments for:				
Depreciation and amortisation	362	350	362	350
Make-good & straight-line rent expense	31	31	31	31
Non-cash employee benefits expense - deferred shares	824	585	824	585
Impairment of assets held for sale	75	-	75	-
Lease incentive amortisation	(109)	(109)	(109)	(109)
Dividend received from subsidiary	-	-	(4,446)	(3,251)
Change in operating assets and liabilities:				
Decrease/(increase) in trade and other receivables	(1,527)	115	(1,349)	1,266
Increase in deferred tax assets	(356)	(244)	(378)	(246)
Decrease/(increase) in other current assets	(75)	(22)	(46)	13
Increase in trade and other payables	1,695	735	1,074	556
Increase in employee benefits	809	1,240	809	1,240
Increase/(decrease) in other provisions	6	(201)	6	(20)
Decrease in current tax liability	56	752	57	752
Net cash from operating activities	8,405	8,313	2,606	5,888

Note 38. Earnings per share

At the AGM held on 25 October 2018, a share capital split was approved on the basis of 1 share be subdivided into 100 shares. The share split took effect on 21 December 2018. Comparative numbers for earnings per share have been restated to be comparable to current period disclosure.

	Consolidated	
	2019 $'000	2018 $'000
Profit after income tax attributable to the owners of Australian Ethical Investment Limited	6,614	5,081
	Cents	**Cents**
Basic earnings per share	6.05	4.67
Diluted earnings per share	5.90	4.54

Note 38. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	109,257,797	108,883,000
Adjustments for calculation of diluted earnings per share:		
Deferred shares	2,766,008	3,138,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	112,023,805	112,021,000

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).

	Cents	Cents
Basic EPS on NPAT attributable to shareholders (cents per share)	5.92	4.59
Basic EPS on UPAT attributable to shareholders (cents per share)	5.99	4.59
Diluted EPS on UPAT attributable to shareholders (cents per share)	5.84	4.46

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 purchased on-market or issued for no consideration, which relate to deferred shares granted 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 2019.

Deferred shares
Under the employee long term incentive scheme, 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.

From 1 September 2018 onwards, new grants of shares are being purchased on market by the Trustee. In the current year, $855,000 was paid to purchase deferred shares granted to employees. The Board retains the discretion to issue new shares if required.

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is $788,000 (2018: $585,000) relating to the deferred shares granted.

As at 30 June 2019, the Employee Share Trust holds 2,904,400 shares (30 June 2018: 3,195,300 shares) on behalf of employees until vesting conditions are met.

Comparative numbers in the below tables have been restated to be comparable to current period disclosure following the share split (refer Note 38).

Note 39. Share-based payments (continued)

2019

Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
01/09/2015	31/08/2018	796,700	-	(796,700)	-	-
01/09/2016	31/08/2019	814,300	-	-	(67,000)	747,300
03/01/2017	31/08/2019	46,500	-	-	-	46,500
01/09/2017	31/08/2020	1,105,300	-	-	(100,400)	1,004,900
01/09/2018	31/08/2021	-	1,082,000	-	(201,900)	880,100
		2,762,800	1,082,000	(796,700)	(369,300)	2,678,800
Unallocated treasury shares						225,600
Total deferred shares in the Employee Share Trust						2,904,400

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	514,500	-	(514,500)	-	-
01/09/2015	31/08/2018	856,000	-	(3,200)	(56,100)	796,700
01/09/2016	31/08/2019	857,800	-	-	(43,500)	814,300
03/01/2017	31/08/2019	132,100	-	(42,000)	(43,600)	46,500
01/09/2017	31/08/2020	-	1,276,200	(34,600)	(136,300)	1,105,300
		2,360,400	1,276,200	(594,300)	(279,500)	2,762,800
Unallocated treasury shares						432,500
Total deferred shares in the Employee Share trust						3,195,300

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.

Note 40. Contingent liabilities

A claim for specified damages was lodged by a subsidiary against the Company relating to the unit pricing matter disclosed in the 30 June 2017 annual report. The claim was to recover costs already incurred. 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 the disclosure of 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 AEI's shareholders or to settle liabilities of other Group entities.

As at and for the year ended 30 June 2019, the impact of The Foundation before intercompany eliminations is noted below:

Note 41. Results of the Foundation (continued)

	2019 $'000	2018 $'000
Statement of comprehensive income		
Revenue from parent entity	937	710
Interest income	6	3
Community grants expense	(780)	(620)
Audit fees	(14)	(10)
Profit for the year	149	83
Other comprehensive income		
Fair value adjustment of investment	(2)	(2)
Total comprehensive income for the year	147	81

	2019 $'000	2018 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	439	354
Receivables from parent entity	937	710
Investments (at fair value through OCI)	76	78
Liabilities:		
Payables	(793)	(630)
Net assets	659	512
Equity:		
Retained earnings	663	514
FVOCI reserve	(4)	(2)
Total equity	659	512

Australian Ethical Investment Limited and its Controlled Entities
Directors' declaration
30 June 2019

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 2019 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.

Phil Vernon
Managing Director and Chief Executive Officer

27 August 2019
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 Company's financial position as at 30 June 2019 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 2019
- 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 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 judgement, were of most significance in our respective audits of the Financial Report of the current period.

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

Management Fees - ($28.7m), Performance Fees – ($769k) and Administration fees ($7.3m) -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 audit
Management and performance fees (net of rebates) and administration fees were a key audit matter due to the: • 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. • significance of the revenue to the Group and Company, constituting 90% and 85% of total revenue, respectively.	Our procedures included: • 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. • 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. • We assessed funds under management (“FUM”) by: - testing key controls over the input of valuation data into the Group's system such as daily price movement checks performed by management; - checking the data output of the Group's system by selecting a sample of balances and comparing to source documentation; - checking the quantity of assets held to external custodian service provider reports at balance date, and - 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.

	• 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). • 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. • 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.

Investment Property held for sale - $1.5m - 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 audit**
The valuation of the property classified as held for sale was a key audit matter due to the: • quantum of the balance; and • assumptions applied by the Group and Company in estimating the fair value of the property which included estimated capitalisation rates. This necessitated increased audit effort to assess these assumptions and the methodology 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	Our procedures included: • Considered the competence, scope and objectivity of the external valuer. • 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: - Assessing the valuation methodologies for consistency with accounting standards and industry practice. - Comparing key inputs such as rental income and rental duration against signed rental agreements. - Comparing estimated capitalisation rates to external market data, such as market analysis published by industry experts; - 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.

location, estimated an overall value for the property.	• 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. • Assessing the appropriateness of the classification as held for sale against the requirements of the accounting standards. We did this by: - 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 - Obtaining copies of recent correspondence with potential buyers.

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 our related assurance opinion.

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 control to enable the preparation of a Financial Reports that gives a true and fair view and are 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 and 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. 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 2019, 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 in *pages 9 to 27* of the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Hopkins

Karen Hopkins

Partner

Sydney

27 August 2019