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Annual Financial Statements

30 JUNE 2020

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 2020.

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 (departed 31 August 2019)

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 stepped in as Acting CEO following Mr Vernon's departure until John McMurdo was appointed as CEO of Australian Ethical Investment Limited on 10 February 2020. On this date, Mr Gibbs resumed his role as Chair of the AES Board, replacing Acting Chair Michael Monaghan, who remains on the Board of Directors.

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 2019 of $11.50 (2018: $7.95) per fully paid ordinary share – fully franked	2,749,156	1,900,503
Interim dividend for the year ended 30 June 2020 of $5.30 (2019: $10.65) per fully paid ordinary share – fully franked	1,267,002	2,545,957
	4,016,158	4,446,460

Since the end of the financial year, the Directors declared a dividend of $1.20 per share (2019: $11.50 per share). The dividends have not been provided for. The aggregate amount of the declared dividend expected to be paid on 9 September 2020 out of profits for the year ended 30 June 2020, but not recognized as a liability at year end is $286,868 (2019: $2,749,156).

Review of operations

The profit for the Company after providing for income tax amounted to $1,643,711 (30 June 2019: $5,215,584). The reduction in profit for the Company is primarily due to a change in the management and administration fee agreement with the parent entity, as well as reduction in administration fees for all superannuation and pension products in April 2020.

For the Australian Ethical Retail Superannuation Fund (the Fund), funds under management increased by $464m during the financial year, from $2,258m at 30 June 2019 to $2,722m at 30 June 2020. FUM grew strongly in the first half of FY20, rising to $2,555m at 31 December 2019 following strong net inflows and positive investment performance. However, as COVID-19 impacted global markets, this growth was offset by negative fund performance and $0.04bn in outflows following the Federal Government's changes to early release of superannuation conditions. FUM recovered since the end of March to finish the full year at $2,722m with all options experiencing strong investment returns and continuing net inflows, despite the early release of superannuation withdrawals.

The Superannuation fund increased membership from 43,079 in June 2019 to 51,301 as at 30 June 2020. This has been the result of increased marketing efforts, in particular, social media campaigns increasing awareness of the Fund.

Our response to COVID-19

COVID-19 has been the ultimate stress test of our business model. And with purpose at its core, it has proven to be resilient by delivering investment outperformance for members despite the unprecedented volatility seen during this financial year.

Our initial response in March 2020 was rapid and efficient. The entire business, including the contact centre, was transitioned seamlessly to remote-working arrangements within a week with minimal disruption to business-as-usual operations.

Regular stress testing of the business was expanded to include additional modelling of different levels of increased member redemptions, market volatility and other economic shocks. To date, impacts have been in line with business forecasts.

Business productivity has remained high and we have continued to deliver outcomes for our members. Milestones met during this period of disruption include:

- Super administration fee reduction
- Upgrade of cybersecurity controls
- Activation of our business continuity plan
- Management of early release payments
- Outstanding investment performance

The mental health of our employee and service providers has been a key focus during the period, with the business testing creative ways to remain connected.

As the world takes tentative steps towards a new normal, our employee and service provider employees are continuing to work remotely.

As the COVID-19 situation is still unfolding, we are conducting regular reviews to respond effectively to any further government measures and any further COVID 19-related disruptions. Our response includes ongoing proactive communication with members about the potential impact of the pandemic on them and their investment objectives.

The Company is continuing to monitor the COVID-19 situation and is following a robust crisis management plan that focuses on protecting the health, safety and wellbeing of our employee; ensuring the uninterrupted operation of the business and meeting the varying needs of members.

Significant changes in the state of affairs

On 18 November 2019, Madeleine Bandfield was appointed as Executive Officer Superannuation. Ms Bandfield reports to the Chair of the Board, Steve Gibbs in order to maintain independent trustee responsibilities.

Other than the COVID-19 impacts described earlier in this report, there were no other significant changes in the state of affairs of the Company during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2020 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. Management have considered the impact of the ongoing COVID-19 pandemic in Australia and assessed there are no changes required to the financial statements subsequent to the end of the financial year.

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

STEVE GIBBS
Director

25 August 2020
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 2020 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

Karen Hopkins

Partner

Sydney

25 August 2020

Annual Financial Report 30 June 2020

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 25 August 2020. The directors have the power to amend and reissue the financial statements.

Statement of comprehensive income

For the year ended 30 June 2020

	Note	2020 $	2019 $
Revenue	4	32,686,251	27,897,653
Total revenue		32,686,251	27,897,653
Expenses			
External services	6	(5,523,899)	(4,669,149)
Investment management and administration	5	(24,166,637)	(15,727,644)
Other expenses	7	(172,216)	(155,710)
Strategic projects	8	(252,340)	–
Employee benefits	9	(297,457)	(151,241)
Profit before income tax expense		**2,273,702**	**7,193,909**
Income tax expense	10	(629,991)	(1,978,325)
Profit after income tax expense for the year attributable to the owners of Australian Ethical Superannuation Pty Limited		**1,643,711**	**5,215,584**
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		**1,643,711**	**5,215,584**

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

Statement of financial position

As at 30 June 2020

	Note	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents	11	2,443,835	3,986,179
Trade and other receivables	12	2,129,710	1,122,584
Other	13	151,036	107,932
Total current assets		4,724,581	5,216,695
Non-current assets			
Deferred tax	10	81,854	68,249
Total non-current assets		81,854	68,249
Total assets		**4,806,435**	**5,284,944**
Liabilities			
Current liabilities			
Trade and other payables	14	4,104,210	2,230,411
Employee benefits	15	17,680	–
Total current liabilities		4,121,890	2,230,411
Non-current liabilities			
Employee benefits	16	2,459	–
Total non-current liabilities		2,459	–
Total liabilities		**4,124,349**	**2,230,411**
Net assets		**682,086**	**3,054,533**
Equity			
Issued capital	17	316,000	316,000
Retained profits		366,086	2,738,533
Total equity		**682,086**	**3,054,533**

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 2020

	Issued capital $	Retained profits $	Total equity $
Balance at 1 July 2018	316,000	1,969,409	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 18)	–	(4,446,460)	(4,446,460)
Balance at 30 June 2019	316,000	2,738,533	3,054,533

	Issued capital $	Retained profits $	Total equity $
Balance at 1 July 2019	316,000	2,738,533	3,054,533
Profit after income tax expense for the year	–	1,643,711	1,643,711
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	1,643,711	1,643,711
Transactions with owners in their capacity as owners:			
Dividends paid (Note 18)	–	(4,016,158)	(4,016,158)
Balance at 30 June 2020	316,000	366,086	682,086

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 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		33,130,678	27,285,530
Payments to suppliers		(28,561,826)	(19,657,573)
Interest received		22,646	44,066
Income taxes paid (to parent entity)		(2,117,684)	(1,955,992)
Net cash from operating activities	23	2,473,814	5,716,031
Net cash from investing activities		–	–
Cash flows from investing activities			
Dividends paid	18	(4,016,158)	(4,446,460)
Net cash used in financing activities		(4,016,158)	(4,446,460)
Net increase/(decrease) in cash and cash equivalents		(1,542,344)	1,269,571
Cash and cash equivalents at the beginning of the financial year		3,986,179	2,716,608
Cash and cash equivalents at the end of the financial year	11	2,443,835	3,986,179

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

Notes to the financial statements

30 June 2020

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

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

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.

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, impact from the ongoing COVID-19 pandemic, management believes to be reasonable under the circumstances. Despite the volatility in markets during the year and initial reduction in FUM from the early release of superannuation on net inflows, the business' recovery from the initial decline in FUM shows there has been growth with positive net inflows and strong investment performance. At this time, management have not adjusted any estimates or valuations as the impact from COVID-19 is expected to be minimal.

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.

Income tax & deferred tax assets – refer to Note 10

The entity 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.

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. As at year end, the carrying value of deferred tax assets and liabilities were revalued as a result of the expected change in income tax rate from 27.5% to 26.0% or 30% from 1 July 2020, depending on timing of expected reversal.

Employee benefits provision – refer to Note 9

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.

Note 4. Revenue

	2020 $	2019 $
Management fees	20,608,473	16,867,689
Administration fees (net of Operational Risk Financial Reserve contributions)	8,825,177	7,300,502
Member (net of rebates)	3,230,066	3,685,401
Interest income	22,535	44,061
Revenue	**32,686,251**	**27,897,653**

Recognition and measurement

(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 $504k (2019: $644k) 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

	2020 $	2019 $
Investment management fees (paid to parent entity)	16,077,545	11,927,644
Administration fees (paid to parent entity)	8,089,092	3,800,000
	24,166,637	**15,727,644**

The administration fees paid to the parent entity was renegotiated during the year and a new FUM based fee implemented from 1 July 2019. Prior to this, the fee was a fixed fee. This contributed to the increased cost base.

Note 6. External services

	2020 $	2019 $
Administration services	4,595,364	3,843,445
Custody fees	311,972	238,184
Legal/Consultant fees	225,904	243,847
Audit/Accounting services	178,977	199,834
Insurance	158,592	115,540
Other professional services	44,442	23,092
Other fund related	8,648	5,207
	5,523,899	**4,669,149**

Administration fees also includes the cost of managing the early release of superannuation drawdowns under the Federal Government's support for individuals significantly impacted by COVID-19.

Note 7. Other expenses

	2020 $	2019 $
APRA levy	154,363	123,268
Other expenses	17,853	32,442
	172,216	**155,710**

Note 8. Strategic projects

	2020 $	2019 $
Strategic projects	252,340	–

Strategic projects includes consulting and legal costs in relation to projects delivered during the year. These initiatives focused on strengthening the customer experience through member education tools, preparation for member outcomes assessment, and also includes a review of our insurance offering to superannuation members.

Note 9. Employee benefits

	2020 $	2019 $
Employee remuneration	153,316	–
Directors fees	142,524	151,241
Other employment costs	1,617	–
	297,457	**151,241**

Note 10. Income tax

	2020 $	2019 $
Income tax expense		
Current tax expense	643,596	1,955,992
Deferred tax – origination and reversal of temporary differences	(13,605)	22,333
Aggregate income tax expense	**629,991**	**1,978,325**
Deferred tax included in income tax expense comprises:		
(Decrease)/increase in deferred tax assets	**(13,605)**	**22,333**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	2,273,702	7,193,909
Tax at the statutory tax rate of 27.5% (2019: 27.5%)	625,268	1,978,325
Tax Provision adjustment due to tax rate change from 27.5% to 26.0%	4,723	–
Income tax expense	**629,991**	**1,978,325**

The applicable weighted average effective tax rates are the year is 27.5% (2019: 27.5%)

As at year end, the carrying value of deferred tax assets and liabilities were revalued as a result of the expected change in income tax rate from 27.5% to 26.0% or 30% from 1 July 2020, depending on timing of expected reversal.

	2020 $	2019 $
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued expenses	81,854	68,249
Deferred tax asset	**81,854**	**68,249**
Movements:		
Opening balance	68,249	90,582
Credited/(charged) to profit or loss	13,605	(22,333)
Closing balance	**81,854**	**68,249**

As at year end, the tax rate use for calculating the carrying value of deferred tax assets is 26.0% (2019: 27.5%) or 30% from 1 July 2020, depending on timing of expected reversal.

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.

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.

Note 11. Current assets – cash and cash equivalents

	2020 $	2019 $
Cash at bank	5,000	5,000
Term deposit	100,000	100,000
Deposits at call	2,338,835	3,881,179
	2,443,835	**3,986,179**

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 12. Current assets – trade and other receivables

	2020 $	2019 $
Trade receivables	655,622	1,122,584
Other – receivable from parent entity	1,474,088	–
	2,129,710	**1,122,584**

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

Specific consideration has been given to the impact of COVID-19 on the ability of customers to pay their debts when assessing the recoverability of trade receivables. Expected credit losses on trade and other receivables are estimated to be nil as there are currently no past due receivables and all balances are due from related party entities as at 30 June 2020 (2019: nil). Management have not identified any additional concerns regarding collectability of the receivables.

Note 13. Current assets – other

	2020 $	2019 $
Prepayments	151,036	107,932

Note 14. Current liabilities – trade and other payables

	2020 $	2019 $
Trade payables – payable to parent entity	2,094,721	591,616
Accrued expenses	2,009,489	1,638,795
	4,104,210	**2,230,411**

Refer to Note 19 for further information on financial instruments.

Trade payables includes income tax payable to the parent entity.

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 15. Current liabilities – employee benefits

	2020 $	2019 $
Annual leave	7,463	–
Employee benefits	10,217	–
	17,680	**–**

Accounting policy for employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including short-term incentive compensation, non-monetary benefits, 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.

Note 16. Non-current liabilities – employee benefits

	2020 $	2019 $
Long service leave	2,459	–

Accounting policy for other long-term employee benefits

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 using the projected unit credit method. 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 17. Equity – issued capital

	2020 Shares	2019 Shares	2020 $	2019 $
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 18. Equity – dividends

Dividends paid during the financial year were as follows:

	2020 $	2019 $
Final dividend for the year ended 30 June 2019 of $11.50 (2018: $7.95) per fully paid ordinary share – fully franked	2,749,156	1,900,503
Interim dividend for the year ended 30 June 2020 of $5.30 (2019: $10.65) per fully paid ordinary share – fully franked	1,267,002	2,545,957
	4,016,158	**4,446,460**

Since the end of the financial year, the Directors declared a dividend of $1.20 per share (2019: $11.50 per share). The dividends have not been provided for. The aggregate amount of the declared dividend expected to be paid on 9 September 2020 out of profits for the year ended 30 June 2020, but not recognized as a liability at year end is $286,868 (2019: $2,749,156).

Note 19. 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 and 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) within the superannuation fund for which it acts as Trustee, which is influenced by equity market movements. Management calculates that a 10% movement in FUM changes annualised revenue by approximately $2,029,460 (2019: $1,856,453).

Credit risk
The 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.

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.

Note 19. Financial instruments (continued)

Liquidity risk

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.

2020	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	–	4,104,210	–	–	–	4,104,210
Total non-derivatives	–	4,104,210	–	–	–	4,104,210

2019	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 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

Fair value of financial instruments

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

Note 20. 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 21. 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:

	2020 $	2019 $
Audit services – KPMG		
Audit of the financial statements	11,296	13,381
Audit services for the non-consolidated superannuation fund – KPMG		
Audit and review of the financial statements	34,850	38,514
Audit services in accordance with regulatory requirements	58,088	57,367
	92,938	95,881
	104,234	**109,262**
Other services – KPMG		
Preparation of the tax return and tax advisory	35,744	41,169
Total remuneration of KPMG	**139,978**	**150,431**

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 22. 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).

Transactions with related parties

The following transactions occurred with related parties:

	2020 $	2019 $
Payments to Australian Ethical Investment Limited:		
Trustee and administration fees	8,089,092	3,800,000
Investment management fees	16,077,545	11,927,644
Transactions between the Company and its parent entity under tax consolidation and related tax sharing agreement	629,991	1,978,324
Dividends paid to the parent entity	4,016,158	4,446,460
Director fees paid by parent entity on behalf of the Company	55,142	151,241
Receipts from Australian Ethical Retail Superannuation Fund:		
Provision of investment management/administration services to AERSF	29,433,650	24,168,191
Provision of member administration services to AERSF	3,230,066	3,685,401

Note 22. Related party transactions (continued)

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.

	2020 $	2019 $
Current receivables:		
Amounts receivable from the parent entity	1,474,088	–
Amounts receivable from AERSF	655,622	1,122,584
Current payables:		
Amounts payable to the parent entity	(2,094,721)	(592,578)

Terms and conditions

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

Note 23. Reconciliation of profit after income tax to net cash from operating activities

	2020 $	2019 $
Profit after income tax expense for the year	1,643,711	5,215,584
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,007,126)	(568,062)
Increase in other current assets	(43,104)	(29,058)
Decrease in deferred tax assets	(13,605)	22,333
Increase in trade and other payables	1,873,799	1,075,234
Increase in employee provisions	20,139	–
Net cash from operating activities	**2,473,814**	**5,716,031**

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 2020 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

STEVE GIBBS
Director

25 August 2020
Sydney

KPMG

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 2020 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 2020;
- 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

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
25 August 2020


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