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Annual Financial Statements

30 JUNE 2019

Australian Ethical Superannuation Pty Limited

ABN 43 079 259 733

The directors present their report, together with the financial statements, on Australian Ethical Superannuation Pty Limited (the "Company") for the year ended 30 June 2019.

Directors

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

Steve Gibbs
Kate Greenhill
Mara Bûn
Michael Monaghan
Phil Vernon

On 26 June 2019, Mr 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. During this period, the Acting Chair will be Mr Michael Monaghan.

Principal activities

During the financial year the principal continuing activities of the Company was being trustee of the Australian Ethical Retail Superannuation Fund. Included in these activities are funds management, portfolio management, investment administration and custody services. Other than as described in this report, there were no significant changes in the nature of the Company's activities during the year.

Dividends

Dividends paid during the financial year were as follows:

Details	2019 $	2019 $
Final dividend for the year ended 30 June 2018 of $7.95 (2017: $6.80) per fully paid ordinary share – fully franked	1,900,503	1,625,588
Interim dividend for the year ended 30 June 2019 of $10.65 (2018: $6.80) per fully paid ordinary share – fully franked	2,545,957	1,625,588
	4,446,460	3,251,176

Since the end of the financial year, the Directors declared a dividend of $11.50 per share (2018: $7.95 per share). The dividends have not been provided for. The aggregate amount of the declared dividend expected to be paid 11 September 2019 out of profits for the year ended at 30 June 2019, but not recognised as a liability at year end is $2,749,156 (2018: $1,900,503).

Review of operations

The profit for the Company after providing for income tax amounted to $5,215,584 (30 June 2018: $3,528,219).

For the Australian Ethical Retail Superannuation Fund (the Fund), funds under management increased by $417m during the financial year, from $1,841m at 30 June 2018 to $2,258m at 30 June 2019.

The Superannuation fund increased membership from 41,518 in June 2018 to 43,079 as at 30 June 2019. This has been the result of increased marketing efforts, in particular, social media campaigns increasing awareness of the Fund.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Apart from the above announcement in respect of the resignation of Mr Phil Vernon and the dividend declared, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

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.

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.

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.

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
Director

27 August 2019
Sydney

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

To the Directors of Australian Ethical Superannuation Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Superannuation Pty 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

Kopkins

Karen Hopkins
Partner
Sydney
27 August 2019

Annual Financial Report 30 June 2019

Australian Ethical Superannuation Pty Limited

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General information

Australian Ethical Superannuation Pty Limited is a for-profit company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

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.

Statement of comprehensive income

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Revenue	4	27,897,653	23,501,637
Total revenue		27,897,653	23,501,637
Expenses			
Investment management and administration	5	(15,727,644)	(13,753,300)
External services	6	(4,669,149)	(4,407,994)
Other expenses	7	(155,710)	(155,712)
Directors fees		(151,241)	(132,552)
Profit before income tax expense		**7,193,909**	**5,052,079**
Income tax expense	8	(1,978,325)	(1,523,860)
Net profit after income tax		**5,215,584**	**3,528,219**
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year attributable to the owners of Australian Ethical Superannuation Pty Limited		**5,215,584**	**3,528,219**

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

Statement of financial position

As at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Current assets			
Cash and cash equivalents	9	3,986,179	2,716,608
Trade and other receivables	10	1,122,584	554,522
Other	11	107,932	78,874
Total current assets		5,216,695	3,350,004
Non-current assets			
Deferred tax	8	68,249	90,582
Total non-current assets		68,249	90,582
Total assets		**5,284,944**	**3,440,586**
Liabilities			
Current liabilities			
Trade and other payables	12	2,230,411	1,155,177
Total current liabilities		2,230,411	1,155,177
Total liabilities		**2,230,411**	**1,155,177**
Net assets		3,054,533	2,285,409
Equity			
Issued capital	13	316,000	316,000
Retained profits		2,738,533	1,969,409
Total equity		**3,054,533**	**2,285,409**

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

Statement of changes in equity

For the year ended 30 June 2019

	Issued capital $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	316,000	1,692,366	2,008,366
Profit after income tax expense for the year	–	3,528,219	3,528,219
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	3,528,219	3,528,219
Transactions with owners in their capacity as owners:			
Dividends paid (Note 14)	–	(3,251,176)	(3,251,176)
Balance at 30 June 2018	316,000	1,969,409	2,285,409

	Issued capital $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	316,000	1,692,366	2,285,409
Profit after income tax expense for the year	–	5,215,584	5,215,584
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	5,215,584	5,215,584
Transactions with owners in their capacity as owners:			
Dividends paid (Note 14)	–	(4,446,460)	(4,446,460)
Balance at 30 June 2019	316,000	2,738,533	3,054,533

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

Statement of cash flows

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		27,285,530	23,390,947
Payments to suppliers		(19,657,573)	(19,547,046)
Interest received		44,066	39,680
Income taxes paid		(1,955,992)	(1,522,261)
Net cash from operating activities	20	5,716,031	2,361,320
Cash flows from investing activities			
Net cash from investing activities		–	–
Cash flows from financing activities			
Dividends paid	14	(4,446,460)	(3,251,176)
Net cash used in financing activities		(4,446,460)	(3,251,176)
Net increase/(decrease) in cash and cash equivalents		1,269,571	(889,856)
Cash and cash equivalents at the beginning of the financial year		2,716,608	3,606,464
Cash and cash equivalents at the end of the financial year	9	3,986,179	2,716,608

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

Notes to the financial statements

30 June 2019

Note 1. About this report

The financial statements cover Australian Ethical Superannuation Pty Limited as an individual entity. The financial statements are presented in Australian dollars, which is Australian Ethical Superannuation Pty Limited's functional and presentation currency.

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.

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Company 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 Company.

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

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'.

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 on transition as at 1 July 2018.

	Classification		Carrying amount	
Financial assets	**Original under AASB 139**	**New under AASB 9**	**Original amount AASB 139**	**New amount AASB 9**
Cash and cash equivalents	Loans and receivables	Amortised cost	2,716,608	2,716,608
Trade and other receivables	Loans and receivables	Amortised cost	554,522	554,522
Total financial assets			**3,271,130**	**3,271,130**

Although the new accounting standard changes the classification of financial instruments, the measurements of the financial instruments remains the same. Hence, there is no impact to the Company's equity accounts.

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 valued under Fair Value to Other Comprehensive Income (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 Company has elected to measure loss allowances for trade receivables at an amount equal to lifetime expected credit loss.

Note 2. Significant accounting policies (continued)

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

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

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

- the counterparty is unlikely to pay its credit obligations to the Company in full, without recourse by the Company 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.

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 'Constructions 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, hence, there is no impact to the Company's accounts – refer to Note 4.

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 historical cost convention.

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 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.

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 Company'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.

Note 2. Significant accounting policies (continued)

A liability is classified as current when: it is either expected to be settled in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

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. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Recovery of deferred tax assets – refer to Note 8
Deferred tax assets are recognised for deductible temporary differences only if the entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 4. Revenue

	2019 $'000	2018 $'000
Management fees	16,867,689	14,559,972
Administration fees (net of Operational Risk Financial Reserve contributions)	7,300,502	5,621,793
Member and withdrawal fees	3,685,401	3,280,178
Interest income	44,061	39,694
Revenue	**27,897,653**	**23,501,637**

Recognition and measurement
Until 30 June 2018, the Company recognised fee revenue when the services were provided.

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

(i) Fee revenue
Fee revenue is earned from provision of services to members and is recognised when 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.

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

Note 5. Investment management and administration

	2019 $'000	2018 $'000
Investment management fees (paid to parent entity)	11,927,644	9,953,300
Administration fees (paid to parent entity)	3,800,000	3,800,000
	15,727,644	**13,753,300**

Note 6. External services

	2019 $'000	2018 $'000
Administration services	3,843,445	3,414,688
Legal/Consultant fees	243,847	453,885
Custody fees	238,184	226,923
Audit/Accounting services	199,834	197,117
Insurance	115,540	90,106
Other professional services	23,092	16,179
Other fund related	5,207	9,096
	4,669,149	**4,407,994**

Note 7. Other expenses

	2019 $'000	2018 $'000
APRA levy	123,268	130,705
Other expenses	32,442	25,007
	155,710	**155,712**

Note 8. Income tax

	2019 $'000	2018 $'000
Income tax expense		
Current tax expense	1,955,992	1,522,261
Deferred tax – origination and reversal of temporary differences	22,333	1,599
Aggregate income tax expense	1,978,325	1,523,860
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets	22,333	1,599
Numerical reconciliation of income tax expense and tax at the statutory rate	7,193,909	5,052,079
Profit before income tax expense		
Tax at the statutory tax rate of 27.5% (2018: 30%)	1,978,325	1,515,624
Adjustment to deferred tax balances as a result of change in statutory tax rate	–	8,236
Income tax expense	**1,978,325**	**1,523,860**

The applicable weighted average effective tax rates are the year is 27.5% (2018: 30%)

	2019 $'000	2018 $'000
Deferred tax expense		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued expenses	68,249	90,582
Deferred tax asset	68,249	90,582
Movements:		
Opening balance	90,582	92,181
Charged to profit or loss	(22,333)	(1,599)
Closing balance	**68,249**	**90,582**

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. These are offset if there is a legally enforceable right to offset. Deferred tax assets are recognised only to the extent that it is probably 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 probably that the related tax benefits will be realised.

Note 8. Income tax (continued)

The Company, its parent entity, Australian Ethical Investment Limited, and the parent entity's wholly owned subsidiaries (together referred to as the 'Group') have formed an income tax consolidated group under the Tax Consolidation System. Australian Ethical Investment Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group.

The tax consolidated group has a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax 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 is recognised through intercompany payable or receivable with the parent entity.

Note 9. Current assets – cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank	5,000	5,000
Term deposit	100,000	100,000
Deposits at call	3,881,179	2,611,608
	3,986,179	**2,716,608**

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 three 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 10. Current assets – trade and other receivables

	2019 $'000	2018 $'000
Trade receivables	**1,122,584**	**554,522**

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 11. Current assets – other

	2019 $'000	2018 $'000
Prepayments	**107,932**	**78,874**

Note 12. Current liabilities – trade and other payables

	2019 $'000	2018 $'000
Trade payables	591,616	244,250
Accrued expenses	1,638,795	910,927
	2,230,411	**1,155,177**

Refer to Note 15 for further information on financial instruments.

Recognition and measurement

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

Note 13. Equity – issued capital

	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares - fully paid	239,057	239,057	316,000	316,000

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.

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

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.

Capital risk management

The Company manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to continue to provide returns to its shareholders and benefits to other stakeholders, and to reduce the cost of capital.

Part of the capital management of the Company is to determine the dividend policy. Any amounts in excess of the minimum required working capital is typically paid as a dividend. In certain circumstances, the Board may declare a dividend outside this policy.

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

There were no changes to the Company's approach to capital management during the year.

Note 14. Equity – dividends

Dividends paid during the financial year were as follows:

	2019 $'000	2018 $'000
Final dividend for the year ended 30 June 2018 of $7.95 (2017: $6.80) per fully paid ordinary share – fully franked	1,900,503	1,625,588
Interim dividend for the year ended 30 June 2019 of $10.65 (2018: $6.80) per fully paid ordinary share – fully franked	2,545,957	1,625,588
	4,446,460	**3,251,176**

Since the end of the financial year, the Directors declared a dividend of $11.50 per share (2018: $7.95 per share). The dividends have not been provided for and there are no tax consequences. The aggregate amount of the declared dividend expected to be paid 11 September 2019 out of profits for the year ended at 30 June 2019, but not recognised as a liability at year end is $2,749,156 (2018: $1,900,503).

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

Note 15. Financial instruments

Financial risk management objectives

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

The Company does not have a material exposure to currency, price and interest rate risk.

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 Board and the Audit, Risk & Compliance Committee (ARC). The ARC is responsible for risk management oversight and its main functions include identifying emerging risks, determining the relevant treatment and monitoring emerging and current risks. In addition, the ARC is responsible for ensuring that management have the systems and policies in place for the Company to meet and monitor its risk management responsibilities. The Board regularly monitors the overall risk profile of the Company and sets the risk appetite for the Company, usually in conjunction with the annual planning process.

Market risk

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

Exposure

The Company'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 $1,856,453 (2018: $1,527,753)

Credit risk

Company has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Company based on recent sales experience, historical collection rates and forward-looking information that is available.

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.

Note 15. Financial instruments (continued)

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is predominantly exposed to credit risk on its deposits with banks and financial institutions. The Company 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 Company to credit risk on financial assets which have been recognised on the Statement 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 balances are short term in nature and are not past due or impaired.

Liquidity risk

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

The Company 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.

Remaining contractual maturities

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

2019	Weighted average interest rate %	1 year or less $	Between 1 and 5 years $	Remaining contractual maturities $
Non-derivatives				
Non-interest bearing				
Trade payables	–	2,230,411	–	2,230,411
Total non-derivatives	–	2,230,411	–	2,230,411

2018	Weighted average interest rate %	1 year or less $	Between 1 and 5 years $	Remaining contractual maturities $
Non-derivatives				
Non-interest bearing				
Trade payables	–	1,155,177	–	1,155,177
Total non-derivatives	–	1,155,177	–	1,155,177

Fair value of financial instruments

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

Note 16. 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.

Note 17. 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:

	2019 $'000	2018 $'000
Audit services – KPMG		
Audit of the financial statements	13,381	10,670
Audit services for the non-consolidated superannuation fund – KPMG		
Audit and review of the financial statements	38,514	55,956
Audit services in accordance with regulatory requirements	57,367	54,870
	95,881	**110,826**
Other services – KPMG		
Tax compliance and advisory services	41,169	23,165
Other consulting services	–	2,424
	41,169	**25,589**
Total remuneration of KPMG	**150,431**	**147,085**

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 18. Related party transactions

Parent entity

The parent entity is Australian Ethical Investment Limited.

Trustee

The company acts as trustee of the Australian Ethical Retail Superannuation Fund (AERSF).

Note 18. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	2019 $'000	2018 $'000
Payments to Australian Ethical Investment Limited:		
Trustee and administration fees	3,800,000	3,800,000
Investment management fees	11,927,644	9,953,300
Transactions between the Company and its parent entity under tax consolidation and related tax sharing agreement	1,978,324	1,523,860
Dividends paid to the parent entity	4,446,460	3,251,176
Director fees paid by parent entity on behalf of the Company	151,241	132,552
Receipts from Australian Ethical Retail Superannuation Fund:		
Provision of investment management/administration services to AERSF	24,168,191	20,042,382
Provision of member administration services to AERSF	3,685,401	3,280,178

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to trade receivables and payables with related parties.

	2019 $'000	2018 $'000
Current receivables:		
Amounts receivable from AERSF		
Current payables:	1,122,584	312,128
Amounts payable to the parent entity	(592,578)	(244,249)

Terms and conditions

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

Note 19. Events after the reporting period

Apart from the dividend declared as disclosed in Note 14, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 20. Reconciliation of profit after income tax to net cash from operating activities

	2019 $'000	2018 $'000
Profit after income tax expense for the year	5,215,584	3,528,219
Change in operating assets and liabilities:		
Increase in trade and other receivables	(568,062)	(70,996)
Increase in other current assets	(29,058)	(35,935)
Decrease in deferred tax assets	22,333	1,599
Increase/(decrease) in trade and other payables	1,075,234	(881,067)
Decrease in other provisions	–	(180,500)
Net cash from operating activities	**5,716,031**	**2,361,320**

Directors' declaration

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 financial position as at 30 June 2019 and of its 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.

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

On behalf of the directors

PHIL VERNON
Director

27 August 2019
Sydney

Independent Auditor's Report

To the members of Australian Ethical Superannuation Pty Limited,

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Australian Ethical Superannuation Pty Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the 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 ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2019
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

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

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

We are independent of the 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 audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives 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 Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf This description forms part of our Auditor's Report.

KPMG   KHopkins

KPMG

Karen Hopkins
Partner
Sydney
27 August 2019


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