australianethical

Australian Ethical Investment Limited
Annual and Sustainability Report 2014

MATERIALITY MATTERS

Global Reporting Initiative™

AT THE TIME OF PUBLICATION THE G4-17 TO G4-27 DISCLOSURES WERE CORRECTLY LOCATED IN THIS G4 CONTENT INDEX AND FINAL REPORT.

2014

Contents

About this report

Australian Ethical's Annual and Sustainability Report 2014 is the company's 13th report aligned with the Global Reporting Initiative's (GRI) sustainability reporting framework. It outlines the sustainability, financial, corporate and governance activities for the period 1st July 2013 to 30th June 2014. The report covers these activities for Australian Ethical Investment Ltd, and its wholly owned subsidiary Australian Ethical Superannuation Pty Ltd, (referred to as 'Australian Ethical').

The report has been prepared using the GRI's guidelines for the G4 'In Accordance – Comprehensive' level of reporting. It is the first combined Annual and Sustainability Report for Australian Ethical. A moderate level of assurance over limited data sets has been conducted.

Reporting on material issues

The GRI framework identifies three principles for defining report content: stakeholder inclusiveness, sustainability context, and materiality. We believe that the methodology that we have used to determine the material issues for Australian Ethical adheres to these principles. Our discussion throughout the report on the sustainability context of our business impacts reflects that we understand the broader impacts of our activities on our members, shareholders, employees, and the world around us.

The overarching topics most material to Australian Ethical are:

- Responsible Investment
- Investors
- Employees
- Corporate Governance

In defining the key material topics for Australian Ethical for FY2014, a materiality assessment was conducted using the following methodology:

1. A list of 40 potentially relevant topics was compiled from:
   - Stakeholder engagement activities that occurred throughout the year
   - A review of 23 global Financial Services Sector G4 reports
   - Topics identified in the 2013 benchmarking study undertaken by the GRI: 'Sustainability Topics for Sectors: What do stakeholders want to know',
   - Australian Ethical's 2013 Sustainability Report, and
   - Australian Ethical's three year business strategy
2. Six senior management staff were interviewed and asked to prioritise each of these topics in a materiality matrix
3. Responses were collated and averaged to provide a ranking for each topic
4. Australian Ethical's Managing Director & CEO validated these topics

Identified topics were mapped against the GRI's 'Aspects' using the standard framework in conjunction with the Financial Services Sector Supplement.

G4-17, G4-28, G4-32, G4-33

The final material GRI Aspects identified for reporting and their relation to the key topics were:

<table>
<tr><th>Responsible Investment</th><th>Investors</th><th>Employees</th><th>Corporate Governance</th></tr>
<tr><td>Product Portfolio</td><td rowspan="11">Customer Privacy*</td><td>Employment</td><td rowspan="11">(Addressed in General Standard Disclosures)</td></tr>
<tr><td>Active Ownership</td><td>Labour/Management Relations*</td></tr>
<tr><td>Compliance</td><td>Labour Practices Grievance Mechanisms*</td></tr>
<tr><td>Investment*</td><td>Training and Education*</td></tr>
<tr><td>Audit*</td><td>Diversity and Equal Opportunity*</td></tr>
<tr><td>Economic Performance*</td><td>Equal Remuneration for Women and Men*</td></tr>
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** New for the FY2014 report. Although some of these aspects have been addressed in previous reports, they have not been identified and reported on as formal GRI disclosures.*

The boundary (internal and/or external to Australian Ethical) for each identified aspect is described in the GRI Content Index.

We value your feedback on the contents of this report. Should you wish to discuss any topics outlined in this report, contact Tom May, General Counsel and Company Secretary, Australian Ethical Investment Limited, on 02 6201 1953.

G4-18, G4-19, G4-23, G4-31

Managing Director's Review

The past year has been an extremely successful one with every aspect of the business performing above expectation.

Our new client intake and net fund inflows are well above forecast and industry averages, our investment performance has beaten mainstream benchmarks, our people are highly engaged and our operations continue to improve their efficiency. As a result we are almost at $1 billion in funds under management, our profits are strong and our share price has doubled in the past 12 months.

External Environment

During the year, there were three key issues in the external environment that impacted our business:

- **Market sentiment**

  General market sentiment has improved over the past twelve months with markets increasing leading to increased funds under management and improved industry inflows. Over the year, the ASX Small Industrials Index increased by 13.1%, the MSCI Global Climate Index increased by 23.8% and the UBS Composite Bond index increased by 6.1%.

- **Fossil fuel divestment**

  The campaign globally to encourage companies, institutions and investment funds to divest their fossil fuel exposed assets has steadily increased. We have actively supported this campaign and we remain the least fossil fuel exposed investment manager and superannuation fund in Australia. We have therefore benefited from the increased awareness amongst the investing public.

- **Regulatory change**

  The regulatory regime in Australia continues to evolve. The superannuation landscape in particular will only become more stringent with the commencement on 1 July 2014 of the new Prudential Standards. We have invested in our risk and compliance resources to meet the increased requirements.

Financial performance

Our profits for the financial year to 30 June 2014 have shown a significant improvement over the previous year which was, in turn, a significant improvement on the year before.

This result has been despite a steady reduction in fees, over the past few years, to ensure we remain competitive. This reduction in fees, at the same time as improving our profits, has only been possible due to initiatives undertaken over the past few years to reduce our costs and become a far more efficient organisation.

Fee reductions

On 30 June this year we reduced administration fees on our superannuation fund from 1.544% to 0.934%, a reduction of 42%. This was in recognition of the fact that our fees were out of step with comparable products and was aimed at passing some of the benefits of recent growth to our members.

Investment Performance

We've strengthened the quality of our investment team and processes in order to deliver on our mission of strong performance with best practice ethics.

The performance of our funds continues to be strong over the long term with most having performed in line with or above the median fund in their relevant Mercer surveys. Our Larger Companies Trust was ranked in the top quartile performance across 1, 3, 5, 7 and 10 years for all retail and wholesale All Growth Funds. Since inception the Trust has returned on average 8.1% each year (net of fees).

The long term performance of our flagship Smaller Companies Trust remains well above benchmark returning 9.7% per annum (net of fees) for the last 10 years versus the Small Industrial Index of 5.5% per annum, ranking it 6th in the Australian Equity (All Caps) Mercer Investment Survey.

Ethical leadership

This year, we have cemented our position as the leader in ethical investment in Australia. We maintain the highest ethical conviction in our investment selections as well as taking strong stands in encouraging more ethical behavior in the corporate and broader community.

Appointment of a Head of Ethics

We asserted our commitment to ethical leadership with the appointment of Dr Stuart Palmer as Head of Ethics and Corporate Advocacy. Previously Head of The Practice at St James Ethics Centre, Stuart has also been a partner in a law firm and worked in investment banking. His professional experience has given Stuart a strong background in the practical application of ethics, as well as commercial and market experience and the critical thinking required for his role at Australian Ethical.

Advocacy initiatives

A key focus for Australian Ethical is to influence behaviour in others through our engagement and advocacy activities with the companies we invest in including activities such as, engaging with Santos on CSG, advocating against Lend Lease's involvement in the Abbot Point coal terminal, and divesting from Petratherm.

We are engaging with the 'big four' Australian banks about improving their disclosure and governance in lending to the fossil fuel sector. We are participating in a global project involving major domestic and international institutional investors and lenders to develop global guidelines for the reporting of the greenhouse gas emissions intensity of lending and investment activities.

Recognition of our industry leadership

During the year we earned certification as a registered B Corporation. B Corporations – also known as benefit corporations – are a growing global movement dedicated to using the power of business to solve social and environmental problems.

We are also actively involved with the United Nations Principles of Responsible Investment (UNPRI) through industry working groups. This year we became the only Australian company to voluntarily have our self-certification to the principles independently assured.

Sales and marketing

Our sales and marketing initiatives have been extremely successful with dramatic results in both new clients and net inflows.

Investment in online engagement provides an extremely effective and efficient means of building awareness and communicating with the ethically conscious investment community.

Platforms such as our website and social media pages as well as Good Money magazine are used not just for one way communication. They are a highly interactive means of engaging with our community. The ability to communicate through networks provides a low-cost means of building awareness of Australian Ethical's activities.

- **Increase in followers and engagement**

  Our 'followers' on Facebook, LinkedIn and Twitter increased tenfold. Facebook followers increased from about 2,500 to 25,000 over the 12 months providing increased 'reach' and access to the market. Our 'engagement' levels – those talking about the brand as a percentage of total 'likes' – also remain extremely high by industry standards.

- **Increase in client sign-ups**

  Our new individual client sign-ups averaged 400 per month compared to 160 per month for the previous year. Super fund membership grew by 18.8% for the year compared to an industry average of -0.1%. We also tripled the rate of new super employer clients signing up to use the super fund during the year.

Purchase of *Ethical Investor*

As part of our digital content strategy, we recently purchased *Ethical Investor*. The publication has been a respected source of industry news and information for over 10 years.

We have refreshed the website and newsletter, increased engagement with subscribers and built the subscriber base. Having a non-branded or semi-branded channel for content is an emerging marketing strategy that has been implemented successfully by a number of leading financial services companies.

Employee Engagement

This year we engaged the independent firm Aon Hewitt to conduct our employee engagement survey and to provide an engagement score for the first time, benchmarking us against organisations in Australia and New Zealand. This allows us to compare our levels of engagement with industry peers. We were pleased to receive a top quartile score of 78 compared to an average 'best employer' score of 82.

Product improvements

MySuper approval

On 16 September 2013 we received approval from APRA to offer a MySuper product. This authorisation allows us to accept employer super contributions where the employee has not made a choice of funds. This is a key aspect within our strategy to be the default super fund of choice for ethical employers, for example, for B Corps and NGOs.

Launch of Ethical Fixed Interest Trust

In December we launched the Fixed Interest Trust. The Trust offers investors an opportunity to generate income from a portfolio of ethical diversified interest-bearing investments.

It is the first ethically screened managed fund available to Australian retail investors that invests in longer term bonds.

Operational improvements

We made numerous improvements to our operations as a result of 'Superstream' regulatory changes which are aimed at streamlining the efficiency of the industry.

As a result we have improved the process of receiving employer contributions and all rollover requests are now processed within three days.

During this period, we consolidated our operations into our Sydney office. Over the past few years the business has gradually evolved to be primarily based in Sydney in order to access the appropriately skilled and qualified employees and to be connected with clients, investee companies and intermediaries.

In the coming financial year, we will continue our work in providing investors with a clear ethical alternative to traditional funds.

Phil Vernon
Managing Director and CEO

G4-1

Message from Stuart Palmer, Head of Ethics

As an ethical investor and superannuation fund, Australian Ethical cares both about the social and environmental impact of its investment choices, as well as the ways in which our members can achieve financial security from investing in sustainable businesses and avoiding unsustainable ones.

In pursuing solutions to key risks to our world, we work both with existing institutions as well as social and environmental activists seeking to shape new institutions

By engaging with companies and also by collaborating with individuals and organisations throughout society, ranging from institutional investors to charities and NGOs, we can make a significant difference to the environmental and social impacts of companies identifying opportunities for companies to grow their positive impacts and mitigate their negative ones. We aim to influence the behaviour not only of the companies we invest in, but also other companies as well as governments, other investors and consumers.

Like so many, we have had a strong focus this year on the massive challenges of global warming.

By our own investment choices as well as through our engagement and advocacy activities, we have worked to increase the allocation of investment capital to the renewables and energy efficiency sectors. We have continued to review our fossil fuel exclusions on an ongoing basis to take account of research and analysis by the International Panel on Climate Change, the International Energy Agency and other thought leaders in this area.

Engaging with the banking sector, we have aimed to shape a more aware and proactive approach to climate risk in the major bank’s lending and investment activities, as well as influencing banks’ engagement with their own business customers about their carbon risks, opportunities and impacts. We believe that our work contributes to a more ethical approach to lending and investment activities in the future.

Dr Stuart Palmer, Australian Ethical's new Head of Ethics and Corporate Advocacy

A continued focus for Australian Ethical has been the investigation of the water and fugitive emissions risks of coal seam gas, looking at both local and overseas research and experience. In the coming year, we will elevate our engagement in the gas sector to encourage increased monitoring and reporting of water and emissions impacts, and the adoption of best technology and practices to minimise these impacts.

We have also maintained our focus on a broad range of social and environmental concerns raised by the Australian Ethical Charter, including human rights and human flourishing, animal welfare, biodiversity and natural capital, food security, gambling and tobacco, issues that are central to organisational strategy and ethics.

Our vision remains a future where all investing (and other) choices are active and considered choices which, instead of being driven by a narrow range of habitual and short term metrics, genuinely take account of all the things which matter to the person or organisation exercising their power of choice.

G4-2

Financial and Investment Performance

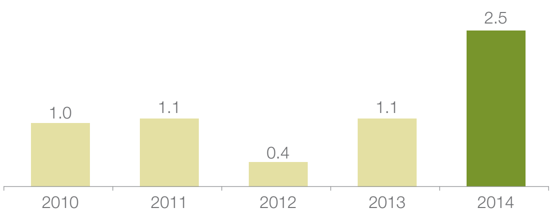
As an investment management company charged with managing the wealth of individuals, we have a responsibility to ensure that competitive returns are achieved each year through our ethical investment activities. All activities are undertaken with reference to the Australian Ethical Charter, which provides us with guidance on how we make our investment decisions. In addition to ensuring that our customers receive competitive returns, our Community Grants program ensures that a percentage of our shareholder profits are used to further community projects that benefit the society and environment in which we live.

Australian Ethical's profits for the financial year to 30 June 2014, increased by 139% over the previous year due to a number of factors, including a strong increase in new business and flows, improved market conditions, improved brand awareness and a continued focus on cost management. Improving the competitiveness and commerciality of our business and products over the past few years has also contributed to this significant growth and has allowed us to pass these financial benefits to our clients.

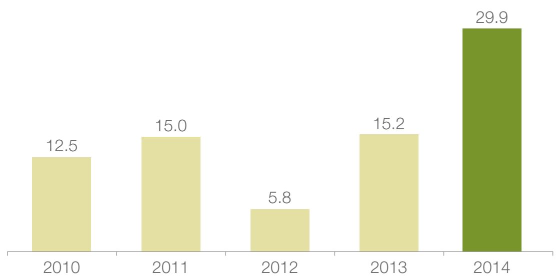
Smaller, Larger, International and Cash investment options exceeded their benchmarks for the year. All managed funds have first or second quartile performance against competitors over the past year. The Smaller Companies Fund is ranked third against competitors over seven years with the Larger Companies ranked first over three years. For Super Investment options, the Smaller Companies options exceeded its benchmark for the year. All other investment options are tracking towards their target returns.

Financial Summary

Profit After Tax ($m)



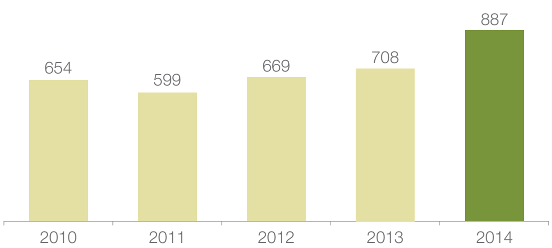
Return on Equity (%)



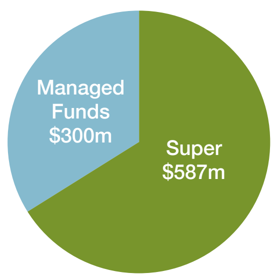
FY2014 Highlights

- 139% profit increase
- 18.6% increase in return on equity
- 25.3% increase in FUM
- Net inflows of $90.7m
- Market capitalisation of $36,270,561

Funds Under Management ($m)

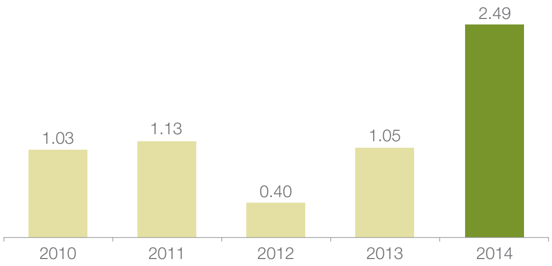


Funds under Management by Investment ($m)

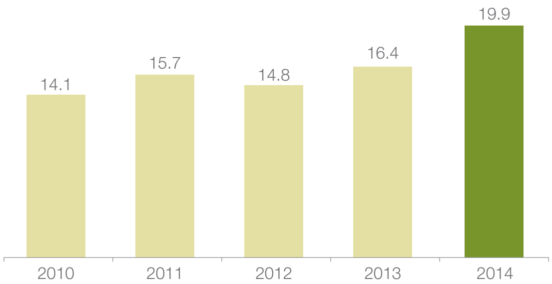


G4-DMA Economic Performance, G4-9, G4-FS6

Basic Earnings Per Share ($)



Revenue ($m)



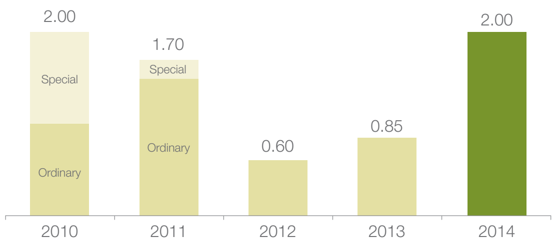
Managed Funds

Trust	Funds under management ($m)
Balanced Trust	83.8
Smaller Companies Trust - Retail	91.6
Smaller Companies Trust - Wholesale	37.7
Larger Companies Trust - Retail	32.8
Larger Companies Trust - Wholesale	29.5
Fixed Interest Trust – Retail	0.2
Fixed Interest Trust – Wholesale	1.1
Cash Trust	8.2
International Equities Trust	6.9
Property Fund	0.2
Advocacy Fund - Retail	4.7
Advocacy Fund - Wholesale	1.8

Superannuation

Investment Option	Funds under management ($m)
Accumulation	
Defensive	33.4
Conservative	9.6
Balanced	228.2
Growth	93.0
Advocacy	21.8
Smaller companies	146.4
International	8.9
Pension	
Defensive	4.2
Conservative	3.8
Balanced	18.9
Growth	3.1
Smaller companies	7.1
International	0.6

Dividends Paid ($)



Economic Performance Summary

	$m
Direct economic value generated	
Revenue	19.6
Economic value distributed	
Operating costs	(9.2)
Employee wages and benefits	(5.9)
Payment to providers of capital	(1.3)
Payment to government	(1.5)
Community investments	(0.5)
Total economic value distributed	(18.4)
Economic value retained	1.2

G4-9, G4-EC1

Investment performance

Super (accumulation) returns

	1 year	3 years (pa)	5 years (pa)	10 years (pa)
Defensive	2.6%	3.0%	3.5%	3.7%
Conservative	3.7%	4.0%	n/a	n/a
Balanced	8.8%	7.6%	5.8%	4.6%
Growth	10.3%	9.0%	5.9%	5.0%
Advocacy	16.5%	11.5%	n/a	n/a
Smaller Companies	10.7%	10.5%	8.9%	8.9%
International shares	15.7%	8.9%	4.3%	n/a

Managed fund returns

	1 year	3 years (pa)	5 years (pa)	10 years (pa)
Balanced Trust	13.3%	9.1%	7.0%	5.2%
Smaller Companies Trust - Retail	16.5%	11.0%	9.6%	9.7%
Smaller Companies Trust - Wholesale	18.1%	n/a	n/a	n/a
Larger Companies Trust - Retail	20.5%	13.1%	8.6%	6.3%
Larger Companies Trust - Wholesale	22.2%	n/a	n/a	n/a
Fixed Interest Trust – Retail	5.4%	n/a	n/a	n/a
Fixed Interest Trust – Wholesale	n/a	n/a	n/a	n/a
Cash Trust	3.4%	4.1%	4.5%	4.6%
International Equities Trust	25.8%	10.9%	5.4%	n/a
Property Fund	(0.1%)	0.2%	3.0%	n/a
Advocacy Fund - Retail	21.4%	12.6%	n/a	n/a
Advocacy Fund - Wholesale	23.2%	n/a	n/a	n/a

Calculating Returns

Total returns are calculated:

- Net investment returns are calculated using exit prices
- Net investment returns have been calculated using prescribed standard methods and assumptions, and take in to account administration and investment fees, taxes and other costs
- The standard calculations are based on a member with an account balance of $50,000, which will not be relevant to all members
- The standard calculations do not allow, for example, for the effect of contributions to your account, insurance fees or various other matters

Further information on returns can be found in our legal disclaimer at www.australianethical.com.au/legal-disclaimer

G4-9

Comparative performance

A survey of managed funds published by consulting firm Mercer, in 2014, consolidated our position as a strong player amongst wealth management companies. This sustained growth in our business has allowed us to have greater influence over the companies that we invest in through investment and advocacy activities that aim to influence the way that they do business.

Managed Funds Performance vs Peers

Fund	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Balanced	2nd Qtr Percentile 17 of 49	3rd Qtr Percentile 25 of 43	4th Qtr Percentile 27 of 30	1st Qtr Percentile 11 of 23	2nd Qtr Percentile 15 of 21
Smaller Companies	2nd Qtr Percentile 42 of 103	1st Qtr Percentile 19 of 100	3rd Qtr Percentile 42 of 79	1st Qtr Percentile 3 of 68	1st Qtr Percentile 6 of 50
Smaller Companies B	2nd Qtr Percentile 63 of 176	N/A of 155	N/A of 138	N/A of 120	N/A of 80
Larger Companies	1st Qtr Percentile 2 of 103	1st Qtr Percentile 1 of 100	1st Qtr Percentile 12 of 79	1st Qtr Percentile 5 of 68	1st Qtr Percentile 4 of 50
Larger Companies B	1st Qtr Percentile 3 of 103	N/A of 100	N/A of 79	N/A of 68	N/A of 50
Advocacy	1st Qtr Percentile 1 of 103	1st Qtr Percentile 6 of 100	N/A of 79	N/A of 68	N/A of 50
Advocacy B	1st Qtr Percentile 1 of 103	N/A of 100	N/A of 79	N/A of 68	N/A of 50
International Equities	1st Qtr Percentile 3 of 81	4th Qtr Percentile 66 of 74	4th Qtr Percentile 55 of 56	3rd Qtr Percentile 41 of 46	N/A of 29
Cash	2nd Qtr Percentile 10 of 36	1st Qtr Percentile 3 of 23	1st Qtr Percentile 4 of 21	1st Qtr Percentile 5 of 18	1st Qtr Percentile 5 of 14

- 1st Qtr Percentile: Top 1% - 25% of peer group
- 2nd Qtr Percentile: In range of 25% to 50% of peer group
- 3rd Qtr Percentile: In range of 50% to 75% of peer group
- 4th Qtr Percentile: In range of 75% to 100% of peer group

G4-9

Community Grants

The greater our profits at Australian Ethical, the more we can contribute to our Community Grants program. Our Constitution states that before a dividend can be declared, 10% of annual profits (before staff bonus) must be donated to non-profit, charitable, benevolent and conservation organisations. This activity is just one of the ways that we contribute to a positive and sustainable society and we have one of the highest levels of corporate giving in Australia based on percentage of profits.

Grants are made from the shareholder profits of Australian Ethical Investment Ltd, and not from the returns of our investment products, signifying a commitment by our shareholders to forego a portion of their return.

Our 2014 Community Grants program has been delayed for six months in order to give applicants absolute certainty over the level of funding that will be available. Recipients will be announced by the end of 2014.

Based on our profit, grants of $302,300 will be paid in FY15, bringing our total amount donated over the past 13 years to almost $1.8 million. Grants declared for FY13 and paid in FY14 were $117,291 and divided amongst 11 organisations.

About Australian Ethical

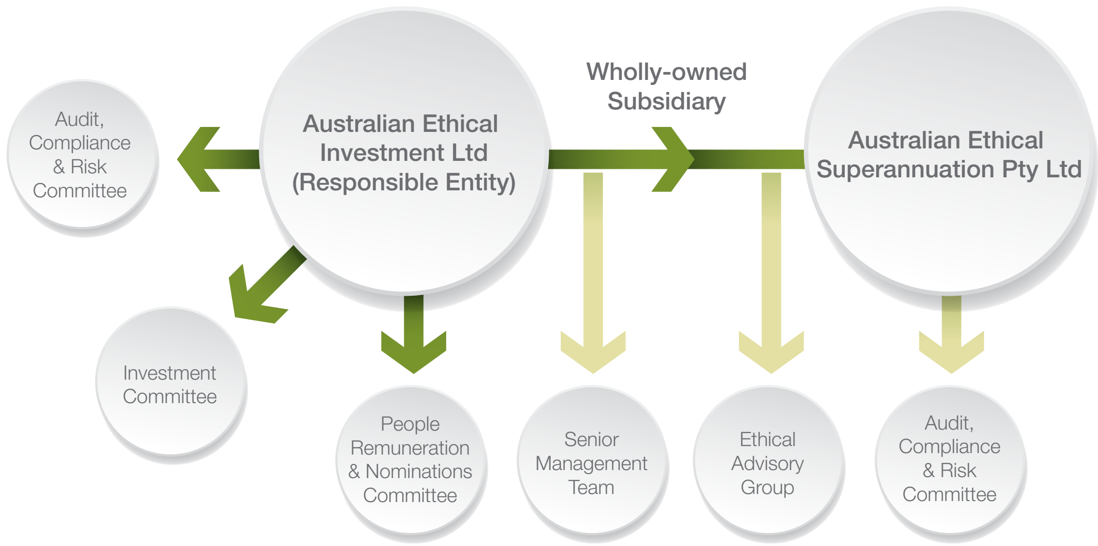
Australian Ethical is a publicly listed funds management company offering superannuation, pensions, and managed funds products and is one of only a handful of funds management companies in Australia that specialises in ethical only investments. Australian Ethical actively seeks out high quality investments that are positive for society and the environment and avoids investments in harmful activities. Since pioneering ethical investment in Australia in 1986, Australian Ethical has grown to manage investments and superannuation on behalf of approximately 17,500 responsible investors. Our headquarters, along with our primary operations, are located in Sydney, and we have a satellite office in Canberra.

Australian Ethical takes a leadership approach to ethical investing, and actively advocates businesses, both investee and non-investee companies, to modify their business practices to align with principles of the Australian Ethical Charter.

We pursue a unique combination of ethical and financial objectives when selecting investments, including containment of investment risk; achieving a financial return commensurate with any risk taken; avoiding investment in activities that are socially or environmentally detrimental, and, investing in profitable activities that bring social or environmental benefits.

G4-3, G4-5, G4-9, G4-DMA Product Portfolio

Our Company Structure

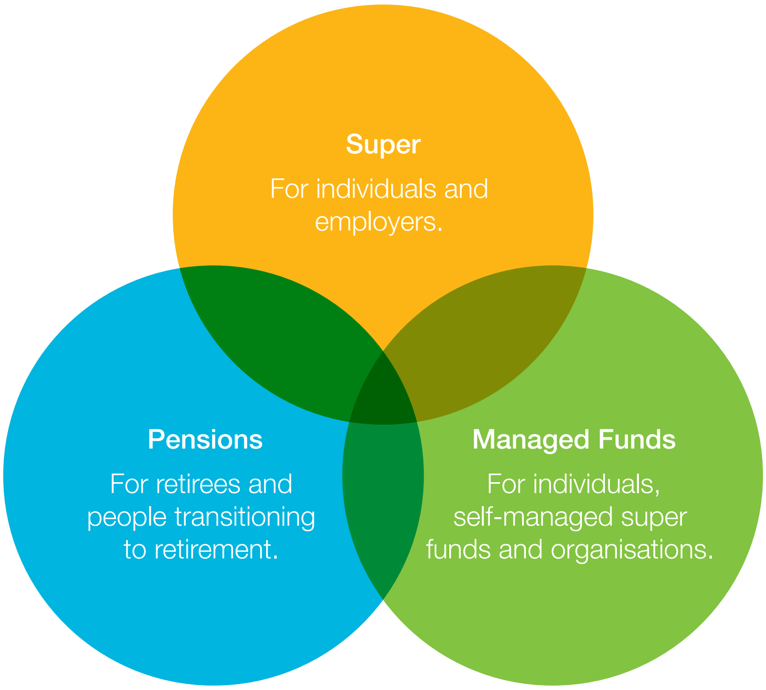


G4-7

Our Business Model

We aim to be a broad based ethical wealth manager providing investment, superannuation, and insurance to clients wishing to save and invest for their retirement, to do so in a positive and ethical way and to participate in having a positive impact to create a better world. Through growth, we will further our purpose by touching more clients, having a greater voice and having larger funds under management, and hence, a greater ability to bring about change.

Our product range is designed to make ethical investment an option for everyone.



Changes to fee structures and products

Fees on all Australian Ethical products are reviewed regularly against competitors and internal factors to ensure that we offer value for money. A number of changes have been made to our fee structure to make our products more competitive and to bring them in line with market best practice. All products now have a fixed Indirect Cost Ratio (ICR), and, as a result, investors and members only pay the fee displayed in the Product Disclosure Statement, with no additional expense recoveries.

Our Wholesale Smaller Companies Trust and Larger Companies Trust fees are 0.95% pa, one of the lowest wholesale fees available for ethical managed funds, and there are no upfront fees from direct investment.

To further provide members with better value, from 30 June, 2014, the following changes to fees have taken place:

- Administration fees on our Superannuation fund were reduced by 0.61% (from 1.544% to 0.934%)
- Fees on our MySuper product were reduced from 2.49% to 1.848% (based on a $50,000 member).

Fixed Interest Trust product launch

Australian Ethical's Fixed Interest Trust, launched in December 2013, is the only ethically managed fixed interest fund available in Australia. Investments in the Trust are reviewed against our Charter in the same way as all other funds. The Trust provides investors with low to medium level risk exposures in primarily Australian fixed interest securities, to generate income with some capital growth potential over the medium to long term.

MySuper

In line with the Government's introduction of MySuper products, Australian Ethical Super has been authorised to offer a MySuper product, meaning that that we are now one of the superannuation funds that employers can choose as a default option in which to pay employee super. MySuper gives employees access to default, low cost superannuation that provides standard product features, such as default insurance. From 1 January 2014, employers were obligated to pay Superannuation Guarantee (SG) contributions to a MySuper product for employees that have not made an investment choice.

G4-4

Our supply chain

Australian Ethical's primary supply chain inputs include various outsourced functions. Within the tendering process, all new material outsourced service providers are subject to positive and negative screening to determine alignment with the Australian Ethical Charter. During the reporting year, the primary changes in our major outsourced service providers were Metlife and bringing in-house the management of risk and compliance services, previously performed by Professional Financial Solutions (PFS).

The downstream impacts of our business are the ethically screened products and services that we provide to our investors, of which 99.997% are screened via our Charter, which include assessment against labour, environmental, and human rights performance, amongst others. As at 30th June 2014, we owned $23,784 in unscreened investments which were held for the purposes of corporate advocacy. During the reporting year, Petratherm was the only divestment from our portfolio. The divestment was due to the potential negative future impacts of their intention to begin oil and gas exploration activities in Tasmania.

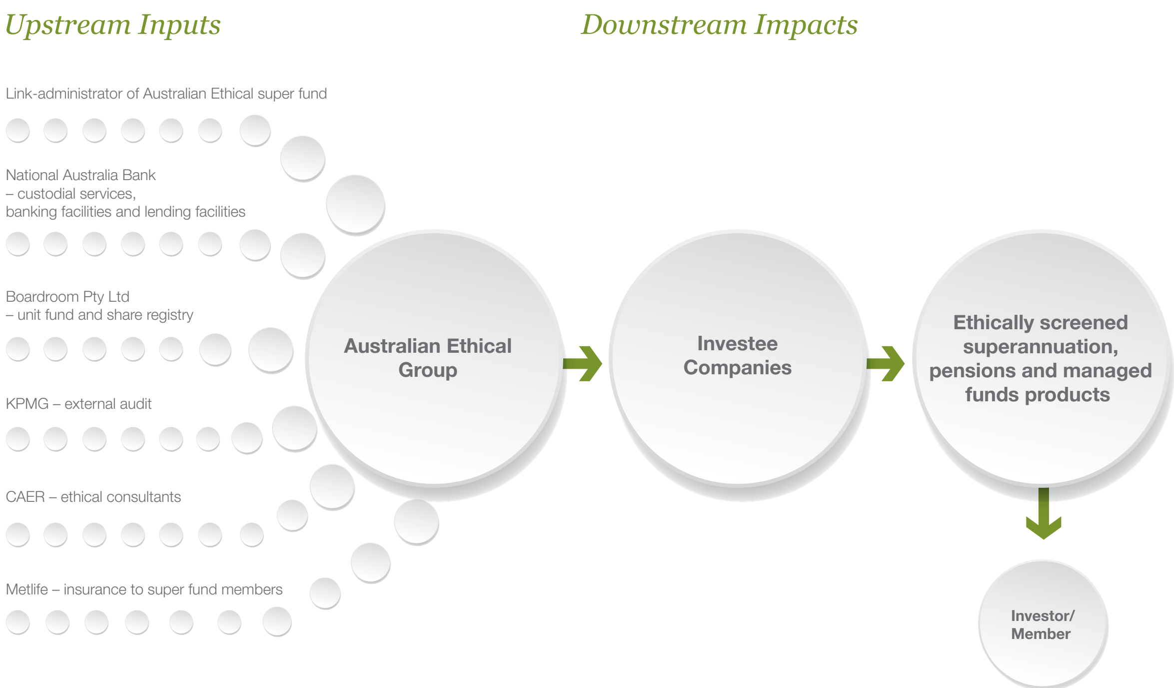
Our memberships

Australian Ethical actively participates in industry associations to highlight the importance of ethical investment, including the Association of Superannuation funds of Australia (ASFA) and the Financial Services Council (FSC).

We are active members of the Carbon Disclosure Project – Climate Change group, the Investor Group on Climate Change (IGCC)–Australia/New Zealand, and the United Nations Principles for Responsible Investment (UNPRI). Australian Ethical is a founding member of the Responsible Investment Association of Australasia (RIAA) and the Association for Sustainable and Responsible Investment in Asia (ASrIA).

"It is core to our ethos to care about all of our stakeholders (people, planet, shareholders and clients) and that is the key to a successful business. We have been on a journey over the past few years of steadily improving the competitiveness and commerciality of our business and products. Our significant growth over the past year has allowed us to take another step toward passing some of those improvements onto our clients."

Phil Vernon, Managing Director & CEO.



G4-12, G4-15, G4-16, G4-EN32, G4-EN33, G4-LA14, G4HR1, G4-HR10, G4-FS11, G4-S09

B Corporation certification

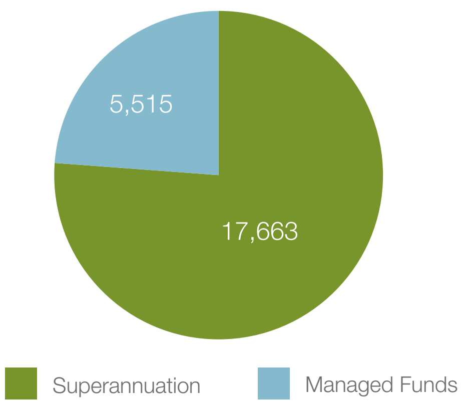
During the reporting year, Australian Ethical became the first publicly listed company in Australia to achieve B-Corp status (Benefit Corporation). Certified B Corporations are certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. We are now part of a growing global movement dedicated to using the power of business to solve social and environmental problems. The B Corp movement aligns with all elements of the Australian Ethical Charter.

We believe that the movement of money can make a positive impact in the world, and that the investment industry in particular has substantial power which should be channelled in the right direction. If every company, large or small, operated in a similar way, many of the world's challenges would be solved.

Our client profile

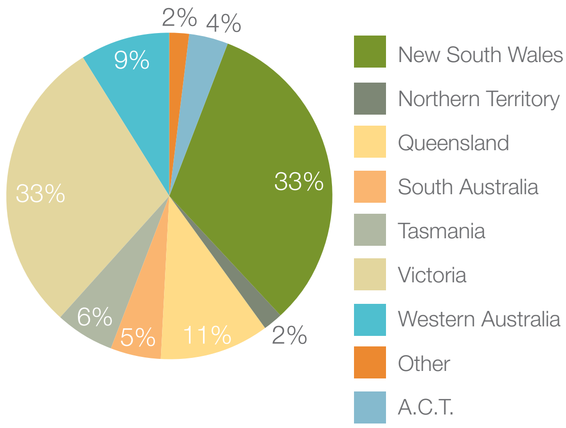
Australian Ethical clients number approximately 17,500 and represent a growing portion of Australians that want to be certain that their choice of investment and superannuation funds will not only make a difference to their own future, but also takes into account the broader environmental and social impacts of businesses within their portfolio.

Number of ethical accounts held



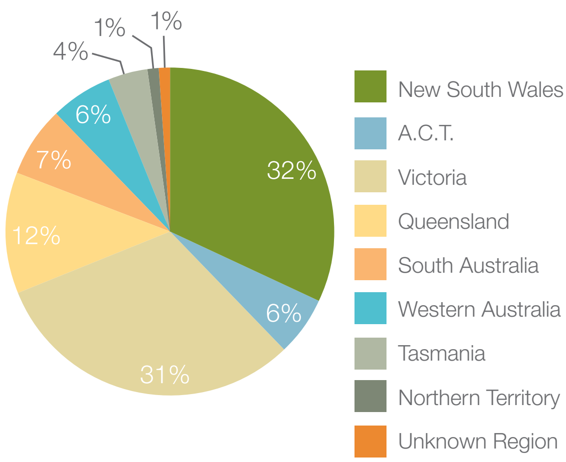
- 24.8% of customers have their money in both super and managed funds.

Super Fund geographical distribution



- Our customer engagement stands at more than 30% – six times the industry average
- 83% of Funds under Management is from direct investors.

Managed Fund geographical distribution



G4-8, G4-16, G4-F6

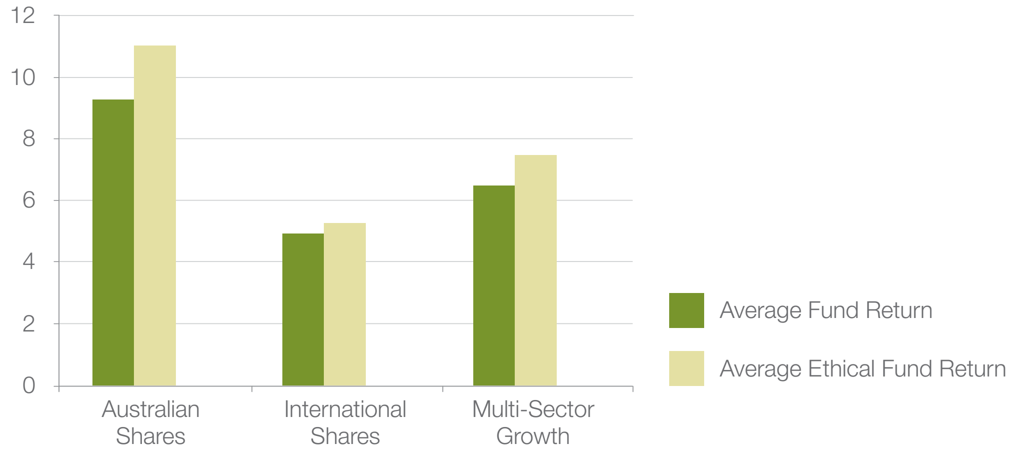
What is ethical investment?

Ethical investment takes account of the impacts of investment choices on the world, as well as the financial implications of those choices. So an ethical investor will consider their values and principles alongside their financial objectives when investigating potential investments. They will look at the social and environmental impacts of companies as well as their financial performance and prospects. While many ethical funds apply one or two ethical investment methods, Australian Ethical adopts three approaches to identify and encourage positive investments:

- **Negative screening** – Avoiding investment in industries which have a negative impact on society and the environment.
- **Positive screening** – Proactive search for investments that contribute positively to society and the environment.
- **Corporate engagement** – Dialogue with companies for the purpose of raising issues of concern and advocating positive change to company practices.

Responsible Investment Association Australasia's (RIAA) report 'Responsible Investment Benchmark Report' has predicted an increase in public demand for responsible investments, based upon a 2.3% increase in the 2013 calendar year.

Average Managed Fund Peformance against Average Ethical Fund



Source: Responsible Investing Association of Australasia, 2014. 10 year per annum returns to 31 December, 2013.

Responsible Investment at Australian Ethical

We envisage a world where every decision made has a positive impact on the global community. We believe in the transformative power of capital to achieve a socially just and sustainable future for all. Australian Ethical's investments are selected and managed in alignment with the Australian Ethical Charter, which provides the screening process that we use to select companies to invest in. The Charter provides guidance to us to ensure that the companies that we choose to invest in contribute to a just and sustainable society, protect the natural environment, and provide a competitive financial return to investors. The precautionary principle is applied throughout the assessment of companies in accordance with the Charter, however, there are differences between the way we would assess a newer activity like CSG extraction compared to an older activity like conventional gas extraction as the newer activity bears a greater burden of proving that it is safe. Our new Head of Ethics manages the firm's corporate advocacy and engagement, and works with the Ethical Advisory Group, CAER consultants and the investment team to ensure that the Charter is applied transparently and consistently in a complex, changing world.

Our ethics

- We will always act with integrity and honesty and maintain the highest ethical standards. We will never compromise our ethics and will always act and invest in accordance with the Australian Ethical Charter

Our investment approach

- At the heart of what we do is a commitment to the financial wellbeing of our clients and investors. We believe that aligning ethics and financial decisions provides competitive long term returns and improves quality of life for all

Our impact

- We are driven by positive social and environmental purpose and will be a strong advocate for corporate and industry behaviour change. We believe our actions will empower others to behave in a way that enhances the wellbeing of everyone on the planet

G4-14, G4-DMA Supplier Environmental Assessment, G4-DMA Supplier Assessment for Labour Practices, G4-DMA Investment, G4-DMA Supplier Human Rights Assessment, G4-DMA Supplier Assessment for Impacts or Society

Australian Ethical Charter

Our Charter uses positive and negative screening and focuses on three broad themes: Sustainable Growth, Environment, and Social Impact. The majority of Australian Ethical's portfolios are subject to regular positive and negative screening based upon its alignment with the Ethical Charter.

Australian Ethical shall seek out investments which provide for and support:	Australian Ethical shall avoid any investment which is considered to unnecessarily:
a. the development of workers' participation in the ownership and control of their work organisations and places	i. pollute land, air or water
b. the production of high quality and properly presented products and services	ii. destroy or waste non-recurring resources
c. the development of locally based ventures	iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
d. the development of appropriate technological systems	iv. market, promote or advertise, products or services in a misleading or deceitful manner
e. the amelioration of wasteful or polluting practices	v. create markets by the promotion or advertising of unwanted products or services
f. the development of sustainable land use and food production	vi. acquire land or commodities primarily for the purpose of speculative gain
g. the preservation of endangered eco-systems	vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments
h. activities which contribute to human happiness, dignity and education	viii. entice people into financial over-commitment
i. the dignity and wellbeing of non-human animals	ix. exploit people through the payment of low wages or the provision of poor working conditions
j. the efficient use of human waste	x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
k. the alleviation of poverty in all its forms	xi. contribute to the inhibition of human rights generally
l. the development and preservation of appropriate human buildings and landscape	

Disclosure and Transparency

The issue of disclosure and transparency in the investment and superannuation industry is becoming increasingly visible. Investors are 'ethics savvy', and question whether their money is being invested in companies that are truly aligned with their ethical values, including in the investee company's supply chain. A difficulty for investors, is that although funds currently do not legally have to disclose which companies they invest in, they are allowed to label their funds as 'Ethical', 'Responsible' or 'Sustainable' without putting their funds or business through any official certification process.

Australian Ethical is one of the few fund managers that voluntarily discloses all investments. We believe it is important that investors know where their money is invested and what activities it is funding.

As with most active managers, Australian Ethical continually monitors its investments to ensure that each one will continue to provide superior and sustainable returns. However, unlike most managers, we also rigorously monitor and engage with our investee companies to make sure that their ethical standards are maintained.

G4-15

Responsible marketing

All of our investment and superannuation fund products are accompanied by a product disclosure statement, and any changes to our products are communicated to our investors and members. Our Risk & Compliance Manager develops, implements and monitors compliance processes which are monitored by the Audit and Compliance Committee. The Board approves all new products, including product disclosure statements. Various aspects of the compliance system are externally audited and reports are provided to ASIC and APRA.

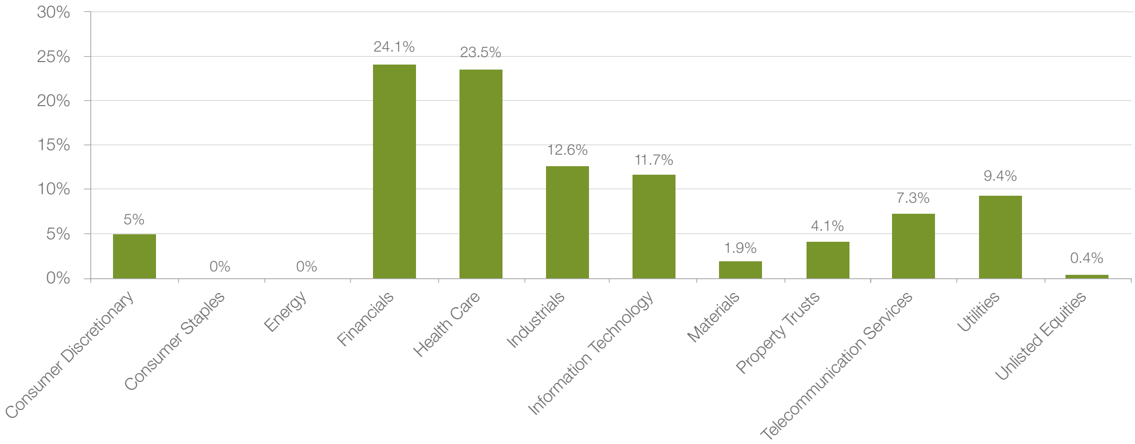
Regulations and codes underpinning the labelling of Australian Ethical products include the *Corporations Act (2001)*, the *Superannuation Industry (Supervision) Act (1993)* and the *Financial Services Council (FSC) Standards*.

Australian Ethical is committed to protecting the privacy of customer's personal information in accordance with the Privacy Act 1988 (Cth). Our Privacy Policy at www.australianethical.com.au/privacy-policy details how we collect, hold, use, disclose and keep customer's personal information secure.

Our investments

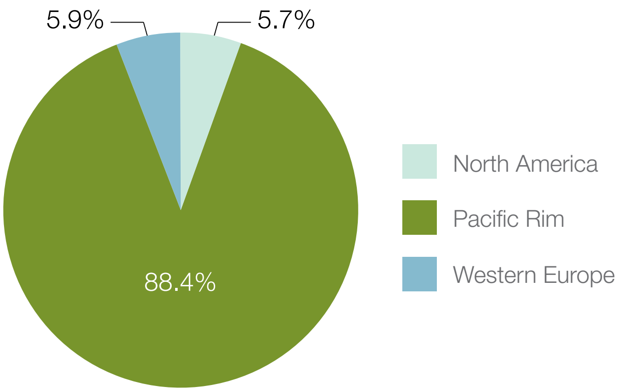
Australian Ethical invests in companies to promote positive change. The vast majority of companies in which we invest in have passed a rigorous positive and negative screening process and directly align with the Australian Ethical Charter. We understand that if we were to not undergo this process, we would not be supporting our client's desire to invest their money in ethical businesses, and our reputation as a leader in ethical investment would be challenged. For advocacy purposes, we acquire a nominal holding of shares in companies that are not screened.

Investments by sector



*Note: Australian Ethical does not invest in the Consumer Staples or Energy sectors.

Investments by geographical region



Note:

- North America investments are from the United States and Canada
- Pacific Rim investments are from Australia, Japan, Malaysia and New Zealand
- Western Europe investments are from Denmark, Finland, France, Germany, Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom

G4-DMA Product and Service Labelling, G4-PR3, G4-DMA Customer Privacy, G4-DMA Compliance

Our ethical investment framework

Ideas generation

- Look out for market trends on ethical companies or sectors
- Obtain expert opinion from industry groups and academic institutions
- Gauge market reaction with regards to government intervention or support, consumer preferences and market barriers.

Ethical research using sources such as:

Ethical research using sources such as:

- the media
- government information
- NGO information, and
- specialist journals.

Ethical merits assessed using positive and negative screening, as set out by our Ethical Charter.

Financial analysis

Assessment of investment based on cash flow, profitability, balance sheets, management, products and markets. Information used for analysis are from sources such as:

- company releases and reports
- industry networks
- publications
- journal articles, and
- broker research.

Approval of investment

Chief Investment Officer makes a decision to approve or reject companies based on the ethical and financial analyses.

If approved, an investment limit is established for that company.

Rejection of investment

Continual monitoring of investment

Reviews conducted:

- Portfolios and limits are reviewed by the Chief Investment Officer on a regular basis
- Discussions with companies prior to and after an event
- Head of Ethics conducts regular reviews.

Continue investment

Divestment

Voting for change

Corporate governance and the exercise of voting rights are an important aspect of any investment decision process. As a signatory to the United Nations sponsored Principles for Responsible Investment (UNPRI) Australian Ethical is committed to being an 'active owner' as defined by Principle 2: 'We will be active owners and incorporate ESG issues into our ownership policies and practices', by voting on shareholder issues and participating in collective engagement activities. In some cases, we may have the potential to influence corporate governance and policy by the exercise of voting rights. The principle outlines possible actions to achieve active ownership such as:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

We also have an Advocacy Fund that invests in some companies that are not screened against the Charter. Our Advocacy Fund aims to invest in these companies so that we can use our rights as a shareholder to raise ethical issues and make a difference.

For the period 1 July 2013 to 30 June 2014 a total of 1,120 resolutions were voted, covering both domestic and international stocks:

	Number voted for	Number voted against	Number abstained	Total Resolutions
Australian Ethical Smaller Companies Trust	234	19	0	254
Australian Ethical Larger Companies Trust	267	5	0	272
Australian Ethical International Equities Trust	510	23	0	534
Advocacy Fund	59	3	0	62
Total	**1070**	**50**	**0**	**1122**
Domestic stocks				
ASX listed companies	560	27	0	588
International companies	510	23	0	533

Of the 1,120 resolutions voted on across the four Trusts, 50 were voted 'Against' and we did not 'Abstain' from voting any resolutions. The negative votes related to the appointment of directors, re-election of directors, and remuneration issues (director fees and the issue of options or shares to directors and CEOs).

All information regarding our Proxy Voting activities can be accessed at: australianethical.com.au/corporate-governance

G4-DMA Active Ownership

Who we invest in

Interface

Turning plastic pollution into carpets

Nine thousand kilos of discarded fi shing nets have been collected for recycling into carpet tiles by Interface. This has drastically transformed littered beaches along the Danajon Bank in the Philippines and provided an income for the developing communities who live there.

First Solar

Building Australia's largest Solar PV Plant

Work has started on the Nyngan Solar Plant in NSW – the largest of its kind in the Southern Hemisphere. Once completed by First Solar (and partner AGL who we do not invest in), the plant will produce enough electricity to power more than 33,000 NSW homes and to reduce greenhouse gas pollution by more than 203,000 tonnes every year.

Stratasys/ Peppermint Energy

Delivering innovative energy technologies to those who need it most

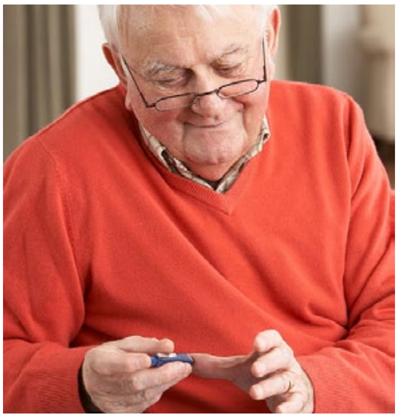
Stratasys, have partnered with Peppermint Energy to help build a portable solar generator using its 3D Printer technology. The project provides clean, renewable energy to the developing world. Described as a solar plant in a suitcase, the FORTY2 draws enough energy from the sun to power lights, laptops — even a fridge. They most recently provided Typhon Haiyan survivors with solar power enabling them to transport lifesaving medicines to rural areas.

Vestas

Producing renewable energy

In 2013, Vacon's wind turbine components helped produce approximately 22 TWh of renewable energy, up from 20TWh in 2012. This corresponds to the annual electricity consumption of approximately 5 million households in Europe or approximately nine hours of the world's entire annual electrical energy production according to IEA estimates.

Universal Biosensors



4.5 Billion

Blood-glucose tests conducted by sufferers of diabetes each year, with Universal Biosensors self-testing technology.

SunPower

Providing affordable solar lighting for sub-Saharan Africa

The 'Little Sun' solar lamp, built using Sunpower's solar panels is being used to provide clear, affordable energy to places currently dependent on costly and toxic kerosene lighting in sub-Saharan Africa.

A list of all of Australian Ethical's investee companies can be found at www.australianethical.com.au/who-we-invest-in

Stakeholder Engagement

Underpinning our engagement with internal and external stakeholders is the desire to drive ethical change and maximise customer value and experience.

Critical to effective stakeholder engagement is our commitment to maintaining our position of leadership amongst ethical, sustainable and responsible investment managers. With this as a core principle, we can encourage investee companies to continue to operate in a manner that aligns with the principles of the Ethical Charter.

Australian Ethical's key stakeholder groups and the ways that we engaged in FY2014 are:

Stakeholder group	Engagement method	What we heard	How Australian Ethical will address these topics?
Our clients			
Superannuation members and managed fund investors	Social media, including Facebook and Twitter through a combination of ethical and financial posts	Our followers care about environmental and political issues, as well as (to a lesser extent) social justice issues. They are not as engaged by financial literacy issues.	One of our aims is to bring financial literacy material to the fore and make super a more frequently considered product.
	Proactive phone calls to new joiners and high balance members through phone and email communication	These members are very positive regarding our ethics	We will continue regular communication with the groups and address topical issues Creation of superannuation fact sheets*
Employers (that select Australian Ethical as their recommended superannuation fund)	Information sessions with employer groups through regular phone communication and one on one visits	Employees of these groups want to know more about what their super is supporting	We will continue to conduct more education and induction sessions
Financial Advisors	Phone and face to face meetings, presentations from investment team	Whilst there is growing public demand for ethical investment products, more education is required for advisers to fully understand the benefits of these products	We will continue to educate on a one on one basis and secure places at adviser personal development days to gain greater traction
Our world			
Companies that we invest in	Email/phone call/ meeting as part of an annual review or review of company changes as part of ongoing monitoring with a key focus this year on animal welfare	Some companies respond accordingly, whereas others do not	Australian Ethical will continue to proactively review and follow up with investee companies regarding alignment with topics in the Australian Ethical Charter

Stakeholder group	Engagement method	What we heard	How Australian Ethical will address these topics?
Our shareholders			
Shareholders	Annual General Meeting	Deliver strong financial return that also has a positive social and environmental impact across all activities	We will continue to deliver strong financial returns through our ethical investments and increasing our client base
Our people			
Australian Ethical employees	Employee survey, face to face business updates from the Managing Director, written updates from the Managing Director, lunch time business series sessions and team building days	Positive response to business sessions and regular communications. Positive feedback in employee survey on some areas of the business, and room for improvement identified in other areas.	We will run employee focus groups and engage employees to contribute to how we can address areas identified for improvement.

*Identified as a target in FY2013, but not achieved during the reporting year

G4-24, G4-25, G4-26, G4-27

Driving Ethical Change

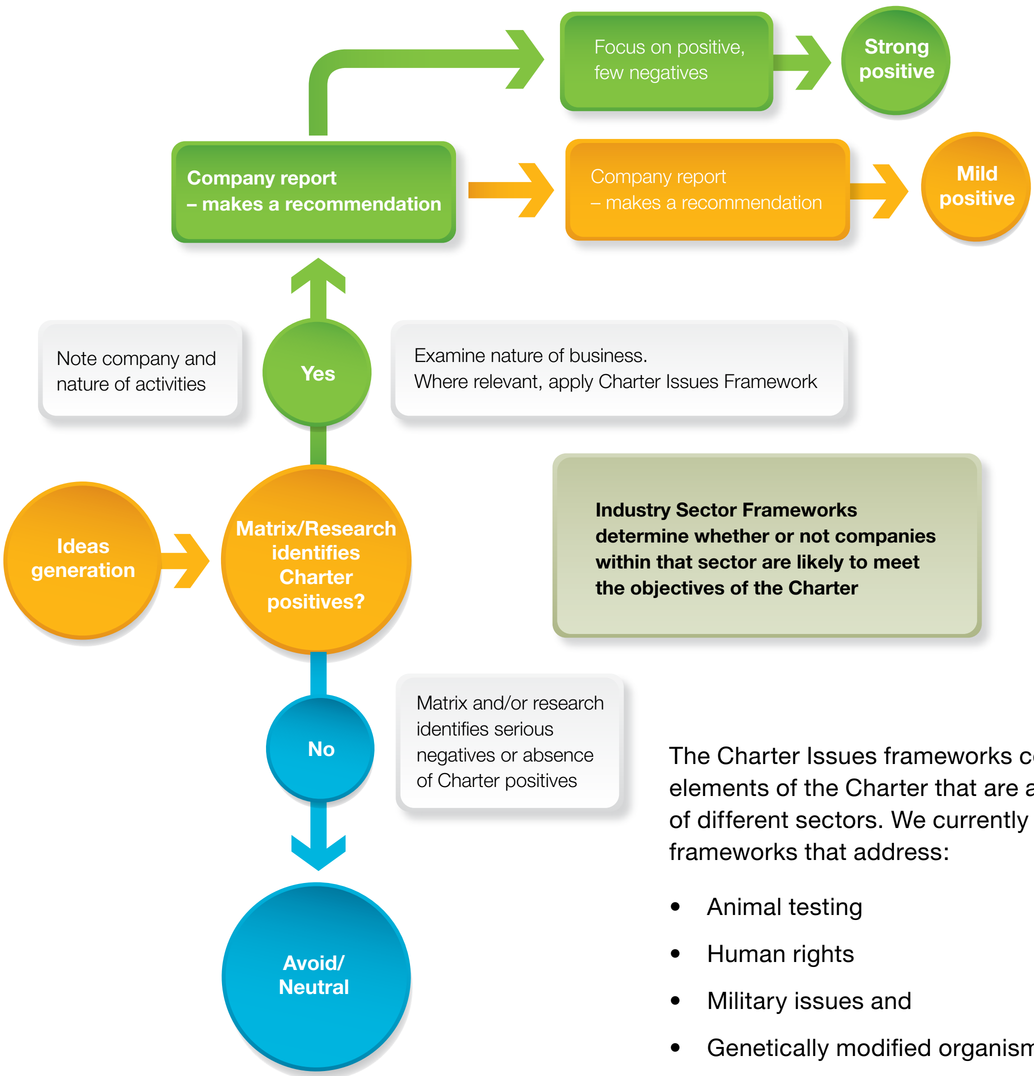
Australian Ethical communicates with both investee and non-investee companies. Every investment or potential investment is subject to regular monitoring and review to ensure ongoing compliance with the Australian Ethical Charter, which defines the characteristics of the investment universe for managed funds.

There are three stages to our engagement process with investee and non-investee companies:

- **Enquiry** – occurs as an annual review or a review of company changes as part of ongoing monitoring. The objective is to review a list of questions that test alignment with the Australian Ethical Charter, based upon a regular check and any other news that has come to light
- **Engagement** – occurs when there might be cause for concern that one or more of the elements of the Charter are not being addressed. The objective is to explore identified areas of non-alignment or potential non-alignment with the Charter
- **Advocacy** – involves addressing the issues that do not align with an element/s of the Charter. The objective is to encourage the investee or non-investee company to modify their business practices to achieve alignment with the Charter.

The engagement process is shaped by our Industry Sector Frameworks, and our Charter Issues Frameworks, which have been developed to assist us in the efficient and consistent interpretation of the Australian Ethical Charter.

Industry sector frameworks



The Charter Issues frameworks considers elements of the Charter that are applied to a range of different sectors. We currently have issues frameworks that address:

- Animal testing
- Human rights
- Military issues and
- Genetically modified organisms.

In the next reporting year, we will finalise our formal review and updating of industry frameworks for the following sectors:

- Consumer discretionary
- Consumer staples
- Energy and energy utilities
- Financials
- Industrials
- Information technology ad
- Telecommunications.

We will also review elements of the Charter Principles.

During the reporting year, Australian Ethical undertook 17 new engagements, 11 (65%) with investee companies, and six (35%) engagements with non-investee companies.

Engagements covered by the environmental and social parameters of the Charter:

Environmental	Social
Harm to animals and the environment	Poor working practices
Amelioration of wasteful and polluting practices	Supply chain
	Manufacture of armaments
	Encouragement of militarism
	Harm to humans
	Market in a misleading way
	Human rights

We also undertook engagements with investee and non-investee companies on various issues including military involvement and sustainable land use and food production. As an example of the depth of conversation around these topics, company engagements on military issues included determining which products were specially made for the military, their military applications, and the revenue generated from sales to the military. Engagements on poor working conditions included talking to companies about safety and the steps they have taken to improve the safety of employees and contractors.

G4-FS10, G4-FS11

Case study: Innate Immunotherapeutics

Australian Ethical supports investment in companies involved in healthcare. Investing in biotech supports our ethical philosophy as the emerging therapies we take an interest in are for the treatment of serious conditions with few medical options available. The biotech sector lends itself to meeting multiple aspects of our Australian Ethical Charter, such as 'activities which contribute to happiness, dignity and education'.

Innate Immunotherapeutics is developing a drug to treat Secondary Progressive Multiple Sclerosis. Early clinical data suggests the drug may reverse some of the disabilities that patients have recently acquired. Given that multiple sclerosis effects between two and two and a half million people worldwide, and causes significant visual, motor and sensory problems, a drug to alleviate suffering caused by the disease which currently has no cure, could be significant.

While there is a natural attraction to the healthcare sector for the ethical investor, there are also issues that need to be considered when looking at potential investments. There are clearly some activities which are going to have greater attractions than others – these are generally characterised by the number of people who are benefited by the activity, the degree of suffering that is relieved by the activity, and whether or not the company has a direct or an indirect involvement in the provision of the service. These are the positive screens.

Australian Ethical's screening process

Before Australian Ethical could commit to investing in the company, a series of negative screens was also applied. The company is exposed to ethical concerns as it has engaged in animal testing as part of its product development. The company also has a joint venture in the bio-defence industry which is currently dormant and not generating any revenue. With the application of our Healthcare Sector and Animal Testing frameworks, Australian Ethical rated Innate Immunotherapeutics as follows:

- Strong positive for the provision of treatments for multiple sclerosis (ethical adjustment lifted)
- Mild negative for testing on mice specifically bred to have characteristics of multiple sclerosis (ethical adjustment reduced)
- No ethical adjustment for the joint venture as it is currently dormant.

Relevant positive Charter element:

(h) Activities which contribute to human happiness, dignity and education.

Relevant negative Charter elements

(iii) Extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment

(vii) Create, encourage or perpetuate militarism or engage in the manufacture of armaments

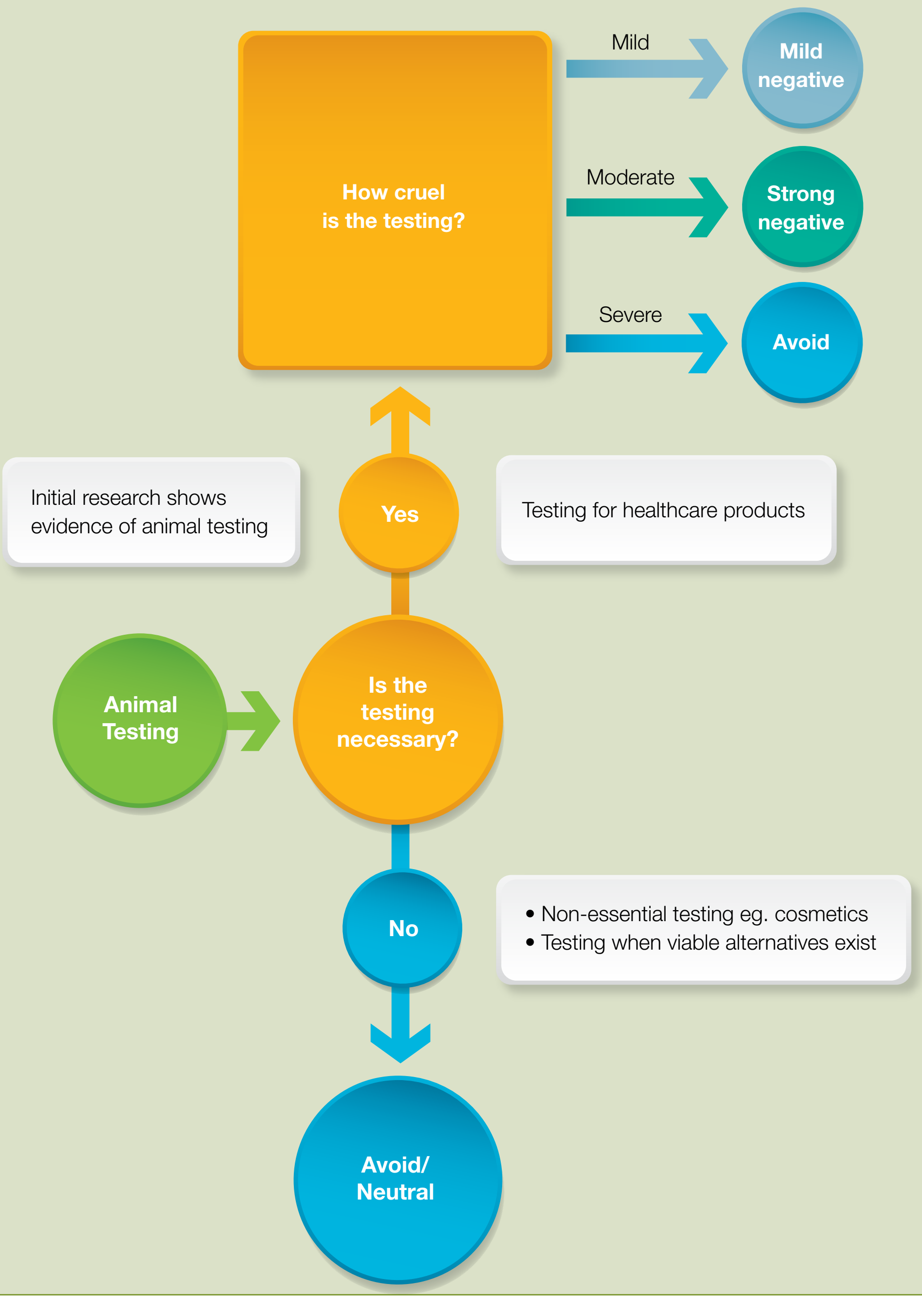
Application of the Animal Testing Framework

The Australian Ethical Charter calls on us to consider investment in companies that support human happiness and dignity, and as a result the provision of healthcare and the development of new medical treatments are considered to be positive activities. This is set out in the Healthcare Sector Framework. In some instances, however, companies developing medical treatments are found to be conducting research which is harmful to animals. This creates a conflict, as tenet (iii) of the Charter states that Australian Ethical shall avoid companies which have a harmful effect on humans, non-human animals or the environment.

Case study (cont.)

The Animal Testing Framework has been developed to assist Australian Ethical resolve this conflict. It is designed to ensure that companies that are involved in medical research and perform tests using animals are assessed in a clear and consistent manner. The key concept that is taken from the Charter and used when resolving the ethical conflict presented by animal testing is that of 'necessity'. There is not an absolute prohibition on animal testing – rather a commitment to avoid it if it is cruel and unnecessary. If animal testing is required as part of the development of a treatment for a serious medical condition, then this may be seen as 'necessary' harm and therefore acceptable under the Charter.

Animal Testing Framework



Sustainability impacts – getting involved

Australian Ethical is an active participant in a global community of 'active owners' – retail and institutional shareholders that actively engage with companies in order to improve their social, environmental or governance behaviour. As ethical and responsible investors we want global capital to behave in a way that is positive for investors, society and the planet.

We do this at a company specific level as part of our investment activities to ensure the companies that we invest in continue to meet the ethical standards we expect to warrant our continued participation.

Most critically though, collective action is where the true power of the investment markets can have the most influence particularly in areas of monumental systemic risk such as climate change. Having numerous individual investors all interacting with individual companies in different ways with different messages can have an impact, but doesn't cause in some cases shifts in behaviour needed.

Campaigns

In addition to regular stakeholder engagement with investee and non-investee companies, Australian Ethical acts as an advocate for ethical issues driven campaigns.

Bank Disclosure on Climate Change and Carbon risk in Lending

As an investor in some Australian banks, Australian Ethical looks for opportunities to influence bank decision making so that it is more aligned with the social and environmental principles of the Australian Ethical Charter.

Significant effort was put into disclosure from the 'big four' Australian banks during the reporting year regarding their climate change and carbon risk impacts in lending activities. A current focus for us is the role of the four major banks in funding coal projects and infrastructure.

Our recent work includes putting specific fossil fuel and renewables information requests to each of the four major banks, and meeting with each of them to explain the rationale for the requests and to gain insight into their thinking on these issues.

Stakeholder engagement occurred with the banks, Australian Ethical members, NGOs, RIAA, and investors.

A range of environmental groups are also pressuring international and Australian banks to specifically rule out funding of expansion of the Abbot Point coal port near the Great Barrier Reef because of reef and climate impacts.

We are strong supporters of these initiatives, believing that a diversity of approaches and perspectives is needed to bring about change. We scrutinise not only individual lending decisions, we also look at the policies which govern those decisions. Most importantly, we want to know how the bank is putting those policies into practice in day to day decision making throughout the bank.

We want to see how banks ensure that social and environmental impacts are properly analysed and taken into account before a decision is made to allocate capital. How, for example, does the bank assess and take account of risks and opportunities associated with climate change, for itself, for the companies it lends to, and for the society it operates in? How does it avoid a culture of unthinking, business as usual lending and investment decision making? How does it disclose its level of lending to different industry sectors – such as coal and renewables?

This type of bank analysis and questioning requires detailed and ongoing engagement with the banks. It also requires us to consult with other investors, including mainstream institutional superannuation funds, to exchange perspectives and to seek to leverage the influence which their massive shareholdings give them.

We received responses to our initial request from some of the banks and those responses varied. We continue to work on this issue with retail and institutional investors and investor groups to garner joint support for a revised request.

At the same time, we are keeping communication channels open with the banks to craft a solution which meets both investor needs and which can be practically implemented by the banks in their reporting this year.

Other work with banks

Our interest in the banks extends beyond climate impacts. A recent report by Oxfam highlighted the links between the major Australian banks and companies involved in 'land grabs' in countries such as Papua New Guinea and Brazil. Oxfam describes 'land grabs' as large-scale land acquisitions which violate human rights, are undertaken without free, prior and informed consent or which involve other unacceptable practices. We consulted with Oxfam and Westpac (the one major bank which we do currently invest in) both before and after the report's release, and spoke in the media about the issues raised from the perspective of an ethical investor. We continue to monitor Westpac's investigation of and response both to the specific cases raised as well as to the more general recommendations made by Oxfam about the way banks can lend responsibly in important but sensitive agricultural sectors.

Collaborating with others

The following are some initiatives in which Australian Ethical is participating or driving, where the collective power of the investment community is having an impact and working toward change.

Unconventional Gas Working Group (Principles of Responsible Investment) (PRI)

Whilst we don't invest in coal seam gas (CSG) extraction, we are active participants in a working group focused on assessing best practice principles in the coal seam gas sector and engaging with listed Australian companies operating in the sector regarding their CSG operational practices and risk management.

A collaborative engagement between investors to encourage improvement in standards by the gas industry is intended for late 2014.

Carbon Asset Risk Initiative (through Ceres)

Over the past year there has been an initiative arranged by Ceres, a US not for profit that mobilises investors in collaborative actions against companies. This is co-ordinated in Australia through the Investor Group on Climate Change.

The initiative involves 70 of the world's institutional investors (Australian Ethical is participating) representing US$3 trillion in assets requesting the world's 45 largest oil and gas companies to assess and report to shareholders the viability of their capital expenditure plans in the face of risks associated with climate change and what options they have for addressing them, including, divestment and diversifying their businesses into low carbon energy sources.

Collective groups

We are also involved in various industry groups and professional bodies where we facilitate collective action where needed.

Responsible Investment Association Australia (RIAA)

The Responsible Investment Association represents the interests of responsible and ethical investors in Australia. It has recently established an Engagement Working Group, currently chaired by Australian Ethical, a forum focused on bringing together members interested in collaborating on making the corporate engagement process more effective. These members include a broad cross section of the investment community including retail investors, advisers, proxy advisers, not for profits and institutional investors. As part of the Engagement Working Group, we contributed to a RIAA submission to the Governance Institute regarding their draft 'Guidelines on Engagement'. Guidelines of this type can help build recognition of investors' responsibilities including taking account of the impacts of their investment. Such guidelines can also raise the effectiveness of engagement between companies and their shareholders.

United Nations Principles of Responsible Investment (UNPRI)

The UNPRI is an investor-led coalition, in partnership with the United Nations Environmental Programme Finance Initiative (UNEP-FI), and the United Nations Global Compact, designed to further the aims of responsible investment amongst the global investment community. The six principles include a commitment to 'active ownership'. The UNPRI supports its members with a clearing house website that allows investors to share information on engagements against companies and collaborate to make the engagement more effective.

G4-15

The Global Investor Coalition on Climate Change

The Global Investor Coalition on Climate Change represents 84 institutional investment organisations globally with $US14 trillion under management and operates in Australia through the Investor Group for Climate Change. The group allows a sharing of information, coordination of advocacy initiatives and establishment of standards.

Greenhouse Gas Protocol/UNEP FI Financial Sector Technical Working Group 1 (Companies and projects)

We are participating in these Technical Working Groups convened by the GHG Protocol and UNEP FI to develop mandatory and optional guidelines for the calculation and reporting of Scope 3 emissions of financial institutions in respect of their lending and investment activities.

Future Economy Group

The Future Economy Group is a coalition of business and environmental leaders who are working together to research and advocate the importance of innovation and natural capital to Victoria's economy. Australian Ethical CEO Phil Vernon, has been involved in the group participate in an initiative to raise awareness of the economic benefits of investing in natural capital.

A report commissioned by the group *'Bringing Victoria's Economy into the 21st Century'* outlines ideas, that, if adopted would provide resilience and improve the performance of Victoria's economy and its natural environment. The research underpinning the report is transferrable to other Australian state economies and environments.

Engaging with policymakers

At a corporate level we are also very active when it comes to engaging with legislators at a State and Federal Government level:

Submission to Government opposing the repeal of the Australian Charities and Not for Profits Commission Bill 2014 (May 2014)

We strongly oppose the repeal of the Australian Charities and Not for Profits Commission (ACNC). The Federal Government proposed that the ACNC is replaced by a Centre of Excellence, and that regulation of Australian charities would return to the Australian Securities and Investment Commission (ASIC) and the Australian Taxation Office (ATO). The ACNC is a fit for purpose regulator that has achieved many of its objectives in the short time since its inception. We believe that the ATO has a conflict of interest in managing the charities and is not best equipped to do this given the specialist nature of charity regulation.

Submission to Government with respect to the Emissions Reduction Fund and Direct Action on Climate Change (February 2014)

Whilst we welcome any action on climate change, we do not believe that the Government's Emissions Reduction Fund will be adequate. Indeed, we believe it will even fall short in achieving Australia's five per cent emissions reduction target. In addition, we strongly oppose the repeal of the carbon price.

Submission to Government opposing the repeal of the Carbon Price legislation (October 2013)

We strongly oppose the repeal of the carbon price. We also created a form that anyone could use, to make their own submission. We raised awareness via social media and over 700 people made a submission.

Submission to NSW Environmental Protection Agency regarding the burning of native forest waste to generate electricity (August 2013)

We strongly oppose the proposed amendments to current NSW laws to allow the burning of logging waste from native forests to generate electricity.

G4-15

Corporate advocacy

Australian Ethical is a strong advocate for businesses to improve their positive and reduce their negative social and environmental impacts, no matter whether they are investee companies or non-investee companies.

Supporting the Santos shareholder resolution

We supported the shareholder resolution for Santos to divest its investment in the Narrabri coal seam gas project. Santos is an example of a company which Australian Ethical's Advocacy Fund invests in to support engagement that aims to reduce negative impacts of their business activities. Advocacy groups The Wilderness Society and Getup prepared the resolution and marshalled support from over 150 shareholders to have the resolution included on the agenda for Santos' AGM.

The main focus of our concerns was the risk that the CSG sector as a whole poses to critical Australian groundwater supplies. We believe that more data collection, openness and analysis are needed on this and other potential impacts of CSG practices to make informed decisions about the growth and regulation of the industry.

Lend Lease

As long term investors in Lend Lease, we were disappointed when they were considering a contract in relation to the Abbott Point coal terminal in the Great Barrier Reef. Together with other activist organisations, we advocated strongly against their involvement, and, in 2014, they announced they would not proceed.

Petratherm

Another long term investee company, Petratherm had been working on the development of geothermal energy technologies. We divested the company from our portfolio when they announced that they would conduct oil and gas exploration in Tasmania.

Understanding the Carbon Footprint of our Portfolios

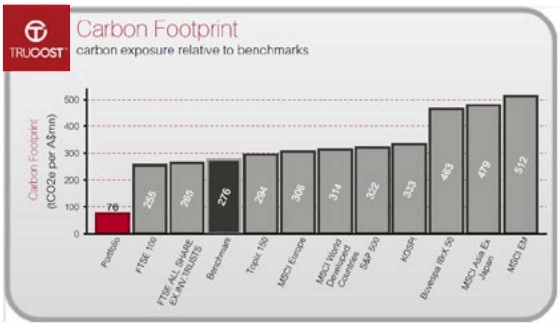
In order to understand more clearly the environmental impact of Australian Ethical's portfolios and how they perform against their benchmark market indices as well as other Australian equity portfolios of superannuation funds, we engaged with TruCost, a company that specialises in calculating environmental impacts across an organisation's interests.

We asked them to calculate the carbon footprint of the Australian Ethical Superannuation Balanced Accumulation option and the Australian Ethical Smaller Companies Trust. This research supports the theme of 'environment' under the Australian Ethical Charter, and provides an insight into how climate change may play a part in how we allocate our future investments.

An initial study 'Carbon Counts 2011, The Carbon Footprints of Australian Superannuation Investment Managers' was conducted by TruCost in 2011 on behalf of the super industry and analysed the carbon footprint of 88 equity portfolios. To normalise the data for our study, TruCost extrapolated the 2011 results to December 2013 to provide an indication of an approximate carbon footprint of these portfolios for comparison purposes.

The carbon footprint of both Australian Ethical portfolios fell at the lowest end of the range, ranking as 2nd and 3rd smallest out of the 90 portfolios analysed (for the Smaller Companies Trust and Balanced Accumulation respectively). The carbon footprint of the ASX 200 was 276 tCO2e/A$m which was slightly higher than the 2013 sample's mean carbon footprint of 263 tCO2 A$m.

The chart below illustrates the comparison between our Balanced Accumulation option and major market indices including the ASX200 (noted below as Benchmark). The average carbon footprint of the 2011 study, extrapolated to 2013, was 263 tCO2/A$m.



The findings show that our portfolios are over 70% less carbon intensive than our average peer and the market.

	Total Footprint (tCO2e/A$mn)
Australian Ethical Superannuation Balanced Accumulation*	75.60
Australian Ethical Smaller Companies Trust	68.31
ASX200	276.03

* AES Balanced Accumulation includes only domestic equity holdings held in the ASX200 to allow direct comparison with the extrapolated 2011 study mentioned above.

G4-EC2

Working at Australian Ethical

Australian Ethical is an equal opportunity employer with a talent management strategy that is designed to attract, develop and retain talented employees by providing an environment that encourages employees to contribute and develop in a way that makes the world a better place and one that reflects the Australian Ethical Charter. Throughout the reporting year, we have focused our efforts in the following areas:

- A focus on communication involving consulting with employees on the 'how' and 'what'
- Growing leadership capability in developing and sustaining a values based culture
- Enabling a learning and development environment aligned to employee strengths and sense of purpose
- Cultivating a collaborative team environment as we integrate new hires, and
- A focus on creating a performance based culture that is supported by equal opportunity and diversity measures.

The selection of these key areas reflects the outcomes of an employee engagement survey undertaken in the last reporting year. The underpinning activities in these focus areas have made the Australian Ethical team cohesive during the transitioning of many functions from our Canberra office to the Sydney office. Where redundancies occurred, employees were offered independent outplacement career coaching services which included sessions on:

- Identifying career values, motivations, transferable skills and development options
- Understanding best career fit
- Career planning and goal setting
- Effective job search strategies
- Development of a targeted resume
- Interview preparation and performance skills
- Creating an effective digital profile.

Communication through Collaboration

New methods of company-wide communication were introduced in the reporting year, with a new lunchtime business series, involving each functional area presenting on their strategy, team goals and objectives, and the interrelated nature of their work with other departments. While this activity was designed for all employees, it was particularly relevant to new hires as they were able to establish an understanding of all areas of the business. There were a number of departmental teambuilding off site activities with a focus on team dynamics and building high performance team cultures. Organisation wide team building events were put in place in the spirit of building greater collaboration in our workplace.

With the significant number of new hires to the business (48%), a planned integration and induction program was put in place for each employee. Our induction program ensures each new hire is supported in their learning and development process during the probationary period.

Growing leadership capability

A key hire to the management team this year was the Head of Ethics appointment – Dr Stuart Palmer. Stuart is a leading expert in business ethics, with over 20 years' experience in the financial, investment and legal sectors. Prior to joining Australian Ethical, Stuart was Head of Ethics Services at St James Ethics Centre.

A focus area for the next reporting year is to revisit Australian Ethical's company purpose, values and vision. All employees will be involved and we aim to achieve greater alignment of our passion, our purpose and create further ethical leadership capabilities in our people.

G4-DMA Employment, G4-LA10

Training and Education

We are committed to the training, education and development of all our employees. Australian Ethical recognises that appropriate continual learning can contribute to the quality and competence of employees, and, in turn, increase the productivity and success of our company.

Our learning and development initiatives cover a wide range of learning interventions including: on the job coaching and mentoring, management skills coaching, formal training programs, association updates, conferences and memberships and employee training to meet regulatory obligations.

Training and education policies include a subsidised employee personal development program, an individual training budget including a Responsible Investment Association Australasia (RIAA) training budget and an employee study assistance program. Both financial assistance and help with working arrangements may be provided to assist employees to balance the demands of work and further studies.

Performance reviews and remuneration

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

Employees are set Key Performance Indicators (KPIs) each year, selected to reflect critical success factors to Australian Ethical. Employees receive regular feedback on their performance and associated KPIs both formally and informally. Formal performance and career development reviews take place twice yearly as an interim and end of year performance review discussion, and informal discussions take place in regular interactions between teams and managers.

All permanent employees of Australian Ethical are included in our Performance Management system.

As part of our employment offering we regularly review our remuneration and benefits offering to ensure we are equitable in our offering to all employees.

We reference best practice in this area and benchmark our remuneration and benefits externally. Our employee value proposition positions us as an attractive employer in a culture that is shaped based on our vision, values and purpose. Our benefit offering is reviewed regularly and is shaped around the needs of our employee demographic and employee input.

The principles underpinning our performance management and remuneration frameworks are:

- Promote the value of the charter
- Attract and retain talented people
- Align shareholder interests and the company's capacity to pay
- Pay people fairly for the work that they do
- Build long term ownership in the company amongst employees
- Reward people according to their contribution to the company's performance

Further information about Australian Ethical's remuneration policy and structure can be found in our Remuneration Report (pp. 54-65)

Diversity & equal opportunity

Australian Ethical conducts all activities in a non-discriminatory manner with regard to race, gender, marital status, pregnancy, religion, impairment, political persuasion, or sexual preference, or any reason given under State and Federal EEO legislation. In addition to providing an environment of equal employment opportunity for all employees, Australian Ethical maintains and actively supports an Equal Employment Opportunity for Women in the Workplace program. This initiative is aimed at identifying and eliminating any sources or potential sources of discrimination against women in their employment and works in accordance with the requirements of the Federal Equal Opportunity for Women in the Workplace Act (1999).

The program is focused on employment matters including:

- Recruitment and selection
- Promotion, transfer and termination
- Training and development
- Conditions of service

G4-DMA Training and Education, G4-LA11, G4-HR3, G4-DMA Diversity and Equal Opportunity, G4-DMA Equal Remuneration for Women and Men, G4-DMA Non-discrimination

- Work organisation, and
- Arrangements for dealing with pregnant and potentially pregnant employees and employees who are breastfeeding.

We also consider that diversity in our workplace encompasses the ways people differ in terms of education, life experience, job function, work experience, personality, location, marital status and carer responsibilities, and these elements have shaped diversity management at Australian Ethical.

Our Board has established measurable objectives for achieving gender diversity in management and undertakes a review of progress against these objectives annually.

Australian Ethical does not tolerate any form of discrimination and complies with all anti-discrimination and EEO laws. All managers and employees are responsible for maintaining the highest equal opportunity and non-discriminatory practices in their work activities and behaviours. There were no incidents of discrimination in the reporting year.

Our talent management strategy is focused on merit based appointments evidenced through our practice in recruiting the best person suitable for the role, regardless of diversity indicators.

A continuous focus for this reporting period was to work towards achieving our gender and diversity targets, particularly in the area of increasing female representation in the workplace, and we continue to focus on attracting and developing female talent in the organisation. We have achieved mixed results in this area.

While we have already surpassed our FY16 gender diversity target of 25% female membership of the Board (achieving 40%), our FY13 and FY16 target of having a 25% and 40% representation of women in management roles, has not been achieved.

Although our focus on equal opportunity focuses on many aspects, our policy is to base remuneration on merit, not gender as this would be a discriminatory practice. However, pay equality between women and men varies, with female employees on average paid 88% of the male salary, primarily due to women being under represented in the management employee category.

Labour and management relations

Australian Ethical's management team strives to consult with all employees during change initiatives. All employees are notified of operational changes via the Managing Director or their direct manager as soon as is reasonably practicable from a business perspective. As a small organisation in an open plan work environment, our management approach is to consult with employees around changes that impact them and the business. An employee representative is elected by employees every two years. Employees are free to discuss any issues surrounding their employment with their employee representative who has the option to discuss these issues with management and escalate to the Board if required.

Grievance mechanisms

Australian Ethical is committed to promoting a healthy and productive work environment. We recognise that this is a critical factor to ensure that employees feel that their opinions matter. The company's grievance procedure is an important tool to help us achieve this goal. Employees are encouraged to proactively manage legitimate concerns, issues or complaints, regardless of their nature of severity, in accordance with the grievance procedure. There were no grievances reported during the year.

Employee benefits

Our employee benefits form an integral part of our remuneration package, and the employee value proposition that we offer to all employees in promoting and developing best practice reward and benefits programs. The purpose of offering employee benefits is to ensure we align our reward policies with our business performance and standards.

All benefits offered to permanent employees are offered to permanent part time employees on a pro-rata basis. Some of our benefits include employee personal development program, employee assistance program, flu vaccination, and study assistance, long service leave after five years, flexible working arrangements and three additional annual leave days at Christmas. Fixed term contractors have access to all leave accrual entitlements.

G4-HR3, G4-LA2, G4-LA4, G4-DMA-Labour Management and Relations, G4-DMA Labour Practices Grievance Mechanisms, G4-LA16

Employee Engagement

In accordance with the Australian Ethical Charter, we aim to provide a place to work that is fulfilling and rewarding for our employees. Our Constitution (Clause 2.1a) states that Australian Ethical must seek to promote 'the development of workers' participation in the ownership and control of their work organisations and places'.

This year, we have moved from an employee engagement survey conducted internally, to an externally run best practice survey with consulting firm Aon Hewitt. This year's survey has benchmarked Australian Ethical against the best employers in Australia and New Zealand and has placed us in the top quartile.

Employee responses told us that Australian Ethical provides:

- A meaningful organisational strategy, goals and objectives
- A diverse and respectful working environment
- Supportive leadership and management.

Employees also feel:

- A commitment to working for a social and responsible organisation
- A sense of accomplishment and pride in working for Australian Ethical.

Regardless of these relatively positive results, some survey areas revealed that employees feel that there could be improvement in the following areas:

- Career development and opportunities
- Performance and rewards
- Managing organisational change initiatives
- Organisational communication.

To address these areas for improvement, we plan to:

- Highlight employee opportunities with a view to career pathing and development opportunities
- Identify training and coaching initiatives to enable employees to manage their career in a meaningful way
- Rollout, educate and communicate to all employees around our proposed remuneration policy. The proposed changes will strengthen and simplify the alignment of the remuneration framework to the business purpose and strategy
- Realign employee benefit offerings to market practice and the diverse needs of our employees
- Maximise employee engagement and motivation at work by consulting with employees around organisational communication initiative and measures in `how` we can improve communication
- Engage in project management systems to scope projects, timelines, resources, communication and post implementation review of change initiatives.

Engagement Score:

- Australian Ethical Overall 2014/15 (78%)
- Aon Hewitt Best Employers 2014 (82%)

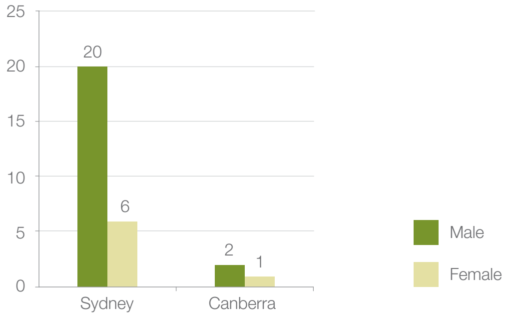
Engagement Behaviours		Australian Ethical Overall 2014/15	Aon Hewitt Best Employers 2014
Say	Given the opportunity, I tell others the great things about working here	81%	86%
	I would not hesitate to recommend this organisation to a friend seeking employment	77%	87%
Stay	It would take a lot to get me to leave this organisation	67%	75%
	I rarely think about leaving this organisation to work somewhere else	67%	72%
Strive	This organisation inspires me to do my best work every day	78%	83%
	This organisation motivates me to contribute more than is normally required to complete my work	63%	79%

Key Facts about our People

Total employees = 29

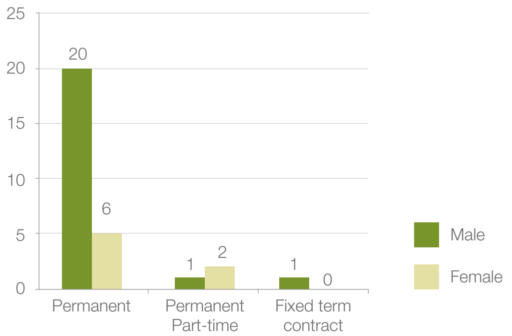
Total FTE = 27.64

Total employees by region

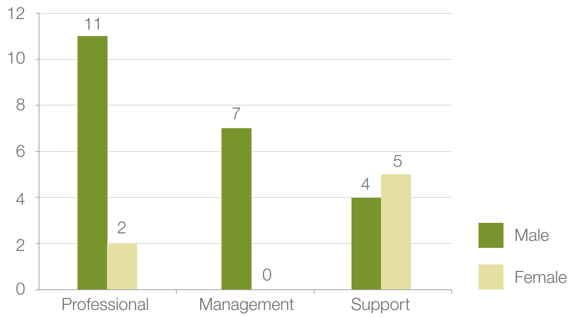


- 76% of employees are male
- 24% of employees are female

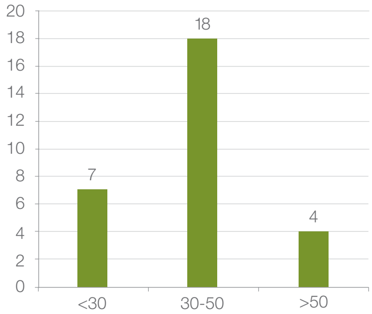
Total number of employees by employment contract and gender



Employees by employment type

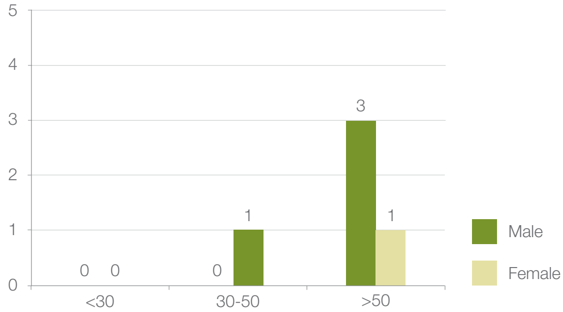


Total employees by age

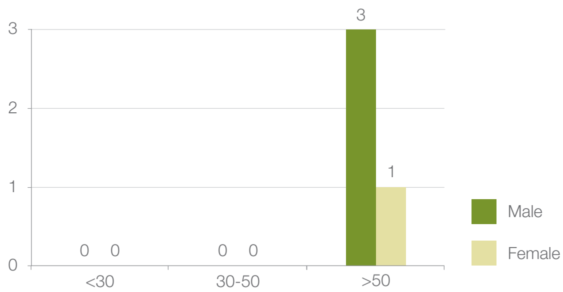


- 24% of employees are under 30 years of age
- 62% of employees are between 30-50 years of age
- 14% of employees are over 50 years of age

Australian Ethical Investment board members – age and gender diversity

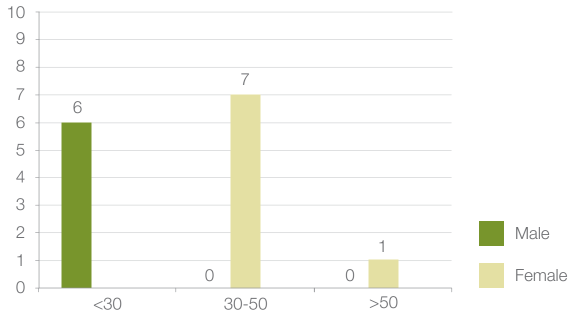


Australian Ethical Superannuation Pty Ltd board members – age and gender diversity



G4-9, G4-10, G4-LA12

Age range of new hires



New Hire Statistics

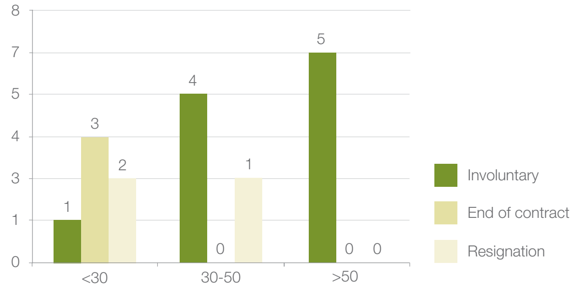
- Male: 43%
- Female: 57%
- <30 yrs.: 43%
- 30-50 yrs.: 50%
- >50 yrs.: 7%
- All new hires were employed in Sydney

Employee turnover by gender

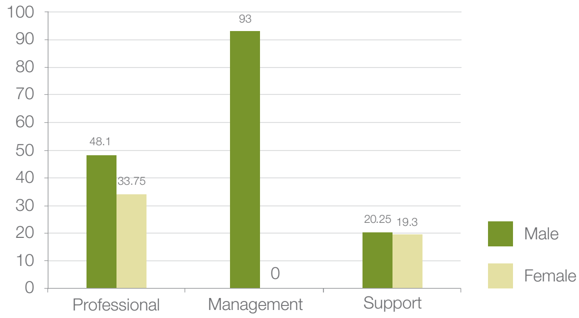
Notes:

- Australian Ethical experienced a turnover rate of 48.27%
- 100% of involuntary turnover from Canberra was due to the centralising of activities to Sydney: 70% male, and 30% female
- Two contracts expired in Sydney and one in Canberra: 66.6% male, and 33.3% female
- Three resignations occurred in Sydney and one in Canberra: 25% male and 75% female.

Employee turnover by age



Average training hours per employee by gender and employee category



Ratio of basic salary and remuneration of women to men by employee category:

	2010-11	2011-12	2012-13	2013-14
Management	0.59:1	0.65:1	0.68:1	0.63:1
Professional	0.87:1	0.64:1	0.61:1	0.66:1
Support	0.92:1	0.87:1	1.02:1	1.66:1

Organisational ethics and integrity

The Australian Ethical Code of Conduct applies to all employees, contractors and directors of Australian Ethical. The Code sets out principles to guide decisions and behaviour, rather than prescribing detailed dos and don'ts. The Code deals with expectations for both internal conduct (e.g. around equal opportunity) and external conduct (e.g. around fair competition).

Australian Ethical has an open culture where people are encouraged to raise concerns and ask questions about any incidents or practices they encounter. Management are available to discuss the activities of the company at a day to day or strategic level.

G4-9, G4-10, G4-LA1, G4-LA9, G4-LA12, G4-LA13

An employee representative is available for consultation and representation with and on behalf of employees. Employees are also able to access the St James Ethics Centre Ethi-call service, a free and confidential service which provides guidance to work through ethical choices and dilemmas.

Australian Ethical operates in a highly regulated environment and has a number of formal internal and external reporting systems. For example, we use 'Tickit' risk and compliance software, which allows online incident reporting by employees. More generally, our open, 'speak up' culture is nurtured to encourage prompt and candid conversations and raising of concerns.

External enquiries, concerns and complaints may be communicated to us by phone, email, online, social media or letter. Complaints are recorded in a complaints register and dealt with within designated time frames by experienced and qualified people. A complainant who is dissatisfied with our response may raise their complaint with the Superannuation Complaints Tribunal (superannuation) and Financial Ombudsman Service (financial services).

Impact Committee

Australian Ethical's Impact Committee had its genesis in a Sustainability Committee which was set up many years ago with the primary purpose of adopting green office practices.

The purpose of the Impact Committee is to:

1. Promote the Australian Ethical Charter, the Purpose and Values of Australian Ethical to all stakeholders
2. Review and make recommendations to management regarding sustainability issues, procurement policies, community grants and community relations, and our physical environment
3. Set sustainability KPIs for company activities and engage employees on and promote sustainable behaviours and activities, including volunteering.

Volunteering and sponsorships

As part of our ethos in making the world a better place through direct impact, our employees are involved in volunteering activities throughout the year and we eventually plan to allocate two full days per employee per year to volunteering activities.

Australian Ethical is also involved in sponsorship of various events that align with the Australian Ethical Charter, including, in 2013/2014, the Sustainable Living Festivals in Victoria and Tasmania, the Australian tour of Dr Jane Goodall, The Human Rights Film Festival, National Climate Action Day, Impact Investment seminars, Fair@Sq and the RIAA conference.

During the reporting year, six of our employees participated in the Achieve Australia volunteering day to perform maintenance and painting at Araluen House Day Centre for people with disabilities, which totalled 45 volunteering hours, and four employees donated blood at the Red Cross Blood Service, totalling four hours. This equates to an estimated value of $3,528 in volunteering time.

In 2014/2015, we estimate that six of our employees will donate blood each quarter, and volunteering activities are planned at the Exodus Foundation's 'Loaves and Fishes' restaurant for the homeless, and a kayaking garbage cleanup at Sydney Harbour.

G4-35, G4-56, G4-57, G4-58, G4-EC1

Awards

During 2013/2014, Australian Ethical was pleased to receive the following awards:

- **Best Use of Social Media Award** – presented at the inaugural Association of Superannuation Funds of Australia (ASFA) Marketing Communications Awards
- **'Leading in sustainability – Setting the standard for a Small to Medium Business'** – Banksia Awards
- **'Excellence as a Sustainable Large Business (over 15 employees)'** – Green Lifestyle consumer publication

Our environmental impact

In line with the Australian Ethical Charter, we place the same expectations of responsible environmental behaviour on ourselves as we do for our customers. This means that we strive to have a minimal impact on the environment. As an office based organisation, our primary impacts on the environment relate to energy use and the associated emissions from travel. We also aim to be responsible in our use of materials in the office and in a waste generation.

Energy use and emissions

With the consolidation of the majority of staff from Canberra to Sydney, there was a consequent reduction in energy use in Canberra. However, with our Sydney office operating at full capacity there has been an increase in overall energy use as the Sydney building is not as efficient as the Canberra building (4 NABERS stars compared to 6 NABERS stars). In the next reporting year, we will purchase Green Energy to abate some environmental impact through energy use.

Our greenhouse gas emissions compared relatively favourably at 0.125 tCO_2-e on a per square meter basis, in comparison with an average of 0.163 tCO_2-e for Australia's existing office building stock.

Travel trips and emissions

In 2013-14, our employees took 334 flights and 812 taxi trips, slightly decreased from 2012-13 (422 flights and 733 trips). GHG emissions from our travel increased by 7.65 tonnes from the previous reporting year as a result of the higher number of international versus domestic flights taken this year.

Total greenhouse gas emissions

	tCO_2-e
GHG from energy	
Electricity	43.7
Gas	6.87
Total GHG from energy	50.6
GHG from Travel	
Taxi usage	3.38
Private vehicle use for business related travel	10.60
Flights	84.92
Total GHG from Travel	98.9
Total GHG	**149.5**

Offsetting our emissions

Australian Ethical offsets emissions by purchasing carbon credits in worthwhile projects. Emissions of 149.5 tCO_2-e will be offset during FY15. Total emissions calculated include greenhouse gases emissions from energy and from travel. Projects that our carbon offset credits will assist are 'Cookstove' projects in Mali and Cambodia. The projects replace high polluting traditional cookstoves with fuel efficient stoves. Large volumes of wood and charcoal are required for the traditional cookstoves, which contribute to CO_2 emissions from burning these fuels, but also increased desertification. The traditional stoves also contribute to indoor air pollution, which is linked to respiratory and eye diseases.

By replacing these with ceramic lined modern cookstoves, demand for wood and charcoal is reduced, and a healthier indoor environment is created. Both projects also provide employment and business opportunities throughout the local supply chain, including in the manufacturing, retailing and distribution of the stoves.

These projects align with many elements of the Australian Ethical Charter.

Paper consumption

In 2013-14 we consumed 185,249 sheets of 100% recycled paper. This represents 6,702 sheets of A4 paper per FTE. This is a significant increase in paper usage from 2012-13 (1,805 sheets per FTE) as a result of more printing being conducted in-house rather than being printed offsite. During the reporting year, we changed our paper supply to 100% Australian made, FSC® certified post-consumer recycled waste paper.

When printing newsletters, product disclosure statements and annual reports, we use 100% post-consumer recycled paper using vegetable based inks.

Waste

Although waste in our Canberra office is minimal, it is separated and recycling facilities are utilised. In our Sydney office, waste is separated into recyclables, organics, and non-recyclables. Each desk has a recycling bin only, with no bins for non recyclables.

Consolidated Financial Report

Australian Ethical Investment Limited
and its Controlled Entity

ABN 47 003 188 930

Consolidated Financial Report for the year ended 30 June 2014

Directors' Report

The Directors present their report together with the consolidated financial report of Australian Ethical Investment Limited (the Company) and its controlled entity, Australian Ethical Superannuation Pty Limited (together known as the Group), for the year ended 30 June 2014 and the auditor's report thereon.

Directors

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

Stephen Gibbs,
Chair and Non-Executive Director

Mara Bun,
Non-Executive Director

Tony Cole,
Non-Executive Director

Kate Greenhill,
Non-Executive Director

Phil Vernon,
Chief Executive Officer and Managing Director

André Morony,
Non-Executive Director – resigned 20 November 2013

Stephen Newnham,
Executive Director – resigned 26 July 2013

Director's Particulars

Stephen Gibbs
Chair and Non-Executive Director
BEc, MBA

Stephen joined the Board in July 2012 as a Non-Executive Director and on 4 February 2013 was appointed Chair. He Chairs the People, Remuneration and Nominations Committee, is a member of the Audit, Compliance and Risk Committee and the Investment Committee. Stephen is a director of Australian Ethical Superannuation Pty Limited and a member of it's Audit, Compliance and Risk Committee.

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

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

Mara Bun
Non-Executive Director
BA

Mara was appointed as a Non-Executive Director on 4 February 2013.

Mara was a Senior Financial Analyst with Morgan Stanley's San Francisco High Technology Group before immigrating to Australia in 1991. Mara worked for The Wilderness Society, Greenpeace Australia Pacific and Choice in the 1990s. She served as Director of the Board of Bush Heritage Australia for eight years, and on the Advisory Council of the NSW Sustainable Energy Development Authority for six years.

In the 2000's Mara led Macquarie Bank's Internet equities research team as Senior Analyst and Associate Director; was a Director in The Allen Consulting Group's Sydney ICT and sustainability public policy consulting practice; and then Director of Business Development for the CSIRO.

In 2008 Mara became the founding CEO of Green Cross Australia. Green Cross International was founded in 1993 by former Soviet statesman Mikhail Gorbachev to create a new approach to solving the world's most pressing environmental challenges by reconnecting humanity to the environment. In 2014 Mara became a Director of the Board of Green Cross Australia.

Tony Cole
Non-Executive Director
AO, BEc

Tony was appointed as a Non-Executive Director on 4 February 2013. Tony is the Chair of the Investment Committee and a member of the People, Remuneration and Nominations Committee.

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

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

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

Kate Greenhill
Non-Executive Director
BEc FCA GAICD

Kate was appointed as a Non-Executive Director on 22 February 2013. Kate is Chair of the Audit, Compliance and Risk Committee and a member of the People, Remuneration and Nominations Committee. Kate is also a member of the Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committee.

Kate has over 19 years' experience working with organisations in the financial services industry both in Australia and overseas. Kate was formerly a Partner with PricewaterhouseCoopers assisting clients with advice and assurance in relation to financial statement audit opinions, accounting and regulatory developments, capital raisings, accounting for complex transactions, due diligence, valuations, compliance, risk management, organisational structure and the operation of controls.

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

Phil Vernon
Chief Executive Officer and Managing Director
BEc, MCom, MBA, FCPA, FAICD

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

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

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

Directors Who Resigned During the Period

André Morony
Non-Executive Director
BEc (Hons), MEc

André joined the Board of Australian Ethical as a Non-Executive Director in June 2008. André stepped down as the Chair on 4 February 2013.

André resigned as a Director on 20 November 2013.

Stephen Newnham
Executive Director
BA, LLB, DFP

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

Stephen resigned as a Director on 26 July 2013.

Company secretary

Tom May
BA, LLB, MBA

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

Subsidiary Board directors and Board committee members

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

Ruth is Chair of the Company's wholly owned subsidiary Australian Ethical Superannuation Pty Limited and a member of the it's Audit, Compliance and Risk Committee. She is also a member of the Company's Audit, Compliance and Risk Committee.

Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women) and WOB Pty Ltd (Women on Boards). Ruth started in IT in the 1970s. Since then she has been a senior public servant, a broadcasting regulator, the inaugural Company Secretary at Telstra and the Executive Director of an industry association.

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

Les is a member of the Company's Audit, Compliance and Risk Committee. Les is also a director of Australian Ethical Superannuation Pty Limited and Chairs it's Audit, Compliance and Risk Committee.

Since 2004, Les has taught in the Finance Department of the University of Melbourne. He is currently a member of the investment committee of IOOF Holdings Limited. Previously Les had over 20 years' experience in senior operational, planning and finance roles in Australia and overseas, and has been a trustee of two superannuation funds, and a director of ten companies involved in finance, retail and distribution.

Principal activities

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

Changes in the state of affairs

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

Review of Operations

For the financial year to 30 June 2014, the Company reported a net profit after tax of $2,542,526 compared to the net profit after tax for the financial year to 30 June 2013 of $1,063,037.

In looking at the consolidated entity's performance during 2014, the following are the key points:

Funds Under Management and Revenue

- Funds under management increased by $179.6m, $88.1m due to market movements in addition to net inflows of $91.5m. Funds under management as at 30 June 2014 was $887.2m which is the highest for the Company since inception.
- Net inflows of $91.5m are made up of positive inflows of $77.6m (up from $18.0m last year) into our superannuation fund in addition to net inflows of $14.0m into our managed funds ($16.7m net outflow last year). Inflows into our managed funds have improved markedly reflective of improved investor sentiment and strong performance across all funds.
- Revenues increased by $3.5m representing an increase of 21% over the previous year. The main reasons for the revenue increase were the growth in equity markets and strong net inflows during the year which increased our funds under management.
- This was the first full year with our new fee structures across all products. The fee changes we have made in the last few years have had a significant impact on inflows and reducing outflows.

- Following a detailed review of product fees on the 30 June 2014 we reduced the fees on some of our products whilst increasing fees on others. The most significant change was a reduction of the administration fee charged in our superannuation product from 1.43% to 0.83%. The potential impact of the change in fees during the 2014/15 will be to reduce revenue margins and therefore revenue however lower fees will make our Superannuation product more competitive which will assist with future growth. The table below shows the change in revenue margins for each product and overall. Revenue margins have been calculated as annualised revenue divided by funds under management based on actual funds under management at 30 June 2014.

	Revenue margin based on current fees	Revenue margin based on proposed fees
Managed funds	1.88%	1.99%
Superannuation	2.27%	1.79%
Overall	2.14%	1.86%

Expenses

- Operating expenses[1] increased by $0.50m, an increase of 3.6% over the previous year.
- Employee benefits expense increased overall by 7.9% as a result of the improved result and the resultant increased staff bonuses and rights expense. Employee benefits expense comprises both fixed and variable components. Fixed staff remuneration decreased by 8.6% due to a number of vacant positions during the year.
- Bonus and rights expense (variable components) increased from $0.51m in 2013 to $1.22m in 2014. Provisions for rights issued were $1.16m (2013 $0.44m) as a result of the increase in share price during the year and the increased probability of the rights vesting.
- Costs to outsource providers have increased primarily due to the use of consultants to assist with the significant regulatory changes in superannuation. Amounts paid to consultants increased by $0.34m (2014 $0.77m, 2013 $0.43m).
- Marketing expenses have increased by $0.37m as a result of additional marketing campaigns that have improved brand awareness and net flows.
- IT expenses have increased by $0.26m as a result of increased use of IT service providers.
- The effective tax rate of 38% was lower than the prior year, 45%. The Company's effective tax rate is impacted by items that are not deductible for tax purposes which are detailed in Note 6 of the attached financial report.
- A reconciliation of Total expenses excluding tax to Operating expenses is shown below:

	30 June 2014 $'000	30 June 2013 $'000
Revenue	19,889	16,378
Less: Profit/(Loss) for the year	(2,543)	(1,063)
Total Expenses	**17,346**	**15,315**
Less:		
Income tax expense	(1,590)	(873)
Depreciation	(271)	(392)
Rights amortisation	(931)	(179)
Community Grants	(302)	(117)
Non-recurring Expenses		
Impairment of available for sale securities	-	(117)
Impairment of property, plant and equipment	(282)	(436)
Employment restructure expenses	(409)	-
Legal costs for shareholder actions	-	(85)
Loss on disposal of assets	(15)	(63)
Other	-	(47)
Operating expenses	**13,546**	**13,006**

Operating expense comprise expenses that the Company has incurred as a result of performing its normal business operations.

Community Grants

- $302,300 has been provisioned for payment to charitable and conservation organisations under our community grants program. The Company's constitution requires that 10% of operating profit, after notional tax, be paid to non profit organisations involved in charitable, benevolent or conservation purposes. Staff and shareholders are actively involved in the selection of the organisations that receive community grants.
- $1.75m, including the amount above, has now been paid by the Company to charitable and conservation organisations under the community grants program since inception.

Underlying Profit

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

The reconciliation of net profit after tax to underlying profit after tax for the 2014 financial year is as follows:

	30 June 2014 $'000	30 June 2013 $'000
Net profit after tax	**2,543**	**1,063**
Adjustments (gross)		
Add: Employment restructure expenses	409	-
Add: Legal costs for shareholder actions	-	85
Add: Property revaluation	282	436
Add: Available for Sale assets revaluation	-	117
Tax on adjustments	(123)	(26)
Underlying profit after tax	**3,111**	**1,675**

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

Statement of Financial Position (as at 30 June 2014)

Assets

- Total assets have increased by $3.96m to $14.24m during the financial year ended 30 June 2014.
- Cash balances increased by $4.05m to $7.94m primarily as a result of increased revenue from our funds as funds under management have grown. As a condition of the Company's Australian Financial Services (AFS) Licence the Company is required to maintain minimum Net Tangible Asset levels along with a significant cash balance. At all times during the financial year and as at 30 June 2014 the Company has met the conditions of its AFS Licence.
- Trade and other receivables increased marginally by $0.27 million to $2.75 million. These receivables primarily represent the accrual of fees on our products for the previous month.
- Due to a weakening commercial property market in Canberra the Company owned property in Bruce, ACT was independently re-valued resulting in an impairment charge of $0.282 million. This impairment charge is a non-cash charge to profit. The company has an active sales campaign underway with 16 parties introduced to the property over the past 12 months.
- The majority of the shares held by the Company to support the advocacy activities were sold during the year resulting in a realised loss of $6,965. An impairment charge of $116,811 was posted to profit and loss in 2012/13. The Company has changed its

approach to its Advocacy activities and in the future will not be purchasing shares on its balance sheet to obtain voting blocks in target companies.

Liabilities

Total liabilities increased by $1.78m to $4.76m due to an increase in trade payables which partly as a result of a change in the process for paying suppliers. Rebates payable to the Superannuation fund (to eliminate double charging of fees) also increased in line with the increase in the size of the fund.

Equity

Equity has increased by $2.19 million due to net profit after tax of $2.54 million offset by dividends paid during the year.

Dividends

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

	Cents per share	Total amount $	Franked/ Unfranked	Date of payment
Declared and paid during the financial year				
Final 2013	45	460,416	Franked	4 October 2013
Interim 2014	80	818,522	Franked	28 March 2014
Total		**1,278,938**		
Declared after end of year				
After balance sheet date, the directors declared the following dividend:				
Final 2014	120	1,227,776	Franked	3 October 2014[2]

[2] Planned payment date

Investment Performance

All the Australian Ethical products performed strongly over the year with all managed funds ranking in the first or second quartiles when measured against their peers over the past year.

Fund	1 year Quartile	3 years Quartile	5 years Quartile	7 years Quartile	10 years Quartile
Balanced	2nd	3rd	4th	1st	2nd
Smaller companies	2nd	1st	3rd	1st	1st
Smaller companies – Wholesale	2nd	-	-	-	-
Larger companies	1st	1st	1st	1st	1st
Larger companies – Wholesale	1st	-	-	-	-
Advocacy	1st	1st	-	-	-
Advocacy – Wholesale	1st	-	-	-	-
International equities	1st	4th	4th	3rd	-
Cash	2nd	1st	1st	1st	1st

Source: Mercers 30 June 2014. Ranking based on Mercer peer group category.

Our Larger Companies fund has achieved top quartile performance over all periods in the past 10 years, confirming again that investment returns do not have to be compromised for ethics. Our Smaller Companies fund is the strongest performing fund in its class over 10 years, demonstrating our long track record on managing money ethically.

Events subsequent to reporting date

The Company's fees are primarily based on its funds under management which in turn is impacted by changes in equity markets. Between 30 June 2014 and the date of signing this report the Company's Funds under Management has increased by 6.1% which is estimated would impact the net profit after tax by $700,500 on a full year basis.

Other than as outlined in this report, no matters or circumstances have arisen since the end of the financial year which have or may significantly affect the operations of the Company and its controlled entity, the results of those operations or the state of affairs of the Company in financial years subsequent to the financial year ended 30 June 2014.

Outlook–Likely developments and business strategies

There is increasing regulatory and competitor pressure on fees within superannuation particularly in MySuper products. The Australian Ethical Retail Superannuation Fund provides a unique offering amongst MySuper regulated funds with strict adherence to a well-developed ethical charter. The strong net inflows into the Fund in 2013/14 demonstrate that members assess the Fund on a number of factors, not just fees.

The largest driver of total revenues is the value of funds under management (FUM) which is in turn influenced by the level of the Australian equity market. We have estimated that a 1% change in the S&P/ASX All Ordinaries index will have a full year impact of $82,500 on net profit after tax. Changes to the markets are monitored constantly and where there are sustained drops action will be taken to reduce variable expenses.

As noted in the Review of Operations section the Company is actively seeking buyers for its Canberra property.

Environmental Regulation

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

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

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

Indemnification of Directors' and officers

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

Insurance

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

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

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

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

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

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

Director's meetings

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

Australian Ethical Investment Limited

Director	Board		Investment		People, remuneration and nominations		Audit, compliance and risk	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
Stephen Gibbs	5	5	4	4	5	5	5	5
Mara Bun	5	5	-	-	-	-	-	-
Tony Cole	5	5	4	4	4	4	-	-
Kate Greenhill	5	5	-	-	5	5	5	5
Phil Vernon*	5	5	-	-	-	-	-	-
Ruth Medd	-	-	-	-	-	-	5	5
Les Coleman	-	-	-	-	-	-	5	4
André Morony	-	-	5	5	1	1	-	-

* Whilst Phil Vernon is not a member of the Investment, the People, remuneration and nominations and the Audit, compliance and risk committees he attended all meetings during the year

Australian Ethical Superannuation Pty Limited

Director	Board		Audit, compliance and risk	
	Eligible	Attend	Eligible	Attend
Stephen Gibbs	7	7	5	5
Ruth Medd	7	7	5	5
Les Coleman	7	7	5	5
Phil Vernon*	7	7	-	-
Kate Greenhill	-	-	5	5

* Whilst Phil Vernon is not a member of the Audit, compliance and risk committees he attended all meetings during the year

Directors' relevant interests in securities of the Company

Parent entity directors	Fully paid ordinary shares		Rights	
	2014	2013	2014	2013
Phil Vernon	2,082	1,474	10,136	6,993

Only Directors with interests are shown in the table above.

Directors' holdings in registered schemes made available by the Company

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

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

Rights as at the date of this report

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

Performance rights reference	Number of rights on issue
AEFAA	7,589
AEFAC	17,819
AEFAE	17,955
AEFAF	10,693

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

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

Shares issued upon the exercise of share rights

8,061 ordinary shares of the Company were issued during the year ended 30 June 2014 on the conversion of performance rights granted under the Company's employee share ownership plan.

No further shares have been issued since 30 June 2014 to the date of this report. No amounts are unpaid on any of the shares.

Remuneration Report 2014

The past year has seen considerable growth in our business as a result of the significant improvements made over the past few years. This has seen us improving the skills and knowledge of the teams across the business and implementing operating efficiencies resulting in improved investment performance and significantly increased net inflows.

Structural changes and improvements in operating efficiencies have seen us consolidating and relocating the majority of the business to Sydney. We have invested in the skills of our employees and progressively aligned salaries to more market based levels.

As a result of the improved performance of the business the hurdles on Performance Rights issued under our Employee Share Incentive Scheme in 2011 will be met and as a result, 50% will vest.

We plan to implement a number of structural changes during the coming year to our remuneration framework following a review conducted by the Board (with the assistance of KPMG) in financial year 2013/14. The proposed changes strengthen and simplify the alignment of the remuneration framework to the business purpose and strategy, and therefore shareholders' interests. The Board considers this appropriate for the size and structure of the Company.

Whilst we will continue to review and refine our remuneration arrangements, we believe the changes we have made have transformed our remuneration practices so that they are contemporary, strongly aligned with shareholders' interests and motivating for our employees.

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee

This report deals with the remuneration arrangements for Australian Ethical Investment Limited's ("The Company") Key Management Personnel (KMP). This includes the Non-executive Directors, the Managing Director and the Executives. This has been audited as required by section 308(3C) of the *Corporations Act 2001*. Terms used throughout the report are defined in the section "Key Terms Used in this Report".

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Governance structure

The Role of the People, Remuneration and Nominations Committee

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

The terms of reference are broad, encompassing remuneration as well as executive development, talent management and succession planning.

The PRNC members for the 2013/14 financial year were:

- Stephen Gibbs (Chair);
- Kate Greenhill; and
- Tony Cole.

The PRNC met five times during the year.

A standing invitation exists to all Directors and the Chair of Australian Ethical Superannuation Pty Ltd to attend PRNC meetings. Attendance at these meetings is set out in the Directors' Report. At the PRNC's invitation, the Managing Director and the People and Culture Consultant attended all meetings except where matters associated with their own performance evaluation, development and remuneration were to be considered. The PRNC considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including remuneration consultants.

Use of Remuneration Consultants

In May 2014, the PRNC appointed KPMG as its principal remuneration consultant to provide specialist advice on executive remuneration and other Group-wide remuneration matters. During the year KPMG provided information to the PRNC in the context of the PRNC's review of the Remuneration structure which will be implemented from 2014/15. This information did not include any remuneration recommendations pursuant to the Corporations Act. The PRNC also utilised the services of Egan Associates to advise on the company's non-executive director remuneration arrangements.

The PRNC is satisfied that the advice received from both KPMG and Egan Associates was free from undue influence by members of the KMP, about whom the advice may relate, as the advisors were engaged by and reported directly to the PRNC.

Managing Director and KMP Performance

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

The bonus received by the Managing Director during 2013/14 is shown in Table 1: Remuneration Elements and relates to the previous financial year of 2012/2013. This flows from a formula linking the bonus to year on year profit changes and reflects an increase in the results for that previous financial year.

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

Remuneration Policy and Structure

The Company's remuneration policy is designed to create a motivating and engaging environment for employees where they feel appropriately paid and incentivised for the contribution they make to the performance of the company.

General principles

The principles underpinning our remuneration framework are:

- pay people fairly for the work that they do
- build long term ownership in the company
- be motivating for employees
- align reward with contribution to Company's performance
- align shareholder interests and the Company's capacity to pay
- attract and retain talented people
- promote the values of the Charter and be aligned with the purpose of the Company
- be simple to administer and to communicate

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)
- it is designed so as to not "exploit people through the payment of low wages or the provision of poor working conditions"–Charter element (ix)
- the incentive structure meets the requirements of Rule 15.1(c) of the Constitution which provides that prior to recommending or declaring any dividend, provision must be made for a bonus or incentive for employees to be paid of up to 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted.

Outcomes of votes at Annual General Meetings

At the 2013 AGM, the Remuneration Report received 38.19% of the vote against it out of 61.7% of shareholders that voted on the report. This result constituted a 'first strike'. A further vote against the Remuneration Report by 25% or more of the voted shares at the 2014 AGM will require another spill motion being put to shareholders.

The only comment received from shareholders at the 2013 AGM was regarding the suitability of the average return on equity over 3 years as a KPI for LTIs. The board considered this feedback as part of its review of the Company's remuneration policy and structure for 2014/15 as detailed on page 62.

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Remuneration Structure in 2013/14

For the financial year ended 30 June 2014, the remuneration structure comprised the following elements:

Remuneration element	How paid
Fixed Remuneration	
Each employee's remuneration is assessed against market data based on their position and the skills and experience they bring to the role.	Comprises: • Cash • Superannuation • Packaged employee benefits and associated fringe benefits tax (FBT)
Employee Bonus Plan	
Available to all employees excluding employees who have access to the Short Term Incentive (STI) Program and Non-executive Directors. Total pool determined with reference to Company's performance and allocated based on relative remuneration and adjusted to reflect the individual's performance.	• Cash
Short Term Incentive	
Management team & certain other employees Bonus awarded based on Company profits and performance against set objectives. For the Managing Director objectives include company performance, key strategic outcomes and risk management. For sales and marketing employees objectives include performance against new business and net inflow targets.	• Cash (50%) • Performance Rights (50%)
Investment team Bonus awarded based on Company profits and performance against investment benchmarks. Performance rights linked to the performance of the investment portfolio that their work is most directly related to.	• Cash (50%) • Performance Rights (50%)
Long Term Incentive	
Total pool is determined and allocated to all employees based on relative remuneration. Certain employees have additional amounts allocated based on market assessments. Rights vest as shares in 3 years and are subject to company performance hurdles as follows: • If Return on Equity "RoE" is less than 15%, no shares are issued • If RoE is greater than 15% but less than 20%, half the rights will vest • If RoE is greater than 20%, 100% of the rights vest • RoE determined as average over each 6 months over the 3 years	• Performance Rights

Employee Share Incentive Schemes

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

The number of performance rights granted in the 2013/14 financial year (in respect of the 2012/13 financial year) under the general category has been determined based on the previous methodology and then adjusting for the lower number of employees. In 2013/14 there were a number of redundancies prior to the issuance of the 2012/13 LTI rights that reduced the number of employees in the business. In order to ensure the remaining employees did not benefit from the lower employee numbers the LTI pool has been adjusted downwards.

Overall constraint

In 2012/13 an overall constraint on incentive expense in any performance year was introduced as follows:

The total of the following will be no more than 30% of pre-bonus Net Profit After Tax ("NPAT"):

- employee bonus plan
- all STI other than those excluded below
- total LTI amortisation expense
- any discretionary allotments to employees

It does not include:

- that portion of investment team STI that is subject to investment performance. These were paid as the outcomes require; and
- Managing Director and CEO's STI

The excluded amounts above have no profit related cap however the amounts are constrained as they are calculated as a percentage of Gross Employment Cost ("GEC") for each employee

Non-executive Directors

A review of Non-executive Directors' remuneration is undertaken annually by the Company Board, taking into account recommendations from the PRNC. The review includes the positions of Chairman and Non-executive Directors and covers duties undertaken, accountability and market rates. Non-executive Directors' remuneration has been consistently below that of comparative companies and the annual review in June 2013 saw an increase to Non-executive Director remuneration of $12,000 pa, the first increase since 2008, effective from the first full pay period on or after 1 July 2013.

The total of Non Executive remuneration remains within the pool approved by shareholders at the 2010 Annual General Meeting. The current Non-executive Director remuneration is still well below comparative companies and the Directors will be seeking to increase the pool available for Non-Executive Director remuneration at the 2014 Annual General Meeting.

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

Non-executive Directors are not eligible to participate in employee incentive plans.

Non-executive Directors' remuneration by position is as follows:

Position	Remuneration * ($ p.a.)
Australian Ethical Investment Limited	
Chair	54,000
Non-Executive Director	36,000
Audit, Compliance & Risk Committee Chair	9,810
Audit, Compliance & Risk Committee Member	4,360
Investment Committee Chair	5,450
Investment Committee Member	3,270
People, Remuneration and Nominations Chair	2,180
People, Remuneration and Nominations Member	1,635
Australian Ethical Superannuation Pty Ltd	
Chair	30,000
Non-Executive Director	20,000
Audit Compliance and Risk Committee Chair	9,810
Audit Compliance and Risk Committee Member	4,360

* inclusive of superannuation

Remuneration Structure in 2014/15

Review of Remuneration structure

During the year the PRNC undertook a review of the remuneration structure with the assistance of KPMG. The aim of the review was to simplify the structure, improve employee retention, provide a better line of sight between effort and reward and foster a better culture of employee participation and control as per our Charter.

Remuneration element	How paid
Fixed remuneration	
Each employee's remuneration is assessed against market data based on their position and the skills and experience they bring to the role.	Comprises: • Cash • Superannuation • Packaged employee benefits and associated fringe benefits tax (FBT)
Conditional remuneration	
All permanent employees are offered an amount of Deferred Shares based on market remuneration data. Shares vest after 3 years subject to continued employment. This aspect was introduced to strengthen employee retention and foster a long term interest in the performance of the Company. It is consistent with our Charter element which requires the encouragement of employee participation and control. The previous scheme had not achieved the level of employee share ownership it was designed to.	• Deferred shares
Short Term Incentive	
The purpose of this aspect is to incentivise and reward employees for achieving annual objectives. Employees are assigned a target incentive based on market remuneration data and awarded an outcome based on the achievements against objectives. The specific mix of objectives applicable to an individual will depend on their specific job role. Objectives include strategic projects, social and environmental impact, investment performance, net inflows, client growth, satisfaction and retention, risk management and operational and efficiency measures. The payment method of STIs was changed to 100% cash to simplify the structure and to provide a greater line of sight between the achievement of annual objectives and the reward improving motivation.	• Cash
Long Term Incentive	
All permanent employees are offered an amount of shares based on market data. The purpose of this aspect is to retain employees and to foster an interest in the long term performance of the Company. Shares vest after 3 years subject to performance hurdles described below under "Performance Hurdles". Changes to this element include: • change from an RoE hurdle to an Earnings per Share ("EPS") hurdle described below • change from an allocated pool of rights to be based on a percentage of employee's remuneration to ensure overall remuneration is market based.	• Deferred shares

Deferred shares

Deferred shares will be issued under the Employee Share Scheme. However the nature of the scheme will change whereby, rather than being issued as Performance Rights, shares will be issued under an employee share trust. Under this arrangement employees will receive dividends on unvested shares and have voting rights. This is being introduced to foster a greater interest in the performance of the company amongst employees and a greater alignment between employees and shareholders. We believe that this method is far more consistent with the Charter requirement of encouraging employees' participation and control. Dividends received will be taken into account when benchmarking total remuneration against market data.

Performance hurdles

The performance hurdles attaching to the Deferred Shares issued as part of the Long Term Incentive will be changed from Return on Equity ("RoE") to an Earnings per Share ("EPS") hurdle. We believe that Earnings per Share is a more appropriate target as it is more within the influence of employees and is a driver of long term shareholder value thereby providing better alignment between employees effort and shareholder interests.

The hurdles are:

- if compound EPS growth over 3 years is less than 5%, no shares will vest
- if compound EPS growth over 3 years is greater than 10%, 100% will vest
- if compound EPS growth over 3 years is greater than 5% and less than 10%, then a pro rata amount will vest on a straight line basis

Constraint

A constraint is applied such that the total STI and LTI is no more than 30% of pre-incentive Net Profit After Tax ("NPAT").

Other Matters

Employment Contracts

All KMPs have formal contracts of employment and are permanent employees of the Company.

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

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

Hedging Policy

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

Key Terms Used in this Report

EPS: Earnings per share for the purpose of determining performance against LTI performance targets.

Executives: The Managing Director's direct reports other than his Executive Assistant.

KMP: Key Management Personnel. Those people who have the authority and responsibility for planning, directing and controlling the Company's activities, either directly or indirectly. This includes directors, whether executive or otherwise, of Australian Ethical Limited.

KPI: Key Performance Indicators. KPI's are quantifiable measurements, agreed with employees each year that reflect the critical success factors of the company. Targets are set with each employee for each Key Performance Indicator.

STI: Short-term incentive. A discretionary incentive paid to employees for meeting annual objectives which are aimed at delivering our strategic plan.

LTI: Long-term incentive. An incentive that aligns employee remuneration and sustainable shareholder wealth creation

Market Peers: For the purposes of benchmarking remuneration practices Australian Ethical refers to the remuneration practices of listed companies in the diversified financial services industry (excluding major banks and financial services companies in the S&P/ASX 50).

RoE: Return on Equity was previously used for the purpose of determining performance against LTI performance targets.

Remuneration outcomes

Linkage between Company Performance and Remuneration

As outlined earlier in this report, STI rewards for KMPs are based on a range of key performance measures. Depending on the position these include a portion linked to current year profit, for the Investment team a portion linked to the performance of the investment funds for which they're responsible and for the sales and marketing team a portion linked to net flows. The profit portion of these will relate to the previous year to which it is paid. Other elements (eg: investment performance and net flows) are focussed on building long term value and will impact profit performance over the longer term.

LTI is subject to average Return on Equity ("RoE") performance hurdles over the three year vesting period[2].

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

Five Year Performance	30 June 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Statutory net profit after tax ($'000)	1,023	1,125	402	1,063	2,543
UPAT reported ($'000)	1,543	981	859	1,675	3,111
Ordinary dividend per share declared with respect to the year ($)	2.00	2.45	0.60	0.85	2.00
Basic earnings per share ($)	1.03	1.13	0.40	1.05	2.49
Closing share price ($)	23.20	19.10	17.50	19.50	$35.45
Return on Equity	12.5%	15.0%	5.7%	15.4%	29.9%
Average Return on Equity over prior three years	-	14.1%	11.1%	12.0%	16.8%

Outstanding Performance Rights

Performance rights issued under the LTI and that are outstanding as at 30 June 2014 are:

Issued year	Amount Outstanding
2012	7,589
2013	17,819
2014	28,648

[2] Commencing from 14/15 EPS growth will replace average RoE as the performance hurdle for LTI. Three year average RoE will remain relevant until past performance rights which use this hurdle either vest or lapse.

Key Management Personnel

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

The Company's KMPs for the year ended 30 June 2014 are set out below:

Name	Position	Term
Non-executive Directors		
Stephen Gibbs	Chair	Full year
Mara Bun	Non-Executive Director	Full year
Kate Greenhill	Non-Executive Director	Full year
Tony Cole	Non-Executive Director	Full year
Ruth Medd	Non-Executive Director – Subsidiary Board	Full year
Les Coleman	Non-Executive Director – Subsidiary Board	Full year
Managing Director		
Phil Vernon	Managing Director and Chief Executive Officer	Full year
Current Management		
David Barton	Chief Financial Officer	Full Year
Adam Kirk	Head of Business Development & Client relations	Full Year
David Macri	Chief Investment Officer	Full Year
Tom May	General Counsel & Company Secretary	Full Year
Stuart Palmer	Head of Ethics	Part Year
Paul Smith	Head of Marketing	Full Year

The compensation of the KMP's for the 2013/14 financial year is shown below.

	2014 $	2013 $
Short term employment benefits	1,830,107	1,391,480
Post-employment benefits	156,522	121,613
Other long-term benefits	37,269	21,313
Termination benefits	-	-
Share-based payments	83,309	150,310
Total Compensation	2,107,207	1,684,716

Table 1: Remuneration Elements of KMP

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

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

NON-EXECUTIVE DIRECTOR'S REMUNERATION		SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	EQUITY		
Name		Salary, Fees and Leave $	Cash Bonus $	Superannuation $	Long Service Leave $	Settled Share-based Payments $	Termination Benefits $	Total $
Stephen Gibbs	2014	**77,559**	-	**9,702**	-	-	-	**87,261**
	2013	43,070	-	3,889	-	-	-	46,959
Tony Cole	2014	**38,745**	-	**3,588**	-	-	-	**42,333**
	2013	9,903	-	894	-	-	-	10,797
Kate Greenhill	2014	**41,714**	-	**3,863**	-	-	-	**45,578**
	2013	9,071	-	819	-	-	-	9,890
Mara Bun	2014	**32,847**	-	**3,043**	-	-	-	**35,889**
	2013	8,856	-	800	-	-	-	9,656
Ruth Medd	2014	**36,746**	-	**3,404**	-	-	-	**40,150**
	2013	30,901	-	2,790	-	-	-	33,691
Les Coleman	2014	**29,999**	-	**2,778**	-	-	-	**32,777**
	2013	18,939	-	1,710	-	-	-	20,649
André Morony	2014	**13,871**	-	**1,287**	-	-	-	**15,158**
	2013	37,921	-	3,424	-	-	-	41,345
Justine Hickey	2014	-	-	-	-	-	-	-
	2013	23,492	-	2,121	-	-	-	25,613
Louise Herron	2014	-	-	-	-	-	-	-
	2013	2,109	-	190	-	-	-	2,299
TOTAL	2014	271,481	-	27,665	-	-	-	299,146
	2013	184,262	-	16,637	-	-	-	200,899

MANAGING DIRECTOR AND MANAGEMENT REMUNERATION		SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	EQUITY		
Name		Salary, Fees and Leave $	Cash Bonus $	Superannuation $	Long Service Leave $	Settled Share-based Payments $	Termination Benefits $	Total $
Managing Director & CEO								
Phil Vernon	2014	**304,814**	**49,771**	**25,000**	**7,623**	**13,790**	-	**400,998**
	2013	285,851	15,263	24,962	5,751	49,534	-	381,361
Current Management								
David Barton	2014	**228,627**	-	**21,146**	**5,068**	-	-	**254,841**
	2013	-	-	-	-	-	-	-
Adam Kirk	2014	**233,143**	**7,247**	**17,773**	**4,858**	**8,574**	-	**271,595**
	2013	207,937	9,680	18,978	4,217	24,994	-	265,806
David Macri	2014	**243,850**	**43,623**	**24,999**	**7,299**	**48,719**	-	**368,490**
	2013	228,234	13,956	20,923	4,627	55,185	-	322,925
Tom May	2014	**189,867**	**5,084**	**17,143**	**4,103**	**5,670**	-	**221,867**
	2013	-	-	-	-	-	-	-
Stuart Palmer	2014	**43,615**	-	**3,993**	**4,045**	-	-	**51,653**
	2013	-	-	-	-	-	-	-
Paul Smith	2014	**183,813**	**7,713**	**17,688**	**4,274**	**6,555**	-	**220,043**
	2013	165,974	8,187	15,725	3,514	20,597	-	213,997
Management who have departed during the year								
Stephen Newnham	2014	**17,459**	-	**1,116**	-	-	-	18,574
	2013	147,553	-	13,275	2,108	-	-	162,936
Philip George	2014	-	-	-	-	-	-	-
	2013	112,823	11,760	11,113	1,096	-	-	136,792
TOTAL	2014	**1,445,188**	**113,438**	**128,857**	**37,269**	**83,309**	-	**1,808,061**
	2013	1,148,372	58,846	104,976	21,314	150,310	-	1,483,818

Table 2A: Rights held by KMP

	RIGHTS HOLDINGS					
Name	**Rights Class**	**Balance at beginning of year**	**No. granted**	**No. forfeited/ Expired**	**No. vested & excercised**	**Balance at end of year**
Managing Director & Management						
Phil Vernon	AEFAF	-	2,195	-	-	2,195
	AEFAE	-	4,037	-	-	4,037
	AEFAD	608	-		(608)	-
	AEFAC	2,432	-			2,432
	AEFAA	1,472				1,472
	AEFAY	2,481		(2,481)	-	-
	2014 Total	**6,993**	**6,232**	**(2,481)**	**(608)**	**10,136**
	2013 Total	5,744	3,040	(317)	(1,474)	6,993
Adam Kirk	AEFAF	-	320	-	-	320
	AEFAE	-	856	-	-	856
	AEFAD	378	-	-	(378)	-
	AEFAC	1,142	-	-	-	1,142
	2014 Total	**1,520**	**1,176**	-	**(378)**	**2,318**
	2013 Total	-	1,520	-	-	1,520
David Macri	AEFAF	-	1,924	-	-	1,924
	AEFAE	-	3,223	-	-	3,223
	AEFAD	1,790	358	-	(2,148)	-
	AEFAC	1,379	-	-	-	1,379
	AEFAA	827	-	-	-	827
	AEFAY	666		(666)		-
	2014 Total	**4,662**	**5,505**	**(666)**	**(2,148)**	**7,353**
	2013 Total	4,005	3,169	(250)	(2,262)	4,662
Tom May	AEFAF	-	224	-	-	224
	AEFAE	-	720	-	-	720
	AEFAD	250	-	-	(250)	-
	AEFAC	939	-	-	-	939
	AEFAA	758	-	-	-	758
	2014 Total	**1,947**	**944**	-	**(250)**	**2,641**
	2013 Total	1,098	1,189	-	-	2,287
Paul Smith	AEFAF	-	340	-	-	340
	AEFAE	-	706	-	-	706
	AEFAD	289	-	-	(289)	-
	AEFAC	968	-	-	-	968
	2014 Total	**1,257**	**1,046**	-	**(289)**	**2,014**
	2013 Total	-	1,257	-	-	1,257
Management who have departed during the year						
Philip George						
	2014 Total	-	-	-	-	-
	2013 Total	2,981	1,744	(4,335)	(390)	-

Table 2B: Shares held by KMP

	SHARE HOLDINGS					
		Balance at begining of year	Acquired/Granted as remuneration	On exercise of options/rights	Net Change Other	Balance at end of year
PARENT ENTITY NON-EXECUTIVE DIRECTOR'S HOLDINGS						
Justine Hickey	2014	1,200	-	-	-	1,200
	2013	1,200	-	-	-	1,200
MANAGING DIRECTOR AND MANAGEMENT HOLDINGS						
Name						
Managing Director & CEO						
Phil Vernon	2014	1,474	-	608	-	2,082
	2013	-	-	1,474	-	1,474
Current Management						
Adam Kirk	2014	-	-	378	-	378
	2013	-	-	-	-	-
David Macri	2014	266	-	2,148	-	2,414
	2013	-	2,262	-	(1,996)	266
Tom May	2014	344	-	250	(594)	-
	2013	-	-	344	-	344
Paul Smith	2014	-	-	289	-	289
	2013	-	-	-	-	-
Management who have departed during the year						
Philip George	2014	794	-	-	(100)	694
	2013	1,104	-	390	(700)	794

"Net change other" incorporates changes resulting from purchases, sales and forfeitures during the year:

- shares issued are fully paid
- balance represents shareholdings by key management personnel including their related parties as required by AASB 124 Related Party Disclosures

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

Table 3: Remuneration of KMP's by components

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

	Proportion of elements of remuneration related to performance			Proportion of elements of remuneration not related to performance	
Name	**Non-salary cash-based incentives %**	**Shares %**	**Options/rights %**	**Fixed salary/fees %**	**Total %**
	%	%	%	%	%
Non-Executive Directors					
Stephen Gibbs	-	-	-	100	100
Tony Cole	-	-	-	100	100
Kate Greenhill	-	-	-	100	100
Mara Bun	-	-	-	100	100
Ruth Medd	-	-	-	100	100
Les Coleman	-	-	-	100	100
André Morony	-	-	-	100	100
Justine Hickey	-	-	-	-	-
Louise Herron	-	-	-	-	-
Managing Director and Management					
Phil Vernon	12	-	3	84	100
David Barton	-	-	-	100	100
Adam Kirk	3	-	3	94	100
David Macri	12	-	13	75	100
Tom May	2	-	3	95	100
Stuart Palmer	-	-	-	100	100
Paul Smith	4	-	3	94	100
Executives who left during the year					
Stephen Newnham	-	-	-	100	100
Philip George	-	-	-	-	-

KMP Loans

The employee loan scheme was initiated in 2009 to allow employees to purchase company shares. The scheme was in existence for the 2009/2010 year and not offered subsequently. The final remaining loan was repaid in full in December 2012.

	Start of year balance $	Interest charged $	Interest not charged $	Write-off $	End of year balance $	No. of KMP's at end of year
2014	-	-	-	-	-	-
2013	7,455	204	-	-	-	-

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

Phil Vernon
Managing Director & Chief Executive Officer
Dated: 29 August 2014

Independent Auditor's Report

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Australian Ethical Investment Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 32 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Australian Ethical Investment Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

T. Gilerman

Tanya Gilerman
Partner

Sydney

29 August 2014

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Independent Auditor's Declaration

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

To: the directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 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

T. Gilerman

Tanya Gilerman
Partner

Sydney

29 August 2014

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Consolidated statement of financial position as at 30 June 2014

	Note	Consolidated entity 30 June 2014 $	Consolidated entity 30 June 2013 $
Current assets			
Cash and cash equivalents	9	**7,944,669**	3,894,666
Trade and other receivables	10	**2,745,404**	2,474,109
Financial assets	11	**11,576**	107,150
Other current assets	12	**361,971**	220,039
Assets classified as held for sale	22	**2,237,500**	2,519,599
Total current assets		**13,301,120**	9,215,563
Non-current assets			
Property, plant and equipment	13	**459,480**	620,110
Intangible assets	14	**83,222**	94,573
Deferred tax assets	15	**395,856**	348,165
Total non-current assets		**938,558**	1,062,848
Total assets		**14,239,678**	10,278,411
Current liabilities			
Trade and other payables	16	**3,470,104**	1,936,805
Current tax liabilities	17	**757,459**	409,094
Short-term provisions	18	**232,175**	259,298
Total current liabilities		**4,459,738**	2,605,197
Non-current liabilities			
Trade and other payables	16	**202,382**	253,632
Deferred tax liabilities	17	**1,110**	30,896
Other long-term provisions	18	**93,800**	92,061
Total non-current liabilities		**297,292**	376,589
Total liabilities		**4,757,030**	2,981,786
Net assets		**9,482,648**	7,296,625
Equity			
Issued capital	19	**6,432,479**	6,278,225
Reserves	20	**1,117,509**	349,328
Retained earnings	21	**1,932,660**	669,072
Total equity		**9,482,648**	7,296,625

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2014

		Consolidated entity	
	Note	30 June 2014	30 June 2013 Restated
		$	$
Revenue	4	**19,889,186**	16,378,387
External services	5	**(2,018,497)**	(1,345,329)
Employee benefits	5	**(7,147,703)**	(6,626,560)
Depreciation and amortisation	5	**(271,402)**	(392,436)
Occupancy	5	**(439,408)**	(435,937)
Marketing and communication costs	5	**(1,007,823)**	(643,932)
Fund related expenses	5	**(2,769,603)**	(2,857,325)
Other expenses	5	**(1,502,344)**	(1,406,994)
Loss on disposal of assets		**(15,214)**	(63,308)
Impairment of available-for-sale securities		**-**	(116,811)
Impairment of property, plant and equipment	13,22	**(282,099)**	(436,000)
Community grants expense		**(302,300)**	(117,291)
Profit/(Loss) before income tax expense		**4,132,793**	1,936,464
Income tax expense	6	**(1,590,267)**	(873,427)
Profit/(Loss) for the year		**2,542,526**	1,063,037
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Net gain/(loss) on revaluation of available-for-sale-investments, net of tax		**(1,157)**	(1,259)
Net realised loss on available-for-sale-investments, net of tax	20	**(6,965)**	-
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year, net of tax		**-**	5,924
Reclassification adjustments relating to available-for-sale financial assets impaired during the year, net of income tax		**-**	116,811
Total items that may be reclassified subsequently to profit or loss		**(8,122)**	121,476
Other comprehensive income/(loss) for the year, net of tax		**(8,122)**	121,476
Total comprehensive income for the year		**2,534,404**	1,184,513
Profit attributable to members of the parent entity		**2,542,526**	1,063,037
Total comprehensive income attributable to members of the parent entity		**2,534,404**	1,184,513
Earnings per share			
Basic (cents per share)	8	**248.51**	104.84
Diluted (cents per share)	8	**241.13**	102.37

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated statement of changes in equity for the year ended 30 June 2014

	Note	Issued Capital Ordinary $	Asset Revaluation Reserve $	Share-based Payment Reserve $	Retained Earnings $	Total $
Balance at 1 July 2012		6,038,301	(117,429)	419,500	367,349	6,707,721
Profit attributable to members of the parent entity		-	-	-	1,063,037	1,063,037
Other comprehensive income for the year		-	121,476	-	-	121,476
Total comprehensive income for the year		-	121,476	-	1,063,037	1,184,513
Transactions with owners in their capacity as owners:						
Shares issued during the year	19	239,924	-	(239,924)	-	-
Dividends paid or provided for	7	-	-	-	(761,314)	(761,314)
Share-based payment expense	27 (C)	-	-	165,705	-	165,705
Balance at 30 June 2013		6,278,225	4,047	345,281	669,072	7,296,625
Balance at 1 July 2013		6,278,225	4,047	345,281	669,072	7,296,625
Profit attributable to members of the parent entity		-	-	-	2,542,526	2,542,526
Other comprehensive income/(loss) for the year		-	(8,122)	-	-	(8,122)
Total comprehensive income for the year		-	(8,122)	-	2,542,526	2,534,404
Transactions with owners in their capacity as owners:						
Shares issued during the year	19	154,254	-	(154,254)	-	-
Dividends paid or provided for	7	-	-	-	(1,278,938)	(1,278,938)
Share-based payment expense	27 (C)	-	-	930,557	-	930,557
Balance at 30 June 2014		6,432,479	(4,075)	1,121,584	1,932,660	9,482,648

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated statement of cash flows for the year ended 30 June 2014

	Note	Consolidated entity	
		30 June 2014 $	**30 June 2013 $**
Cash flows from operating activities			
Receipts from operations		**27,867,317**	16,046,911
Payment to suppliers & employees		**(21,215,081)**	(13,455,797)
Interest/distributions received		**142,725**	93,699
Income tax paid		**(1,320,489)**	(452,908)
Community grants paid		**(117,300)**	(53,325)
Net cash provided by operating activities	24(b)	**5,357,172**	2,178,580
Cash flows from investing activities			
Purchase of property, plant & equipment		**(87,000)**	(335,997)
Proceeds from sale of property, plant & equipment		**1,364**	-
Reimbursement for the purchase of property, plant & equipment		**-**	320,601
Proceeds from sale of investments		**86,755**	230,645
Purchase of intangibles		**(29,350)**	(99,550)
Proceeds from loan repayments		**-**	52,114
Net cash provided by investing activities		**(28,231)**	167,813
Cash flows from financing activities			
Dividends paid		**(1,278,938)**	(761,314)
Net cash used in financing activities		**(1,278,938)**	(761,314)
Net increase in cash and cash equivalents		4,050,003	1,585,079
Cash and cash equivalents at beginning of year		**3,894,666**	2,309,587
Cash and cash equivalents at end of year	24(a)	**7,944,669**	3,894,666

The accompanying notes form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Reporting Entity

Australian Ethical Investment Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2014 comprises the Company and its wholly owned subsidiary, Australian Ethical Superannuation Pty Limited (together referred to as the 'Group' and individually as 'Group entities'). The Group is a for-profit entity for the purposes of preparing financial statements. Australian Ethical Investment Limited is the Responsible Entity (RE) for a range of ethically managed investment schemes. Australian Ethical Superannuation Pty Limited is the Registrable Superannuation Entity (RSE) of Australian Ethical Retail Superannuation Fund.

The consolidated financial report for the consolidated entity as of and for the year ended 30 June 2014 is available at www.australianethical.com.au.

The consolidated financial report was authorised for issue by the directors on 25 August 2014.

2. Statement of significant accounting policies

a) Statement of compliance

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

b) Basis of preparation

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

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

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

c) Business combinations

Subsidiaries are all 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 deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

d) Income tax

i. Current income tax expense

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

ii. Deferred tax asset

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

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

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

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

iii. Tax group

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

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

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

e) Property, plant and equipment

i. Recognition and measurement

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

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

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

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

ii. Subsequent costs

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

iii. Impairment of tangible assets

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

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

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

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

iv. Depreciation

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

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

Class of fixed asset	Estimated useful life
Buildings	5 – 40 years
Plant & Equipment	2.6 – 10 years

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

v. Intangible assets

The development of the Group's website has been capitalised as an intangible asset and carried at cost less accumulated amortisation and accumulated impairment losses. Additional developments were made to the website during the year ended 2014. Amortisation is recognised on a straight-line basis over the estimated useful life of two and a half years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

f) Cash and cash equivalents

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

g) Financial instruments

i. Recognition

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

ii. Available-for-sale financial assets

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

iii. Loans and receivables

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

iv. Fair value

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

v. Effective interest method

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

vi. Impairment

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

h) Other financial liabilities

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

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

i) Employee Benefits

i. Wages, salaries, annual leave, sick leave and non-monetary benefits

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

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

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

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

Employee benefits includes an amount of $409,831 for redundancy costs incurred during the year as a result of closure of the Canberra office.

ii. Long service leave

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

iii. Share-based payment transactions

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

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

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

iv. Employee bonus

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

j) Community grants expense

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

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

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

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

k) Provisions

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

l) Revenue and income recognition

i. Revenue from the provision of services

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

ii. Investment income

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

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

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

iii. Proceeds from sale of investments

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

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

m) Goods and services tax (GST)

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

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

All revenue is stated net of the amount of GST.

n) Earnings per share

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

i. Basic earnings per share

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

ii. Diluted earnings per share

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

o) Leases

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

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

p) Segment reporting

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

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

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

q) Comparative figures

Certain comparative amounts in the consolidated statement of profit and loss and other comprehensive income have been reclassified or represented, primarily as a result of a change in the classification of member administration services from external services to fund related expenses (see Note 5) during the current year.

r) Critical accounting estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis.

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

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

- Note 11–Valuation of financial instruments
- Note 13–Valuation of property, plant and equipment
- Note 15–Recoverability of deferred tax assets
- Note 18–Provisions
- Note 27–Recognition and measurement of share based payments

s) Application of new and revised accounting standards

Standards and interpretations affecting amounts reported in the current period

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- AASB 10 Consolidated Financial Statements (2011) – see (i);
- AASB 12 Disclosure of Interests in Other Entities – see (ii);
- AASB 13 Fair Value Measurement – see (iii);
- AASB 119 Employee Benefits – see (iv);
- AASB 2012-5 Annual Improvements to Australian Accounting Standards 2009-2011 Cycle – see (v); and
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements – see (vi).

The nature and effect of the changes are further explained below.

i. Subsidiaries

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 (2011) requires the Group to consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of AASB 10 (2011), the Group reassessed the control conclusion for its investees at 1 July 2013. As a result the Group has not changed its control conclusion in respect of any of its investments.

ii. Disclosure of interests in other entities

As a result of changes to AASB 12, the standard requires disclosures that inform the users of the nature and risks associated with interests in other entities and the effect of those interests on the Group. Specifically, to understand the composition of the Group, and the impact that interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entity interests have in the Group's activities and cash flows. Additionally, to evaluate the nature of, and changes in, the risks associated with interests in other entities.

As a result of the application of AASB 12, the Group reassessed the disclosure requirements, however this did not result in any changes to consolidated financial statements.

iii. Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in these condensed consolidated interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard.

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

iv. Employee benefits

As a result of changes to AASB 119 (as revised in 2011), the Group has assessed the amendments for the first time.

ASB 119 changes the accounting for defined benefit plans and termination benefits. The most significant changes relate to the accounting for changes in defined benefit obligations and plan assets. The Group has reassessed the relevant transitional provisions and have deemed that this did not result in any changes to the consolidated financial statements.

v. Segment information

The amendment to AASB 134 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The Group has regarded this amendment, and it does not require any additional disclosure of segment liabilities.

vi. Key Management Personnel disclosures

AASB 2011-4 removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. As a result the Group only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. In the current year the individual key management personnel disclosure previously required by AASB 124 (note 26 in the 30 June 2013 financial statements) is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013.

vii. Comparative figures

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

viii. Summary of quantitative impact

The adoption of all the new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies and has no material effect on the amounts reported for the current or prior years. The application of any amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income to the Group or its subsidiary.

Standards and interpretations in issue not yet adopted

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
IFRS 15 'Revenue from contracts with customers'	1 January 2017	30 June 2017

3. Auditors' remuneration

Remuneration of the auditors for:

	2014 $	2013 $
Auditors of the Group		
KPMG Australia		
- Audit and review of consolidated and subsidiary financial statements	**31,700**	31,000
- Audit services in accordance with regulatory requirements	**35,600**	27,000
Audit services for non-consolidated trusts and superannuation fund:		
KPMG Australia		
- Audit and review of managed funds for which the consolidated entity acts as responsible entity[1]	**109,400**	88,000
- Audit and review of superannuation fund for which the subsidiary entity acts as responsible superannuation entity[1]	**20,500**	15,000
- Audit services in accordance with regulatory requirements[1]	**49,600**	24,000
Total audit fee attributable to the audit of non-consolidated funds	**179,500**	127,000
Non-audit services		
Auditors of the Group		
- Tax and other accounting advice	**111,708**	87,956
Total	**358,508**	272,956

	2014 $	2013 $
Other audit firms		
Net Balance (Audit of the Sustainability Report)	**9,530**	16,623

[1] These fees are incurred by the consolidated entity and are effectively recovered from the funds via management fees.

4. Revenue

	2014 $	2013 $
Operating activities		
- Management & Trustee fees (net of rebates)	**9,451,802**	11,386,962
- Member & withdrawal fees	**1,442,946**	1,348,303
- Reimbursed expenses from Trusts and superannuation fund	**8,835,679**	3,419,530
- Interest income		
Cash and cash equivalents	**142,725**	86,927
Loans and receivables at amortised cost	**-**	2,491
- Other revenue	**16,034**	134,174
Total revenue	**19,889,186**	16,378,387

5. Expenses

	2014 $	2013 $
External services expense		
- Ethical research	**291,612**	295,426
- Audit fees	**358,508**	272,956
- Consultants	**770,132**	430,952
- Legal services	**193,806**	143,624
- Other	**404,439**	202,371
Total external services expense	**2,018,497**	1,345,329
Employee benefits expense		
- Staff remuneration	**5,649,196**	5,902,946
- Directors fees	**243,115**	182,992
- Bonus and rights amortisation expense	**1,223,083**	510,884
- Other employment cost	**32,309**	29,738
Total employee benefits expense	**7,147,703**	6,626,560
Depreciation and amortisation expense		
- Depreciation expense	**230,701**	369,713
- Amortisation expense	**40,701**	22,723
Total depreciation and amortisation expense	**271,402**	392,436

	2014 $	2013 $
Occupancy expenses		
- Premises	**224,010**	205,634
- Rates and taxes	**30,504**	49,410
- Electricity, gas & telephone	**105,345**	87,874
- Lease provision	**-**	44,494
- Other occupancy costs	**79,549**	48,525
Total occupancy expenses	**439,408**	435,937
Marketing & communication costs		
- Printing and stationery	**135,343**	147,581
- Marketing	**872,480**	496,351
Total marketing & communication costs	**1,007,823**	643,932
Fund related expenses		
- Administration and custody expenses	**2,388,409**	2,298,745
- Licence fee	**219,247**	294,389
- PDS expense	**14,150**	135,832
- APRA levy expense	**117,110**	122,646
- Other fund related expenses	**30,687**	5,714
Total fund related expenses	**2,769,603**	2,857,325
Other expenses		
- Insurance	**118,592**	116,696
- IT	**862,614**	607,213
- Travel	**271,770**	258,440
- Subscriptions and listing	**37,712**	208,060
- Other expenses	**211,656**	216,585
Total other expenses	**1,502,344**	1,406,994
Total expenses	**15,156,780**	13,708,513

Restatement of 30 June 2013 Comparatives

In preparing Note 5 – Expenses, it was identified that some expenses had been incorrectly classified in the Consolidated statement of Profit or Loss and other comprehensive income for the year ended 30 June 2013. The primary change was to the classification of Member Administration Services from External services to Fund related expenses. Reclassifying these expenses improves the comparability of expenses between financial years. Details are provided below.

	Actual 30 June 2013 $	Reclassification $	Restated Actual 30 June 2013 $
Consolidated statement of profit or Loss			
External services	3,183,776	(1,838,447)	1,345,329
Fund related expenses	1,329,929	1,527,396	2,857,325
Other expenses	1,095,943	311,051	1,406,994

6. Income tax expense

	2014 $	2013 $
a) The components of tax expense comprise:		
- Current tax	**1,668,854**	824,368
- Deferred tax expense/(benefit)	**(78,587)**	49,059
	1,590,267	873,427

	2014 $	2013 $
b) Reconciliation of income tax expenses to prima facie income tax payable		
Profit Before Tax	**4,132,793**	1,936,464
Prima facie income tax expense calculated at 30% (2013: 30%)	**1,239,838**	580,939
Increase in income tax expense due to:		
- Other non-deductible items	**(673)**	25,476
- Under/(over) provision for income tax in prior year	**(11,153)**	(15,668)
- Effect of unrecognised non-deductible permanent differences	**364,692**	247,637
- Net unrealised losses on available-for-sale investments	**(347)**	-
- Net realised losses on available-for-sale investments	**(2,090)**	-
- Impairment loss on available-for-sale securities	**-**	35,043
Income tax expense attributable to profit for the year	**1,590,267**	873,427
The applicable weighted average effective tax rates are as follows:	38%	45%

	2014 $	2013 $
c) Amounts recognised directly in equity		
Deferred tax		
Available-for-sale revaluation	**(1,110)**	539
Total income tax recognised directly in equity	**(1,110)**	539

The current tax liabilities for the consolidated entity in note 17 represents income taxes payable in respect of the current financial year. In accordance with tax consolidation legislation, the Company, as head entity of the Australian tax-consolidated group, has assumed the current tax asset/(liability) recognised by members in the tax consolidated group.

7. Dividends

a) Dividends paid

2014	Cents Per Share	Total Amount $	Franked[1]/ Unfranked	Date of Payment
Final 2013 ordinary	45	460,416	Franked	4 October 2013
Interim 2014 ordinary	80	818,522	Franked	28 March 2014
	125	1,278,938		

2013	Cents Per Share	Total Amount $	Franked[1]/ Unfranked	Date of Payment
Final 2012 ordinary	35	355,280	Franked	5 October 2012
Interim 2013 ordinary	40	406,034	Franked	28 March 2013
	75	761,314		

[1] All franked dividends declared or paid during the year were franked at a rate of 30 per cent and paid out of retained earnings.

b) Subsequent Events

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

	Cents Per Share	Total Amount $	Franked[1]/ Unfranked	Date of Payment
Final 2014 ordinary	120	1,227,776	Franked	3 October 2014

8. Earnings per share

	2014 CPU	2013 CPU
Earnings per share (EPS)		
Basic earnings per share	**248.51**	104.84
Diluted earnings per share	**241.13**	102.37

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

	2014 $	2013 $
Net profit after tax	2,542,526	1,063,037
	Shares	**Shares**
Weighted average number of ordinary shares used in calculation of basic EPS	**1,023,103**	1,013,963
Weighted average number of rights outstanding	**31,315**	24,435
Weighted average number of ordinary shares used in calculation of dilutive EPS	**1,054,418**	1,038,398

9. Cash and cash equivalents

	2014 $	2013 $
Cash on hand	**300**	300
Bank balances	**3,994**	1,310,004
Deposits at call	**7,940,375**	2,584,362
	7,944,669	3,894,666

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

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates. The average interest rate was 2.41%, (2013: 2.80%).

10. Trade and other receivables

	2014 $	2013 $
Trade receivables	**2,745,404**	2,474,109
	2,745,404	2,474,109

The average credit period is 30 days. This note should be read in conjunction with Note 28(c).

11. Financial assets

Assets and liabilities held for sale at 30 June 2014 comprise listed securities held to support the advocacy activities of the Advocacy Fund.

	2014 $	2013 $
Available-for-sale financial assets carried at fair value	**11,576**	107,150
	11,576	107,150

A realised loss of $6,965 (2013: $63,308) has been recognised in the consolidated statement of profit or loss and other comprehensive income as a result of disposal of a number of shares held.

12. Other current assets

	2014 $	2013 $
Other current assets	**22,947**	40,675
Prepayments	**339,024**	179,364
	361,971	220,039

13. Property, plant and equipment

	2014 $	2013 $
Land and buildings		
Leasehold improvements - at cost	**370,491**	320,601
Accumulated depreciation	**(36,386)**	(6,632)
Total land and buildings	**334,105**	313,969
Plant and equipment - at cost	**1,565,389**	1,619,935
Accumulated depreciation	**(1,440,014)**	(1,313,794)
Total plant and equipment	**125,375**	306,141
Total property, plant and equipment	**459,480**	620,110

	2014 $	2013 $
Movements in carrying amounts		
Land		
Balance at the beginning of year	-	230,000
Reclassified as held for sale	-	(230,000)
Carrying amount at the end of year	-	-
Leasehold improvements		
Balance at the beginning of year	**313,969**	733,233
Additions	**49,890**	320,601
Depreciation expense	**(29,754)**	(67,550)
Reclassified as held for sale	-	(672,315)
Carrying amount at the end of year	**334,105**	313,969
Buildings		
Balance at the beginning of year	-	2,133,876
Depreciation expense	-	(80,592)
Impairment loss[1]	-	(436,000)
Reclassified as held for sale	-	(1,617,284)
Carrying amount at the end of year	-	-

	2014 $	2013 $
Plant and equipment		
Balance at the beginning of year	**306,141**	524,638
Additions	**37,110**	15,396
Disposals	**(91,656)**	(6,284)
Depreciation expense	**(126,220)**	(227,609)
Carrying amount at the end of year	**125,375**	306,141
Total	**459,480**	620,110

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

14. Intangible assets

	2014 $	2013 $
Capitalised Website development - at cost	**128,900**	99,550
Accumulated amortisation	**(45,678)**	(4,977)
Total intangibles	**83,222**	94,573
Movements in carry amounts		
Capitalised Website development		
Balance at the beginning of year	**94,573**	17,746
Additions	**29,350**	99,550
Disposals	**-**	(6,038)
Amortisation expense	**(40,701)**	(16,685)
Carrying amount at the end of year	**83,222**	94,573

15. Tax assets

	2014 $	2013 $
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	**265,817**	276,897
Community grants	**92,118**	35,187
Loss on sale of financial instrument	**-**	17,225
Audit fees	**37,921**	18,856
	395,856	348,165
Movements		
Opening balance at 1 July	**348,165**	396,685
Credited/(charged) to the consolidated statement of profit or loss and other comprehensive income	**47,691**	(49,059)
Credited/(charged) to equity	**-**	539
Closing balance at 30 June	**395,856**	348,165

16. Trade and other payables

	2014 $	2013 $
a) Current		
Trade payables	**1,445,704**	242,676
Unearned income	**60,668**	80,155
Sundry payables and accrued expenses	**1,678,714**	1,547,048
Employee bonus payable	**285,018**	66,926
	3,470,104	1,936,805
b) Non-current		
Unearned Income	**202,382**	253,632
	202,382	253,632

17. Tax liabilities

	2014 $	2013 $
Current tax liabilities		
Income tax payable	**757,459**	409,094
	757,459	409,094
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Stamp duty on leasehold property	**-**	30,896
Gain on revaluation of financial instrument	**1,110**	-
	1,110	30,896
Movements		
Opening balance at 1 July	**30,896**	35,087
Credited/(charged) to the consolidated statement of profit or loss and other comprehensive income	**(30,896)**	(4,191)
Credited/(charged) to equity	**1,110**	-
Closing balance at 30 June	**1,110**	30,896

18. Provisions

	2014 $	2013 $
Current		
Employee benefits - long service leave	**232,175**	214,803
Onerous lease provision (see below)	**-**	44,495
	232,175	259,298
Non-Current		
Employee benefits - long service leave	**93,800**	92,061
	93,800	92,061
Onerous lease provision		
Opening balance at 1 July	**44,495**	-
Additional provisions recognised		44,495
Provision written off in current financial year	**(44,495)**	-
Closing balance at 30 June	**-**	44,495

The lease in relation to the onerous lease provision was terminated during the year. The amount for 2013 represents the present value of the future lease payments that the Consolidated Entity is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable.

19. Contributed equity

	2014 $	2013 $
Share Capital: 1,023,147 (2013: 1,015,086) ordinary shares	**6,432,479**	6,278,225

a) Movements in Share Capital

	2014		2013	
	No. of Shares	**$**	**No. of Shares**	**$**
Balance at the beginning of year	**1,015,086**	**6,278,225**	1,003,035	6,038,301
Shares issued				
Employee share ownership plan	**8,061**	**154,254**	12,051	239,924
Balance at end of year	**1,023,147**	**6,432,479**	1,015,086	6,278,225

At 30 June 2014 there were 1,023,147 (2013: 1,015,086) fully paid ordinary shares which have no par value. The Company does not have authorised capital or par value in respect of its issued shares.

b) Rights

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

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

c) Ordinary shares

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

d) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2013.

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

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

20. Reserves, net of tax

	2014 $	2013 $
Asset revaluation reserve		
Balance at the beginning of year	**4,047**	(117,429)
Unrealised gains/ (losses) from revaluation	**(1,157)**	(1,259)
Cumulative unrealised loss reclassified to profit or loss on impairment of available-for-sale financial assets	**-**	116,811
Cumulative realised loss reclassified to profit or loss on sale of available-for-sale financial assets	**(6,965)**	5,924
Balance at the end of year	**(4,075)**	4,047
Share-based payments reserve		
Balance at the beginning of year	**345,281**	419,500
Shares issued during the year	**(154,254)**	(239,924)
Share based payment expense	**930,557**	165,705
Balance at the end of year	**1,121,584**	345,281
Total Reserves	**1,117,509**	349,328

a) Nature and purpose of reserves

i. Asset revaluation reserve

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

ii. Share-based payment reserve

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

21. Retained earnings

	2014 $	2013 $
Balance at the beginning of year	**669,072**	367,349
Profit for the year	**2,542,526**	1,063,037
Dividends	**(1,278,938)**	(761,314)
Balance at the end of year	**1,932,660**	669,072

22. Assets classified as held for sale

	2014 $	2013 $
Land and buildings[1]	**2,237,500**	2,519,599

1 As at 30 June 2014 a valuation of the Property asset (land and buildings) classified as held for sale was conducted in accordance with the Group's policy by Jones Lang LaSalle and Knight Frank, independent valuers not related to the Group, to determine the fair value. Based on advice received from independent valuers the directors determined that the value of the property was below the carrying value and have noted an impairment of $282,099. Valuers Jones Lang LaSalle and Knight Frank are both members of the Institute of Valuers of Australia. The valuation was determined by reference to recent market transactions on arm's length terms. Estimated selling costs of $75,000 including agent's commission and associated legal costs were deducted from the independent valuation to determine the carrying value. As at the balance sheet date, the Consolidated Entity intends to dispose of the property and an active sales campaign is underway. Details on the properties valuation and estimated selling costs for the year ended 30 June 2013 are disclosed in note 13.

23. Commitments and contingencies

a) Leasing arrangements

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

	2014 $	2013 $
Payments recognised as an expense		
Minimum lease payments	**207,591**	186,474
Non-cancellable operating lease commitments		
Not later than 1 year	**222,890**	296,196
Later than 1 year and not later than 5 years	**662,670**	937,056
	885,560	1,233,252
Liabilities recognised in respect of non-cancellable operating leases		
Lease incentives		
Current	**60,668**	80,155
Non-current	**202,382**	253,632
	263,050	333,787

During 2013, the Group entered into a five year lease for office premises in Sydney CBD. The lease terms allow for annual rent increases of 4.25% together with a market review in year three of the lease.

The lease of premises at Bligh Street was cancelled during the year.

b) Guarantees

The Group has provided a guarantee for $221,733 over the rental of building premises at 130 Pitt Street.

c) Other commitments

The Group has no other commitments.

24. Cash flow information

	2014 $	2013 $
a) Reconciliation of cash		
Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the statement of consolidated financial position as follows:		
Cash on hand	**300**	300
Cash at bank	**3,994**	1,310,004
Deposits at call	**7,940,375**	2,584,362
	7,944,669	3,894,666
b) Reconciliation of cash flows from operations with net profit from ordinary activities after income tax expense		
Net profit from ordinary activities after income tax expense	**2,542,526**	1,063,037
Non-cash flows in operating profit:		
Depreciation and amortisation	**271,402**	392,436
Loss on disposal of property, plant & equipment	**15,214**	12,322
Adjustment to Fixed assets upon transition	**350**	
Loss on sale of investment	**-**	50,985
Tax effect on sale of investments recognised in financing activities	**(1,110)**	(52,060)
Share rights expensed	**930,557**	165,705
Impairment loss	**282,099**	552,811
Recognition of unearned income	**(70,737)**	(28,017)
Changes in assets and liabilities:		
Increase in trade and other receivables	**(271,295)**	(758,110)
Increase in other current assets	**(141,932)**	(46,441)
(Increase)/decrease in deferred tax assets	**(47,691)**	48,520
Increase in trade and other payables	**1,554,594**	359,680
Decrease in provisions	**(25,384)**	(6,347)
Increase in current tax liability	**348,365**	428,250
Decrease in deferred tax liability	**(29,786)**	(4,191)
Net cash provided by operating activities	**5,357,172**	2,178,580

25. Related party transactions

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

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

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

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

	2014 $	2013 $
a) Australian Ethical Trusts		
Transactions between Australian Ethical Investment Limited, as responsible entity, and the Australian Ethical Trusts during the financial year consisted of:		
(i) Transactions whereby Australian Ethical Investment Limited provides investment services to and seeks expense reimbursement from the Australian Ethical Trusts in accordance with the trust deed.	**15,978,015**	11,174,132
(ii) Transactions whereby Australian Ethical Investment Limited provides accounting services to the Australian Ethical Trusts.	**-**	587,184
(iii) Transactions whereby Australian Ethical Investment Limited seeks expense reimbursement from the Australian Ethical Trusts in accordance with the trust deed.	**-**	886,829
(iv) Outstanding balances at balance date:		
(a) Amounts receivable from the Australian Ethical Trusts	**1,689,795**	1,170,980

	2014 $	2013 $
b) Australian Ethical Retail Superannuation Fund		
(i) Transactions whereby Australian Ethical Superannuation Pty Limited provides investment services/ (rebate of investment services) to the Australian Ethical Retail Superannuation Fund.	**(8,549,666)**	(6,717,098)
(ii) Transactions whereby Australian Ethical Superannuation Pty Limited provides Administration/Trustee services to the Australian Ethical Retail Superannuation Fund.	**10,652,828**	6,929,928
(iii) Transactions whereby Australian Ethical Superannuation Pty Limited provides Member Administration services to the Australian Ethical Retail Superannuation Fund.	**1,442,946**	1,348,303
(iv) Transactions whereby Australian Ethical Superannuation Pty Limited seeks reimbursement of expenses from the Australian Ethical Retail Superannuation Fund.	**-**	1,945,517
(v) Amounts receivable from the Australian Ethical Retail Superannuation Fund.	**888,253**	1,303,228

Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

26. Key management personnel compensation

a) Key management personnel

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

Parent entity directors

Name	Position
Stephen Gibbs	Chairperson, non-executive
Mara Bun	Director, non-executive
Tony Cole	Director, non-executive
Kate Greenhill	Director, non-executive
Phil Vernon	Managing Director & Chief Executive Officer, executive

Departed Parent entity directors

Name	Position
André Morony	Director, non-executive
Stephen Newnham	Director, Business Development, executive
Other key management personnel	
David Barton	Chief Financial Officer
Adam Kirk	General Manager, Business Development
David Macri	Chief Investment Officer
Tom May	General Counsel & Company Secretary
Stuart Palmer	Head of Ethics & Corporate Advocacy
Paul Smith	General Manager, Strategy & Communications

b) Key management personnel compensation

	2014 $	2013 $
Short term employment benefits	**1,830,107**	1,391,480
Post-employment benefits	**156,522**	121,613
Other long-term benefits	**37,269**	21,313
Termination benefits	**-**	-
Share-based payments	**83,309**	150,310
Total compensation	**2,107,207**	1,684,716

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

27. Share based payments

The following share-based payment arrangements existed at 30 June 2014:

During this reporting period, Australian Ethical Investment Limited issued 8,061 (2013: 12,051) ordinary shares on conversion of 8,061 (2013: 12,051) AEFAD performance rights for nil consideration granted under its employee share incentive scheme in December 2012. This conversion of performance rights resulted in an increase in ordinary shares of 8,061 (2013: 12,051).

- During the 2012 reporting period 33,837 performance rights in two classes (identifiers: AEFAA and AEFAB) were granted.
- During the 2013 reporting period 30,926 performance rights in two classes (identifiers: AEFAC and AEFAD) were granted.
- During the 2014 reporting period 28,648 performance rights in two classes (identifiers: AEFAE and AEFAF) were granted.

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

ASX Code	Number Granted	Attributes
AEFAE	17,955	i. employment must continue until 30 June 2016 ii. the average return on equity over the performance period ("AROE") must exceed 15%pa or no shares shall be awarded at the end of the performance period; – if the AROE exceeds 15%pa but less than 20%pa, half the maximum number of shares shall be awarded; – if the AROE is equal to or greater than 20%pa the maximum number of shares shall be awarded. AROE is determined as the average of return on equity over six month periods calculated using audited half-year financial statements.
AEFAF	10,693	i) employment must continue until 1 July 2014. ii) the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the Group's managed investment schemes, for which the employee has responsibility or provides significant input; a managed investment scheme has been agreed between the Group and the employee. Performance will be measured over a period of 1 July 2013 to 30 June 2014.

a) Performance rights reconciliation

	2014 No. of Rights	2013 No. of Rights
Outstanding at the beginning year	**45,043**	41,513
Granted	**29,614**	30,926
Forfeited	**(4,147)**	(11,939)
Exercised	**(8,061)**	(12,051)
Expired	**(8,393)**	(3,406)
Outstanding at the end of year	**54,056**	45,043
Exercisable at the end of year	**10,693**	7,095

b) Performance rights summary

Rights Class	Performance Year	Grant date	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
AEFAY	FY11-FY13	2011	30/06/2013	20,582	(12,189)	-	(8,393)	-
AEFAA	FY12-FY14	2012	30/06/2014	19,195	(11,606)	-	-	7,589
AEFAC	FY13-15	2013	30/06/2015	23,357	(5,538)	-	-	17,819
AEFAD	FY12	2013	30/06/2013	8,535	(474)	(8,061)	-	-
AEFAE	FY14-16	2014	30/06/2016	17,955	-	-	-	17,955
AEFAF	FY13	2014	30/06/2014	10,693	-	-	-	10,693

c) Fair value - Rights

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

Included under employee benefits expense in the consolidated statement of profit or loss and other comprehensive income is $930,557 (2013: $165,705) relating to rights issued under the employee share ownership plan.

28. Financial risk management

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

- Market Risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

a) Risk management framework

The Group recognises that risk is part of doing business and that the ongoing management of risk is critical to its success. The approach to managing risk is articulated in the Risk Appetite Statement. The Risk & Compliance Manager is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Board, the Audit, Compliance & Risk Committee (ACRC). The Board regularly monitors the overall risk profile of the group and sets the risk appetite for the group, usually in conjunction with the annual planning process.

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

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

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

b) Market risk

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

i. Currency risk

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

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

ii. Interest rate risk

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

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

An increase of 1% in interest rates at the end of the period would have increased equity and profit for the year by $79,447 (2013: $38,947). A decrease of 1% would have an equal and opposite effect.

iii. Market risks arising from Funds Under Management

The Group's revenue is significantly dependent on Funds Under Management ('FUM') which is influenced by equity market movements. Management calculates the expected impact on revenue for each 1 per cent movement in the S&P/ASX All Ordinaries Index. Based on the level of the S&P/ASX All Ordinaries Index at the end of 30 June 2014, a 1% movement in the market changes annualised revenue by approximately $82,500 (2013: $70,000). It is worth noting this movement is not linear to the overall value of the market. This means that as the market reaches higher or lower levels, a 1% movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity market and non-equity market-sensitive asset classes.

iv. Equity price risk

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

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

	2014	**2013**
	$	**$**
Listed securities	**11,576**	107,150
Total	**11,576**	107,150

An increase of 10% of market prices at the end of the year would have increased equity by $1,158 (2013: $10,715). A decrease of 10% would have an equal and opposite effect. The impact on the profit or loss of the Group would be immaterial.

c) Credit Risk

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

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

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

	2014 $	2013 $
Cash and cash equivalents	**7,944,669**	3,894,666
Trades and other receivables	**2,745,404**	2,474,109
Total	**10,690,073**	6,368,775

There is currently no past due receivables as at 30 June 2014 (2013: nil).

d) Liquidity risk

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

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

e) Capital management

i. Capital requirements

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

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

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

ii. External requirements

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

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

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

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

29. Fair value measurements

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

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

	2014			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	$	$	$	$
- Listed securities at fair value	**11,576**	-	-	**11,576**
	11,576	-	-	**11,576**

	2013			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	$	$	$	$
- Listed securities at fair value	107,150	-	-	107,150
	107,150	-	-	107,150

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

30. Parent entity information

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

	Parent entity	
	2014	2013
	$	$
Assets		
Current assets	**7,527,495**	4,092,743
Non-current assets	**2,936,448**	3,898,448
Total assets	**10,463,944**	7,991,191
Liabilities		
Current liabilities	**2,924,003**	1,982,870
Non-current liabilities	**327,085**	122,957
Total liabilities	**3,251,088**	2,105,827
Equity		
Issued capital	**6,432,479**	6,278,225
Retained earnings	**(343,796)**	(742,189)
Reserves	**1,124,173**	349,328
Total equity	**7,212,856**	5,885,364
Profit/(loss) for the year	**1,685,451**	(223,509)
Other comprehensive income/(loss)	**(8,122)**	121,476
Total comprehensive income/(loss)	**1,677,329**	(102,033)

31. Subsidiaries

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

Name of the subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			30 June 2014	30 June 2013
Australian Ethical Superannuation Pty Limited	Trustee of the Australian Ethical Retail Superannuation Fund	Australia	100%	100%

32. Events subsequent to reporting date

The Company's fees are primarily based on its funds under management which in turn is impacted by changes in equity markets. Between 30 June 2014 and the date of signing this report the Company's Funds Under Management has increased by 6.1% which is estimated would impact the net profit after tax by $700,500 on a full year basis.

Other than as outlined in this report, no matters or circumstances have arisen since the end of the financial year which have or may significantly affect the operations of the Company and its controlled entity, the results of those operations or the state of affairs of the Company in financial years subsequent to the financial year ended 30 June 2014.

Directors' Declaration

1. In the opinion of the directors of Australian Ethical Investment Limited (the "Company"):
    a. The consolidated financial statements and notes that are set on pages 36 to 71 and the remuneration report on page 15 to 33 in the Directors' report, are in accordance with the Corporations Act 2001, Including:
        i. Giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
        ii. Complying with Australian Accounting Standards and the Corporations Regulations 2001; and
    b. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the company and the group entities identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive office and chief financial officer for the financial year ended 30 June 2014.
4. The Directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Phil Vernon
Managing Director & Chief Executive Officer
Dated at Sydney this 29th day of August 2014.

Corporate Governance Statement 2014

Australian Ethical Investment Limited

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

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

Principle 1 - Lay solid foundations for management and oversight

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

Board responsibilities

The Board is directly responsible for the following activities.

- Setting the strategic direction of Australian Ethical;
- Annual appraisal of the Board;
- Approval of Board committee fees;
- Recommendation to shareholders on the aggregate level of directors' fees;
- Approval of individual director fees;
- Appointment and removal of the CEO;
- Annual appraisal of the CEO;
- Approval of the annual operational and capital expenditure budget and any material revisions;
- Approval of major contracts, acquisitions or disposals which have not been approved in the budget;
- Authorisation of Board project expenditure;
- Sign-off of the annual audited accounts and directors' report for the Australian Ethical group;
- Approval of the issue of shares and options;
- Approval of significant changes to managed investment scheme fees, including discount programs;
- Approval of significant changes to products or product offerings;
- Approval of bonuses and community grant amounts;
- Approval of the terms and conditions for any employee share ownership scheme, or if shareholder approval is required, approval of recommendations to shareholders;
- Approval of employee performance based remuneration programs;
- Approval of dividend payments and any DRP;
- Authorisation of the issue of managed investment scheme PDSs;
- Approval of risk management and compliance programs;
- Approval of significant Group policies;
- Approval of indemnity, crime, director and officer and similar insurance programs;
- Protection and promotion of the Australian Ethical Charter.

The following general delegations are also in place.

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

Inside the boardroom

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

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- Work with the Company Secretary and CEO to ensure that appropriate information is presented to the Board.
- Ensuring contributions by all Board members and reaching consensus when making decisions.
- Motivating Board members and where appropriate dealing with underperformance.
- Overseeing the process for appraising Board members individually and the Board as a whole.
- Overseeing conducting and finalising negotiations for the CEO's employment and evaluating the CEO's performance.
- Assisting with the selection of Board committee members.

Outside the boardroom

- Communicating with shareholders on matters of corporate governance.
- Chairing general meetings of shareholders.
- Ensuring compliance with ASX Listing Rules and continuous disclosure requirements.
- Speaking with large investors.
- In conjunction with the CEO, communicating Board views to staff.

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

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

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

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

Evaluating the performance of senior executives

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

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

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

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

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

Principle 2 - Structure the board to add value

Independent directors

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

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

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

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

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

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

Director	Status	
Stephen Gibbs (Chair)	Non independent Non Executive Director	Appointed 25 July 2012; elected on 20 November 2012; appointed Chair on 1 March 2013
André Morony	Independent Non Executive Director	André's term expired at the end of the 2013 AGM; he chose not to stand for re-election.
Mara Bun	Independent Non Executive Director	Mara was appointed by the Board on 4 February 2013 and was elected to a three year term at the 2013 AGM with 77.8% of the vote cast for her election.
Tony Cole, AO	Independent Non Executive Director	Tony was appointed by the Board on 4 February 2013 and was elected to a three year term at the 2013 AGM with 85.7% of the vote cast for his election.
Kate Greenhill	Independent Non Executive Director	Kate was appointed by the Board on 22 February 2013 and was elected to a three year term at the 2013 AGM with 79.1% of the vote cast for her election.
Phillip Vernon	Non independent Executive director	Phillip is the Managing Director and CEO.
Stephen Newnham	Non independent Executive Director	Steve resigned on 24 July 2013 after accepting a position with another financial services organisation.

On 30 June 2013 the Board was comprised of three independent non-executive directors, one non independent non-executive director and one executive director.

Stephen Gibbs was appointed as a director by the Board on 25 July 2012 and was voted into office at the 2012 AGM with 99.8% of the vote cast for his election. Stephen was the Chair of CAER Pty Ltd, a major supplier of ethical research services to the Company. Consequently, Stephen, as a former officer of a material supplier, is classified as a non-independent non-executive director until 24 July 2015. Stephen has been the Chair of the Board since 1 March 2013.

There have been no changes to board membership over the course of the reporting year. The Board is dominated by independent directors. This is consistent with the Principles and Recommendations and the Board's intention is to keep this balance as it represents best corporate governance and alignment with the Australian Ethical Charter.

Independent legal and other professional advice

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

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

Chair of the Board

As noted above Stephen Gibbs, the Chair during the reporting period, is considered to be a non independent director. However, it is the Board's view that this classification is the result of a strict application of the Principles and Recommendations rather than being indicative of any actual conflict.

Nomination Committee

The Board has a People, Remuneration and Nominations Committee comprising Steve Gibbs, Kate Greenhill and Tony Cole.

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

Board and director evaluation

A Board assessment was commenced but not completed in the relevant period. The Board was formed in February 2013 and since that time has worked on establishing effective work routines and cohesion. It is the Board's intention to conduct annual board assessments and to periodically work with an external facilitator.

Director skills and experience

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

Selection and appointment of directors and re-appointment of incumbents

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

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

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

Principle 3 – Promote ethical and responsible decision making

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

Code of conduct

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

Share trading

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

Diversity

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

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

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The following Gender Diversity Targets have been adopted:

Target Date	Target
30 June 2013	• 25% of the AEI Board will be female • 25% of Management at AEI will be female
31 December 2016	• 40% of the AEI Board will be female • 40% of Management at AEI will be female

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

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

As at 30 June 2014 40% of the Board were female reflecting the importance the Company places on achieving gender diversity. In relation to management 13% were female compared to 22% the previous year. As a small organisation turnover of small numbers of employees can have a significant impact on gender diversity and our size also makes achieving a desired gender mix more challenging. We are taking positives steps to improve the level of female representation at management level including:

- ensuring that our recruitment and selection practices include formal consideration of the desired diversity profile;
- ensuring where possible that candidates are interviewed by a diverse selection of employees in the workplace;
- developing a pool of skilled and experienced employees, in particular women, through initiatives focused on skills development, such as leadership development/executive mentoring programs or more targeted initiatives relating to career advancement including those that develop skills that prepare employees for management roles.

Principle 4 - Safeguard integrity in financial reporting

Audit Committee

Throughout the period, the Board had an Audit Committee consisting of four members being two external members, an independent non-executive director and a non-independent non-executive director.

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

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

As two members of the Audit Committee are not directors of the Company, it does not comply with recommendation 4.2 "consists solely of non executive directors". However, the Board is of the view that notwithstanding this the structure of the Audit Committee is consistent with the spirit of the recommendations and the Committee is able to perform its functions with independence and diligence. In particular it is noted that:

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

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

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

Principle 5–Make timely and balanced disclosure

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

Principle 6 - Respect the rights of shareholders

The Company does not have a separately documented policy for shareholder communication. However:

- the website includes comprehensive sections that provide shareholders (and other stakeholders) with information about corporate activities (including Company announcements);
- the website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings;
- a facility is available to shareholders to be advised via e-mail when announcements are made;
- the Company has a very active social media presence that keeps shareholders and other stakeholders continually updated on issues relevant to the Company and responsible investments;
- the Company has a regular sequence of communication points with investors and members including a newsletter, Good Money, for trust and superannuation investors;
- since listing the Company has also produced a shareholder newsletter;
- the Board recently resolved to hold AGM's in various locations to promote participation and dissemination of information to all shareholders;
- the Company also produces a sustainability report using Global Reporting Initiative guidelines. The sustainability report is available on the Company's website; and
- the Company complies with the corporate governance guidelines for notices of meeting.

Principle 7–Recognise and manage risk

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

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

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

CEO and CFO sign-off of financial reports

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

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

Principle 8 - Remunerate fairly and responsibly

People, Remuneration and Nominations Committee

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

Details of remuneration

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

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Shareholder Information

Top 20 Holdings as at 25-09-2014

Holder Name	Balance at 25-09-2014	%
SELECT MANAGED FUNDS PTY LTD	196,472	18.912
CITICORP NOMINEES PTY LIMITED	88,310	8.500
JAMES ANDREW THIER	51,367	4.944
MS CAROLINE LE COUTEUR	49,436	4.759
MR HOWARD PENDER	48,152	4.635
MR ERIC YIN WANG TSE & MRS PATTY BIK YUK TSE	33,842	3.258
MR TREVOR ROLAND LEE	33,433	3.218
MRS JUDITH MARGARET BOAG	30,483	2.934
MR BRUCE ALLAN MCGREGOR & MRS ANN MARION MCGREGOR	24,447	2.353
HB SARJEANT & ASSOC PTY LTD <HB SARJEANT & ASSOC S/F A/C>	20,140	1.939
GARRETT SMYTHE LTD	17,169	1.653
DAISY THIER	15,297	1.472
MS JUDITH INGROUILLE AJANI	13,000	1.251
DR EDWARD ARTHUR ICETON	12,000	1.155
MR ANTHONY SCOTT COOK	11,512	1.108
MR MICHEL BEUCHAT & MRS ANN BEUCHAT	9,667	0.931
MR RODNEY MATTHEW MYER	7,332	0.706
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	7,160	0.689
MR JAMES GROESSLER	6,622	0.637
ANGUELINE INVESTMENTS PTY LIMITED <ANGUELINE A/C>	6,300	0.606
		682,141
	Total IC	1,038,894

Analysis of Holdings as at 25-09-2014

Security Classes

Fully Paid Shares

Holdings Ranges	Holders	Total Units	%
1-1,000	722	173,979	16.747
1,001-5,000	74	155,965	15.013
5,001-10,000	10	63,890	6.150
10,001-100,000	14	448,588	43.179
100,001+	1	196,472	18.912
Totals	821	1,038,894	100.000

GRI Content Index

General Standard Disclosures		Reference	External Assurance (Y/N)
Strategy and Analysis			
G4-1	Statement from the Managing Director	pp. 4-6	N
G4-2	Key impacts, risks and opportunities	p.7	N
Organisational Profile			
G4-3	Name of the organization	Front cover	N
G4-4	Primary brands, products, and services	p.14	N
G4-5	Location of headquarters	p.12	N
G4-6	Countries located	Australia only	N
G4-7	Nature of ownership and legal form	p.13	N
G4-8	Markets served	p.16	N
G4-9	Scale of the organisation	pp.8-12,39	N
G4-10	Employee profile	pp.39,40	Y Refer to Netbalance Assurance Statement p.118
G4-11	% of employees covered by collective bargaining agreements	No employees (0%) are covered by collective bargaining agreements	N
G4-12	Supply chain	p.15	N
G4-13	Significant changes in the reporting period	Consolidation of the majority of Canberra operations to Sydney	N
G4-14	Precautionary approach/principle	p.18	N
G4-15	Commitments to externally developed economic, environmental and social charters, principles, or other initiatives	pp.19, 31, 32	Y Refer to Netbalance Assurance Statement p.118
G4-16	Memberships	p.15	N
Identified Material Aspects and Boundaries			
G4-17	Entities included in reporting	p.2	N
G4-18	Process for defining the report content and the Aspect Boundaries and implementation of the Reporting Principles for Defining Report Content	p.2, 3	Y Refer to Netbalance Assurance Statement p.118
G4-19	Material Aspects identified in the process for defining report content	p.3	N
G4-20	Internal Aspect Boundaries	GRI Content Index	N
G4-21	External Aspect Boundaries	GRI Content Index	N
G4-22	Restatements from previous reporting periods	Any restatements from previous report data are cited throughout the report	N
G4-23	Significant changes from previous reporting periods in Scope and Aspect oundaries.	p.3	N

General Standard Disclosures		Reference	External Assurance (Y/N)
Stakeholder Engagement			
G4-24	Stakeholder groups engaged by Australian Ethical	pp.24, 25	N
G4-25	Basis for identification and selection of stakeholders	pp.24, 25	N
G4-26	Approach to stakeholder engagement	pp.24, 25	N
G4-27	Key topics and concerns raised through stakeholder engagement, and responses	pp.24, 25	N
Report Profile			
G4-28	Reporting period	p.2	N
G4-29	Previous report	FY2013 Sustainability Report, published in November 2013	N
G4-30	Reporting cycle	Annual	N
G4-31	Contact details	p.3	N
G4-32	'In accordance' option	p.2	N
G4-33	Policy and current practice in seeking external assurance for the report, including scope and basis of any external assurance	p.2	N
Governance			
G4-34	Governance structure and committees	p.101	Y Refer to Netbalance Assurance Statement p.118
G4-35	Process for delegating authority for sustainability topics from the highest governance body to senior executives and other employees	p.41	N
G4-36	Executive level position with responsibility for sustainability topics	General Counsel and Company Secretary	N
G4-37	Processes for consultation between stakeholders and the highest governance body on sustainability topics	No formal process. The Impact Committee manages this internally and a client survey takes place externally.	N
G4-38	Composition of the highest governance body and its committees	pp.101-103	N
G4-39	Chair as an executive officer and his function	p.102	N
G4-40	Nomination and selection processes for the highest governance body and its committees	p.104	N
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed and communication to stakeholders	Australian Ethical Code of Conduct	N
G4-42	Highest governance body's and senior executives' roles in the development, approval and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to sustainability impacts.	p.101	N

General Standard Disclosures		Reference	External Assurance (Y/N)
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of sustainability topics	Board discusses ethical issues on agenda. Individual directors can attend relevant training. There are no other formal measures.	Y Refer to Netbalance Assurance Statement p.118
G4-44	Processes for evaluating the highest governance body's performance with respect to the governance of sustainability topics, and independence and frequency. Actions taken in response to evaluation of the body's governance performance on sustainability topics.	Board evaluates director performance, including responsible investment. Oversight of responsible investment.	Y Refer to Netbalance Assurance Statement p.118
G4-45	Highest governance body's role in identifying and managing sustainability impacts, risks and opportunities, including the highest governance body's role in Implementing due diligence processes and the role of stakeholder consultation in supporting the body	Board manages sustainability risks, impacts and opportunities through the risk register and corporate strategy. Due diligence is undertaken monthly by the senior management team and Ethical Advisory Group and reported to the Board.	N
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for sustainability topics	p.106	N
G4-47	Frequency of the highest governance body's review of sustainability impacts, risks and opportunities	Reviews take place at a minimum annually as per requirements of risk management strategy, and strategic planning takes place bi-annually.	N
G4-48	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered.	The Managing Director and General Counsel reviews the material Aspects of the sustainability report and provides final approvals.	Y Refer to Netbalance Assurance Statement p.118
G4-49	Process for communicating critical concerns to the highest governance body	Board meetings which take place four to six times per year.	N
G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanisms used to address and resolve them	One critical concern: fossil fuel free investments issue addressed in board workshop days.	N
G4-51	Remuneration policies for the highest governance body and senior executives	p.55	Y Refer to Netbalance Assurance Statement p.118
G4-52	Process for determining remuneration and relationship with remuneration consultants if used	p.54	N
G4-53	Process to seek stakeholder views on remuneration, including the results of votes on remuneration policies and proposals	p.54	N
G4-54	Ratio of the annual total compensation for the organisation's highest paid individual to the median annual total compensation for all employees	3.01:1	Y Refer to Netbalance Assurance Statement p.118

General Standard Disclosures		Reference	External Assurance (Y/N)
G4-55	Ratio of % increase in annual total compensation for the organisation's highest paid individual to the median % increase in annual total compensation for all employees	1.36:1	Y Refer to Netbalance Assurance Statement p.118
Ethics and Integrity			
G4-56	Code of ethics	p.41	Y Refer to Netbalance Assurance Statement p.118
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity	p.41	Y Refer to Netbalance Assurance Statement p.118
G4-58	Internal and external mechanisms for reporting concerns about ethical or unlawful behaviour, and matters related to organisation integrity (escalation through the line management, whistleblowing mechanisms or hotlines).	p.41	N

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		**Reference**	**Notes**	**Internal or External Boundary (I/E)**	**External Assurance (Y/N)**
Category: Economic					
Economic Performance					
G4-DMA		p.8			
G4-EC1	Direct economic value generated and distributed	pp.9, 41	Australian Ethical has no matched giving process. Where staff or customers donate this is not tracked. There are also no community partnerships in place nor in-kind contributions. Management costs are not accounted for in our community giving activities.	I & E	N
G4-EC2	Financial implications, risks and opportunities for the organisation's activities due to climate change	p.34		I & E	Y Refer to Netbalance Assurance Statement p.118

G4-20, G4-21

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		**Reference**	**Notes**	**Internal or External Boundary (I/E)**	**External Assurance (Y/N)**
G4-EC3	Coverage of the organisation's defined benefit plan obligations	NA	Not relevant as staff members are free to choose their own superannuation fund. The company's liability is limited to make the Superannuation guarantee contributions.	I & E	N
G4-EC4	Financial assistance received from government		No financial assistance is received from the government	I & E	N
Category: Environment					
Supplier Environmental Assessment					
G4-DMA		p.18			N
G4-EN32	% of new suppliers that were screened using environmental criteria	p.15		E	N
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	p.15		E	N
Category: Social (Sub-category: Labour Practices and Decent Work)					
Employment					
G4-DMA		p.35			N
G4-LA1	Number and rate of new employee hires and employee turnover by age group, gender and region	p.40		I	Y Refer to Netbalance Assurance Statement p.118
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p.37		I	N
G4-LA3	Return to work and retention rates after parental leave by gender	No parental leave was taken during the reporting year		I	Y Refer to Netbalance Assurance Statement p.118

G4-20, G4-21

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		Reference	Notes	Internal or External Boundary (I/E)	External Assurance (Y/N)
Labour and Management Relations					
G4-DMA		p.37			N
G4-LA4	Minimum notice periods regarding operational changes	p.37 Notice periods range between four to twelve weeks, but sooner if possible		I	N
Training and Education					
G4-DMA		p.36			N
G4-LA9	Average hours of training per year per employee by gender and employee category	p.40		I	Y Refer to Netbalance Assurance Statement p.118
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	p.35		I	Y Refer to Netbalance Assurance Statement p.118
G4-LA11	% of employees receiving regular performance and career development reviews by gender and employee category	p.36		I	Y Refer to Netbalance Assurance Statement p.118
Diversity and Equal Opportunity					
G4-DMA		p.36			N
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	p.39		I	Y Refer to Netbalance Assurance Statement p.118

G4-20, G4-21

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		Reference	Notes	Internal or External Boundary (I/E)	External Assurance (Y/N)
Equal Remuneration for Women and Men					
G4-DMA		p.36			N
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	p.40		I	N
Supplier Assessment for Labour Practices					
G4-DMA		p.18			N
G4-LA14	% of new suppliers that were screened using labour practices criteria	p.15		E	N
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	NA	No negative labour practices impacts were identified	E	N
Labour Practices Grievance Mechanisms					
G4-DMA		p.37			N
G4-LA16	Number of grievances about labour practices	p.37		E	N
Category: Social (Sub-category: Human Rights)					
Investment					
G4-DMA		p.18			N
G4-HR1	Number and % of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	p.15		E	N
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including % of employees trained	NA	No employees were trained on human rights policies or procedures	I	N

G4-20, G4-21

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		Reference	Notes	Internal or External Boundary (I/E)	External Assurance (Y/N)
Non-discrimination					
G4-DMA		p.36			N
G4-HR3	Total number of incidents of discrimination and corrective actions taken	NA	Nil	I	Y Refer to Netbalance Assurance Statement p.118
Supplier Human Rights Assessment					
G4-DMA		p.18			N
G4-HR10	% of new suppliers screened using human rights criteria	p.15		E	N
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	NA	No negative human rights practices impacts were identified	E	N
Category: Social (Sub-category: Product Responsibility)					
Product and Service Labelling					
G4-DMA		p.20			N
G4-PR3	Product and service information required by Australian Ethical procedures for product and service information and labelling, and % of significant product and service categories that are subject to this.	p.20		I	Y Refer to Netbalance Assurance Statement p.118
G4-PR4	Number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by outcome	NA	There were no substantiated incidents of non-compliance with regulations and voluntary codes	I	N
G4-PR5	Results of surveys measuring customer satisfaction	NA	No customer satisfaction surveys were conducted in FY2014	I	N
Customer Privacy					
G4-DMA		p.20			N

G4-20, G4-21

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		Reference	Notes	Internal or External Boundary (I/E)	External Assurance (Y/N)
G4-PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data	NA	There were no substantiated complaints regarding customer privacy	I	N
Compliance					
G4-DMA		p.20			N
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	NA	$0 – there were no fines for non-compliance	I	N
Product Portfolio					
G4-DMA		p.12			Y Refer to Netbalance Assurance Statement p.118
G4-FS6	% of portfolio for business lines by region, size and sector	pp.8, 9, 16		I	N
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	NA	All of Australian Ethical's products and services are designed to benefit society and the environment as per the Charter, however, they are not broken down by purpose	I	N
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	NA	As above	I	N
Active Ownership					
G4-DMA		p.22			N
G4-FS10	% and no. of companies held in the portfolio with which the reporting organisation has interacted on environmental or social issues	p.27		E	Y Refer to Netbalance Assurance Statement p.118

G4-20, G4-21

Specific Standard Disclosures					
Disclosures on Management Approach & Indicators		**Reference**	**Notes**	**Internal or External Boundary (I/E)**	**External Assurance (Y/N)**
G4-FS11	% of assets subject to positive and negative environmental or social screening	pp.15, 27		E	Y Refer to Netbalance Assurance Statement p.118
Category: Social (Sub-category: Society)					
Supplier Assessment for Impacts on Society					
G4-DMA		p.18			N
G4-SO9	% of new suppliers that were screened using criteria for impacts on society	p.15		E	N
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	NA	No negative societal practices impacts were identified	E	N

G4-20, G4-21

Assurance Statement

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INDEPENDENT ASSURANCE STATEMENT

To the Board and Management of Australian Ethical:

Australian Ethical Investment Limited (Australian Ethical) commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance over the content of the 2014 Sustainability Report (the 'Report'). The Report presents Australian Ethical's sustainability performance over the period 1 July 2013 to 30 June 2014. Australian Ethical was responsible for the preparation of the Report and this statement presents our opinion as the independent assurance provider. Net Balance's responsibility in performing its assurance activities is to the Board and Management of Australian Ethical in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

Assurance Standard, Objectives and Scope

Net Balance provided Type 2 moderate level assurance in accordance with the AA1000 Assurance Standard (2008) (AA1000AS). This involved assessing the organisation's adherence to the AA1000 AccountAbility Principles (2008) and assessing the reliability and quality of disclosed sustainability performance information contained within the Report.

The AA1000 Accountability Principles (2008) used to assess Australian Ethical's processes are:

Inclusivity - An assessment is made as to whether the organisation has included its stakeholders in developing and achieving an accountable and strategic response to sustainability.

Materiality - An assessment is made as to whether the organisation has included in its report the material information and data required by its stakeholders to make informed judgements, decisions and actions.

Responsiveness - An assessment is made as to whether the organisation has responded to stakeholder concerns, policies and relevant standards and adequately communicated these in its report.

The review of adherence to the Principles was undertaken using the criteria outlined in the AA1000 Assurance Principles Standard (2008).

The sustainability performance information covered by this assurance engagement and the criteria used during the process included the following:

Table 1 *2014 Sustainability Performance information selected for assurance*

Material Issue	G4 Indicator (criteria)
Employee satisfaction and gender diversity	G4-10, G4-51, HR3 DMA – Employment including (LA1, LA3, LA10, LA12, LA13)
Active ownership	DMA – Active ownership (including FS10, FS11)
Responsible investment	FS11, G4-15, PR3
Governance	G4-18, G4-34, G4-43, G4-44, G4-48, G4-51, G4-54, G4-55
Ethics and Integrity	G4-56, G4-57
Economic performance	EC2
Training, education and performance	LA9, LA11 DMA – Training and Education

- The scope of work did not involve assurance of financial data, other than that relating to environmental, social or broader economic performance.

Assurance Methodology

The assurance engagement was undertaken in August and September 2014, and involved:

- Interviews with Australian Ethical managers responsible for oversight of the implementation of the Ethical Charter, the investment process and active ownership, human resources, governance and compliance;
- a review of Australian Ethical's materiality determination process;

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