australianethical

Growing the good

ANNUAL AND SUSTAINABILITY REPORT 2017

About this report

Welcome to Australian Ethical Investment Limited's (AEI) Annual and Sustainability Report 2017. This year we again combine the reporting of our financial and sustainability disclosures. To help tell our story, we also provide a range of digital insights on our website.

We have developed this report in accordance with the 'Comprehensive' requirements of the Global Reporting Initiative's (GRI) G4 sustainability reporting framework and utilised the Financial Services Sector Disclosures.

We have included the performance for AEI and its wholly owned subsidiaries — Australian Ethical Superannuation Pty Ltd (Australia Ethical Super) and Australian Ethical Foundation Limited (The Foundation) — for the period 1 July 2016 to 30 June 2017 (FY17).

However, purely for GRI reporting purposes, we have excluded the Australian Ethical owned building in Canberra, as it is fully let to third parties.

This year we introduce you to our newly evolved brand. We also focus on our key stakeholders: our employees, our clients, our shareholders and the community in which we live and work in. We have used their perspectives to identify the most important things our business can and should influence.

KPMG have audited the financial statements and have also provided limited assurance on certain sustainability disclosures in this report.

We welcome your feedback on this report. Please contact Tom May, General Counsel and Company Secretary, Australian Ethical Investment Limited on 02 8276 6294 or at tmay@australianethical.com.au.

Our Corporate Governance Statement is available at australianethical.com.au/shareholders/corporate-governance

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Managing Director and Chairman's review

Australian Ethical has been the quiet achiever in its field for over 30 years. Not anymore. Never has it been so important for the power of money to be a force for good. Now is the time for our message to be loud and clear. Our track record and credentials prove we are authentic, professional leaders in our industry and now in 2017, our continued growth trajectory means we have become substantial.

To signal this evolution to the market we have evolved our brand. Our name is our marque, and is now intrinsically linked to our logo. The new logo, rich brand colours and impactful imagery you see featured throughout this report helps us celebrate the beauty and potential of the planet we are fighting hard to preserve.

Phil Vernon
Managing Director & CEO

RISE OF THE CONSCIOUS CONSUMER

Extraordinary events in the past year, including the outcome of the 'Brexit' vote, the new administration in the US and the announcement of its intention to withdraw from the Paris agreement, show an unhealthy trend at a macro level towards nationalism and away from global accords designed for the greater good. Rather than these world events being an impediment to the growth of our business, we have seen the continued rise of the conscious consumer. People frustrated and disillusioned with the global political environment are choosing to take more direct action with their consumption and investment choices. This can only be good for the planet.

This trend is reflected in the continued growth of the core responsible investment segment in Australia (26% in calendar year 2016)[1] and of our own business. A recent report by KPMG identified Australian Ethical Super as the fastest growing super fund in Australia in 2016, by both membership and assets under management[2]. Though industry comparisons are not yet available for FY17, our growth rates have continued unabated, with a 42% increase in net flows for this period.

This growth opportunity has seen the entry of niche players into the responsible investing space. In our view, there is room for all. As long as these new players are truly living up to the label of the responsible investing they promote, and providing their clients with value for money investment and retirement products, then the more money that is directed towards doing good for the planet, the better for all of us.

ETHICAL LEADERS

We are living proof that financial services organisations can give equal weight to social and environmental factors, along with financial returns, to deliver equally well on all dimensions. We continue to be the leader in ethical investment in Australia with the highest ethical conviction in our investment selection, coupled with our advocacy for more ethical behaviour in the corporate and broader community.

Our leadership is globally recognised. In September 2017, we were again named in the top 10% of all Certified B Corps on the Global B Impact Assessment list, and in October 2016 the French Government recognised us for our leadership on portfolio decarbonisation.

In 2017, we continued to encourage the big banks and large corporates to better disclose their exposure to carbon emissions. We asked oil and gas producer Santos to explain how they are responding to climate risk and were pleased when Westpac publicly stated that they would not lend money to the proposed Adani Carmichael mine.

We also sought to influence the way companies identify and manage human rights risks in their business and supply chain. In 2017 we made a submission to the public hearing on modern slavery legislation. We believe the presence of forced labour in the operations and supply chains of any business or industry should not be tolerated.

Australian Ethical is proud to be fossil fuel free. We also track the exposure to carbon emissions of our investment portfolio.

In 2017 we reduced our own exposure to carbon by 46% to 90 tonnes/$m. This is 66% less than the benchmark[3]. Our target is to fully decarbonise all our portfolios by 2050. This aligns at a portfolio level with the outcomes of the Paris Agreement.

Through our Community Grants program we donated $280,000 in 2017 to not for profit organisations – a total of more than $2.2 million since 2000. This goes to the heart of our ethos of creating a more empathetic model for the financial system.

SUSTAINABLE GROWTH

In 2017 we achieved, and in many cases surpassed, every milestone we set for ourselves. We are tracking well towards our target of $5 billion in funds under management (FUM) by 2020, passing the milestone of $2 billion in FUM in April 2017 and finishing the year at $2.145 billion in FUM. This is the result of strong net inflows of $454 million, a 42% increase on 2016.

We continued to deliver our strong investment performance track record in 2017. Our flagship Australian Shares fund continued to outperform its benchmark over the short, medium, long and very long term. The default MySuper option for our super fund members, the Balanced Accumulation Option, also continued to outperform its benchmark.

As at 30 June 2017, our super fund membership had grown to 35,352, a substantial 34% increase on the previous year. Our super fund member engagement is incredible, with more than 110,000 followers on social media and a Net Promoter Score for our super fund members of +55[4].

We have seen growing interest from institutions as their members demand ethical investment choices. In July 2017 we saw our first $100 million+ institutional investment from Australian Catholic Super who cited member demand as the reason for their decision. CEO Greg Cantor explained that Australian Ethical was chosen as "the clear leaders in this area, with a strong team and performance record."

The market continues to take great interest in our progress. Our share price started the year at $81.11 and finished at $94.60 on 30 June 2017, an increase of 17%. This strong performance adds to our solid track record of growth over the last decade. What's more, we've been able to achieve these results for shareholders while rigorously applying our ethical charter to everything we do.

THE CHALLENGES

It is critical to all our stakeholders that we manage the exponential growth of our business in a sustainable way. We did have our share of challenges in 2017.

Our net profit for the period was down 8% on 2016 to $2.924 million. This decrease was primarily due to the costs of remediating the unit pricing error discovered by management in 2016. Our response to this error was to communicate to the market, identify the root cause, tell our affected members and remediate their accounts. We made certain our members were put back in the position they would have been in, had the error not occurred. These tasks have all been completed.

Our employee expenses also increased in FY17 by 24%. We have increased our bench strength in the operations and risk areas with a number of significant hires. We have also made additional investments in our marketing and sales capability to enhance our support of not only our direct members and investors, but also the adviser, employer and institutional channels. These investments are already delivering tangible results with an uplift in adviser numbers, platform listings and new institutional business.

This is a step-change strengthening of our support infrastructure to ensure that we continue to effectively manage our vigorous growth in the years ahead.

In 2017 our management effort was also directed to incorporate a raft of regulatory changes affecting superannuation, including the new contributions caps, the transfer of super amounts to the pension phase, new disclosure requirements for investment fees and the new attribution managed investment trust regime which applies to managed funds investors and which we hope will provide then with more flexibility.

We also took the opportunity to review our managed funds fees and better align them with the underlying costs of managing the funds.

Steve Gibbs
Chairman

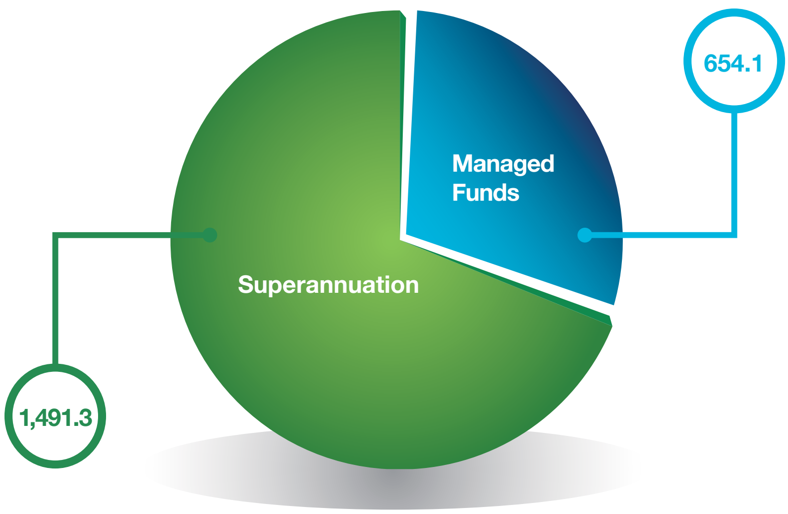
Financial performance

FUNDS UNDER MANAGEMENT

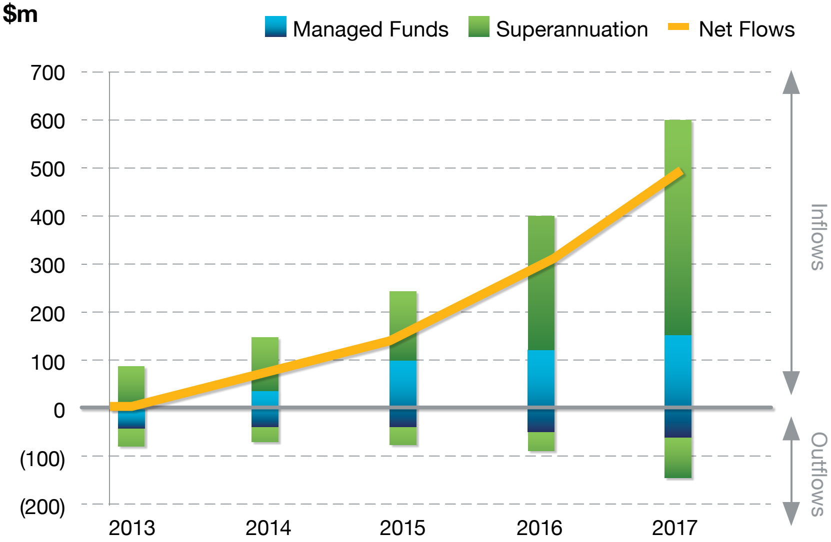
We are tracking well towards our ambitious goal of $5 billion in FUM by 2020. In FY17 our super fund FUM grew by a substantial 43% to $1.491 billion and managed funds by 27% to $654 million. Our overall FUM increased by 38% to $2.145 billion.

We believe this sustained growth is attributed to our leadership in this rapidly growing segment of the market. Our long-term investment track record, high ethical conviction and fully-featured products covering all asset classes offer a unique combination in the market. Our ongoing strategy to progressively reduce our fees has also contributed to our success.

Funds under management in $m



Annual flows in $m



OUR PRODUCTS

Super Investment Options	$m
Defensive	50.0
Balanced	629.0
Growth	237.8
Smaller Companies	314.3
International Shares	40.8
Conservative	51.4
Advocacy	74.5
Pension Investment Options	
Defensive	4.3
Balanced	44.8
Growth	7.2
Smaller Companies	21.3
International Shares	2.6
Conservative	13.3
Total	**1,491.3**

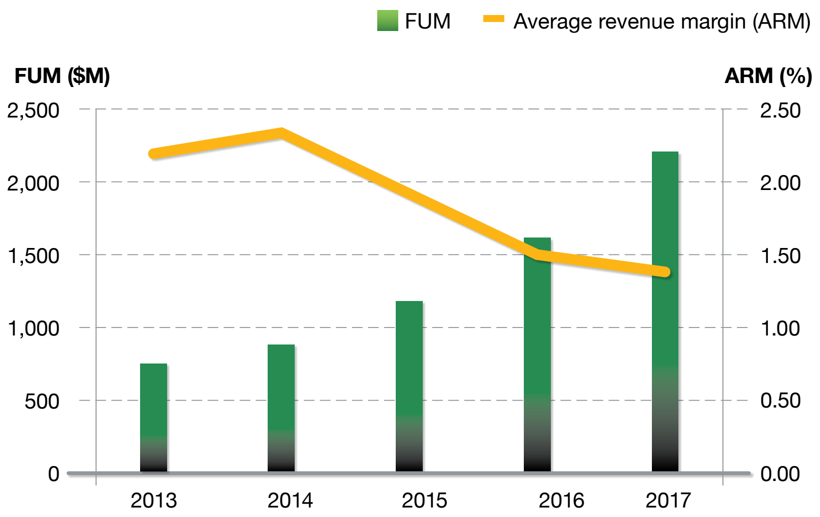
Managed Funds	$m
Advocacy Fund - Retail	2.8
Advocacy Fund - Wholesale	25.4
Australian Shares Fund - Retail	134.9
Australian Shares Fund - Wholesale	159.5
Balanced Fund - Retail	114.4
Income Fund - Retail	1.5
Income Fund - Wholesale	6.6
Diversified Shares Fund - Retail	43.8
Diversified Shares Fund - Wholesale	84.3
Emerging Companies Fund - Retail	3.2
Emerging Companies Fund - Wholesale	23.8
Fixed Interest Fund - Retail	0.5
Fixed Interest Fund - Wholesale	15.7
International Shares Fund - Retail	2.6
International Shares Fund - Wholesale	33.5
Other Direct Equities	1.6
Total	**654.1**

REVENUE

In FY17, our revenue was up 23% from $23.0 million recorded for the previous year to $28.3 million. This was largely driven by record levels of net inflows and asset management performance. At the same time we have reduced our revenue margins in line with our fee reduction strategy.

Product	FUM based revenue margins %		
	FY15	FY16	FY17
Managed Funds	2.09	1.71	1.60
Superannuation	1.74	1.40	1.25
All Products	**1.86**	**1.50**	**1.36**

Annual flows



Average revenue margin (ARM) is FUM-based revenue as a proportion of average FUM over the year. Our aim is to be at the 75th percentile and of our MySuper peer group by 2020. We are working to achieve this through a measured reduction strategy. FUM-based revenue is one component of total revenue. Other revenue includes member and withdrawal fees, interest and rent. Details can be found in Note 5 of the Financial Statements in this report.

FINAL DIVIDEND

A fully franked dividend of $2.10 per share was declared for the full year ended 30 June 2017, bringing the total dividend for the year to $2.60 per share. The record date for the dividend is 8 September 2017.

FINANCIAL POSITION

We retain a strong balance sheet position with **no debt**. Net assets increased by 5% to $13.9 million. The majority of assets are held in cash to meet our Australian Financial Services Licence (AFSL) requirements. The only significant non-cash asset is a property held in Canberra, which is discussed in detail in Note 15 of the Consolidated Financial Report. The assets held in excess of the licence requirements provide a buffer in the event of a sustained market downturn and allows the company to capitalise on future growth opportunities.

1. Responsible Investment Benchmark Report 2017, Responsible Investment Association Australasia (RIAA)
2. Super Insights Report 2017, KPMG. Published 6 June 2017
3. Blended benchmark of the S&P ASX 200 Index (for Australian shareholdings) and MSCI World ex Australia Index (for international shareholdings).
4. Pollinate Research February 2017

TRUE TO LABEL

We were there at the inception of the responsible investment sector in Australia and remain the leading provider. We have nurtured the sector by our involvement in Responsible Investment Association Australasia (RIAA), B Corps, the Investor Group on Climate Change and Sustainable Business Australia to name a few.

Being a responsible investor means having a holistic view. We have more than 30 years' experience applying the principles of our broad-based ethical charter to ensure our investments align with a sustainable future. The way we recruit, the way we invest, the way we treat our employees and suppliers, the decisions made by our Trustee are all governed by our Ethical Charter. We are not a 'single slogan' offering, but are true to our ethical label, through and through.

For over 30 years we have been true to our Ethical Charter. Our employees, our clients and, our shareholders choose us because:

- We are fossil-fuel free*
- We are tobacco free
- We are nuclear weapons free
- We do not invest in businesses involved in cruelty to animals
- We do invest in sustainable, future-building businesses
- We pride ourselves on our ethical business practices
- We actively engage with businesses to advocate for positive change
- We donate 10% of our profits** to not-for-profit organisations

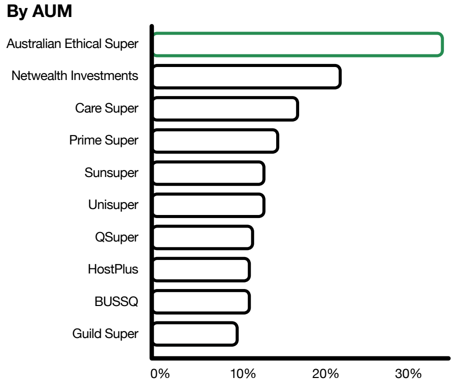
*Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). Assured by KPMG.
**Before deducting bonus and grant expense

Year in review

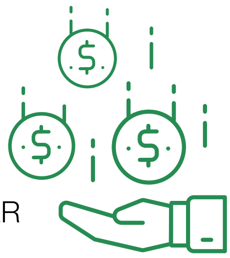
NUMBER 1 Fastest growing

SUPER FUND IN AUSTRALIA IN 2016 BY ASSETS UNDER MANAGEMENT+

By AUM



$2.1 billion

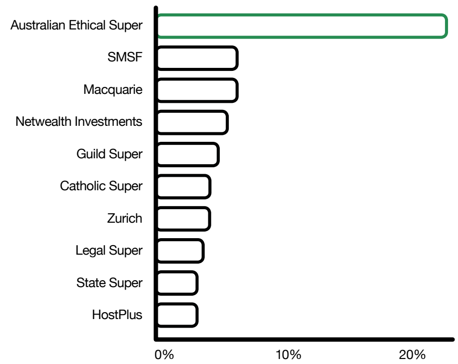


IN FUNDS UNDER MANAGEMENT

NUMBER 1 Fastest growing

SUPER FUND IN AUSTRALIA BY NUMBER OF MEMBERS+

By members



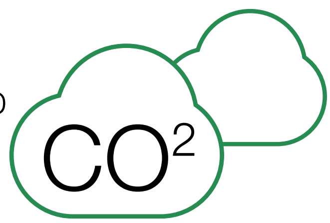
NIL

INVESTMENT IN FOSSIL FUELS^

NIL

INVESTMENT IN NUCLEAR@

INVESTMENTS PRODUCED



66% Less than benchmark emissions intensity**

SCHOOL

$320,000

PROVISIONED FOR COMMUNITY IMPACT IN FY18

$28.3 million

REVENUE

$2.9 million

PROFIT AFTER TAX

270 cents

BASIC EARNINGS PER SHARE

22.2%

RETURN ON EQUITY

110,000 Followers

ON SOCIAL MEDIA

35,000+

SUPER MEMBERS

34% INCREASE SINCE FY16

+55

NET PROMOTER SCORE FOR OUR SUPER FUND[#]

Best for the World

STATUS BY B CORP[>]

[+] KPMG Super Insights Report 2017. Published 6 June 2017.

** Emissions of Australia Ethical share investments compared to benchmark of S&P ASX 200 Index (for Australian shareholdings) and MSCI World ex Australia Index (for international shareholdings). Calculated as at 31 December 2016.

[@] A report by PAX and the International Campaign to Abolish Nuclear Weapons (ICAN) noted Australian Ethical as the only Australian firm to make it on the 'Hall of Fame' list. (Do not invest in any nuclear associated companies and applied no revenue threshold for companies for manufacture of weapons, uranium mining, and nuclear generation.)

[#] +55 (Pollinate Research February 2017).

[>] B Corp certification by B Lab: AEI recognised as one of the 2016 Best for the World companies.

[^] Assured by KPMG.

Our mission

For over 30 years we have been guided by our Ethical Charter and focused on the most critical global imperative of our era, the transition to net zero emissions. We are unashamedly a profit-driven business, but we believe and have proven that you can deliver great financial outcomes for customers and shareholders, while making thoughtful decisions that are protective of the planet, people and animals.

Our Ethical Charter©
unchanged since 1986

AUSTRALIAN ETHICAL SHALL SEEK OUT INVESTMENTS WHICH PROVIDE FOR AND SUPPORT:

- ✓ the development of workers' participation in the ownership and control of their work organisations and places
- ✓ the production of high quality and properly presented products and services
- ✓ the development of locally based ventures
- ✓ the development of appropriate technological systems
- ✓ the amelioration of wasteful or polluting practices
- ✓ the development of sustainable land use and food production
- ✓ the preservation of endangered eco-systems
- ✓ activities which contribute to human happiness, dignity and education
- ✓ the dignity and wellbeing of non-human animals
- ✓ the efficient use of human waste
- ✓ the alleviation of poverty in all its forms
- ✓ the development and preservation of appropriate human buildings and landscape

AUSTRALIAN ETHICAL SHALL AVOID ANY INVESTMENT WHICH IS CONSIDERED TO UNNECESSARILY:

- ✗ pollute land, air or water
- ✗ destroy or waste non-recurring resources
- ✗ extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
- ✗ market, promote or advertise, products or services in a misleading or deceitful manner
- ✗ create markets by the promotion or advertising of unwanted products or services
- ✗ acquire land or commodities primarily for the purpose of speculative gain
- ✗ create, encourage or perpetuate militarism or engage in the manufacture of armaments
- ✗ entice people into financial over-commitment
- ✗ exploit people through the payment of low wages or the provision of poor working conditions
- ✗ discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- ✗ contribute to the inhibition of human rights generally

Our approach to ethical investing

Our long-term investment track record, high ethical conviction and fully featured products covering all asset classes are unique in the market.

Follow the diagram to see how we apply our Ethical Charter to determine companies that help create a better world. All the investments in our portfolio have been subject to this process. (Assured by KPMG)

STEP 1: INVESTMENT IDEA

Investment ideas can come from lots of sources such as our investment analysts scouring the markets for good investment opportunities, Portfolio Managers filtering potential investments that match the portfolio criteria or from our ethics research analysts screening the global equity market for stocks that meet our ethical criteria.

STEP 2: ETHICAL SCREENING

Research from decision frameworks and data & analysis help answer the ethical charter questions:

Does the investment create positive impact?

NO → COMPANIES THAT DO NOT ALIGN WITH OUR ETHICAL CHARTER

YES
Eg: education, clean energy, healthcare, energy efficiency

Does it avoid causing unnecessary harm?

NO → COMPANIES THAT DO NOT ALIGN WITH OUR ETHICAL CHARTER

YES
Eg: no systematic worker exploitation

Do the positives outweigh the negatives?

NO → COMPANIES THAT DO NOT ALIGN WITH OUR ETHICAL CHARTER

YES
Eg: positives of renewable energy outweigh well-managed, local community impacts

COMPANIES THAT CREATE A BETTER WORLD

START

RISK / RETURN ASSESSMENT PROCESS

STEP 3:

ANALYSIS FOR PORTFOLIO INCLUSION

The Investment Analyst or Portfolio Manager makes the case for portfolio inclusion taking into account such things as expected risk and return and the impact on the overall portfolio.

STEP 4:

APPROVAL OR REJECTION

Our Chief Investment Officer has ultimate responsibility on whether an investment is approved and assigns a limit which is the maximum amount the relevant portfolio can invest.

STEP 5:

CONTINUAL MONITORING

We continually monitor all our portfolios to ensure that they will deliver on what we expect from them. Should an individual investment not meet our stringent ethical and investment criteria we will divest.

WE BELIEVE INCORPORATING ETHICS INTO OUR INVESTMENT PROCESS HELPS US TO IDENTIFY RISK AND OPPORTUNITIES EARLIER THAN MOST OTHER FUNDS.

Investment without compromise

INVESTING IN COMPANIES THAT DO GOOD

The unique combination of ethical screening and investment know-how delivers investment portfolios that create strong positive impact for the planet, people and animals. Our Ethical Charter has both positive and negative screens, which means we don't simply avoid companies with a negative impact, but we proactively seek companies that do good. Companies are selected for the benefits provided by their products and services, and for their responsible management of their social and environmental impacts.

Example: The positive impact of two Ethical Charter principles

Charter principles	Investment implications	Outputs from investment	Impact of our investment	Contribution to Sustainable Development Goals (SDGs)
The development of appropriate technological systems The amelioration of wasteful or polluting practices	*Included:* Solar, wind, geothermal, other renewable energy Technologies which increase efficiency Recycling *Excluded:* Fossil Fuels	Clean energy generated Energy saved Waste recycled Off-grid energy supplied	Helps limit global warming Sustainable energy system to alleviate poverty and for human flourishing Scarce resources preserved for future generations	 The 17 'SDGs' are goals adopted by world leaders in 2015 'to end poverty, protect the planet, and ensure prosperity for all'.

PROFESSIONAL, ETHICAL INVESTING

We have managed our clients' money with the utmost care and responsibility for over 30 years. We offer a suite of ethical investment options designed to cater to multiple risk profiles. All our investments are governed by the same rigorous ethical investment process.

We have demonstrated that you do not need to compromise on investment performance if you choose to invest ethically. In fact, we believe that incorporating ethics into our investment process actually helps us identify investment risks and opportunities earlier than most other funds. For example, we have been assessing companies' exposure to climate change risk for decades, not years. And we have been investigating which companies will thrive in a world where an ageing demographic is a significantly dominant force.

Due to the growth of the ethical investing segment, there have been a number of new competitors entering this space. In many cases, they use a 'single-topic' label as a marketing hook, and apply a limited form of screening. None however, can boast the authenticity of our business model, our Ethical Charter, our product offerings and our sustained track record of investment performance.

We will continue to construct well diversified portfolios and continue to actively look for 'future-building' investments that will drive a sustainable society and economy, and generate returns for our investors.

Investment performance

MANAGED FUNDS RETURNS TO 30 JUNE 2017

Our flagship fund, the Australian Shares Fund, again managed to deliver significant outperformance versus its benchmark (S&P/ASX Small Industrials Accumulation index) over the 12 months ending 30 June 2017. It has a long and successful track record with the Fund outperforming over all time periods shown below.

Fund^	1Y (%)	2Y (%p.a.)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	15Y (%p.a.)	20Y (%p.a.)
Income	1.7	1.6	1.8	2.6	3.3	3.6	4.1	
Income (wholesale)	2.2	2.1						
Benchmark: 90 Day Bank Bill Swap Rate	1.8	2.0	2.2	2.5	3.1	3.8	4.4	
Fixed Interest	(1.4)	2.0	2.7	3.6				
Fixed Interest (wholesale)	(0.5)	2.9	3.6					
Benchmark: Bloomberg Composite Bond Index	0.2	3.6	4.3	4.3				
Balanced	6.6	6.1	6.9	9.6	7.4	3.9	6.2	6.6
Benchmark*	9.7	7.0	7.8	11.2	9.2	5.5	6.8	6.5
Diversified Shares	8.6	7.8	9.2	15.0	9.5	3.7	7.6	
Diversified Shares (wholesale)	10.0	9.1	10.6	16.5				
Benchmark: 75% S&P / ASX 200 Industrials Accum Index and 25% MSCI World ex Aus Index	13.2	7.6	9.1	16.1	12.7	5.2	7.6	
Advocacy	8.6	7.7	9.1	14.3	10.3			
Advocacy (wholesale)	10.0	9.1	10.5	15.6				
Benchmark: 75% S&P / ASX 200 Industrials Accum Index and 25% MSCI World ex Aus Index	13.2	7.6	9.1	13.9	10.4			
Australian Shares	11.5	12.1	13.7	16.0	12.1	7.0	10.4	9.9
Australian Shares (wholesale)	13.2	13.9	15.6	17.7				
Benchmark: S&P/ASX Small Industrials Accum Index	7.9	10.3	9.2	11.4	9.9	0.6	7.2	5.6
International Share	13.8	7.0	9.0	16.6	7.6	1.7		
International Share (wholesale)	14.8	7.9						
Benchmark: MSCI World ex Aus Index	14.7	7.2	9.5	18.6	13.3	5.3		
Emerging Companies	12.0	14.1						
Emerging Companies (wholesale)	12.9	15.0						
Benchmark: S&P/ASX Small Industrials Accum Index	7.9	10.3						

*Indices of underlying asset classes weighted by the Fund's Strategic Asset Allocation

Note: Where benchmarks have changed over time, we have melded them together

SUPER FUNDS RETURNS TO 30 JUNE 2017

Our super fund's default MySuper Option, the Balanced Accumulation Option, has delivered excellent performance, outperforming its benchmark over all time periods shown below.

Accumulation option	1Y (%)	2Y (%p.a.)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	15Y (%p.a.)
Defensive	1.4	1.1	1.2	1.6	2.3	2.7	3.3
Benchmark: 90 Day Bank Bill Swap Rate*	1.2	1.3	1.5	2.1	2.8	3.6	4.3
Conservative	3.4	3.4	3.9	4.2	4.1		
Benchmark: Morningstar Multisector Moderate - Superannuation	3.4	2.9	3.5	5.0	4.8		
Balanced	9.6	6.2	7.5	9.0	6.8	3.6	5.7
Benchmark: Morningstar Multisector Growth - Superannuation	8.6	4.7	5.3	7.4	6.3	3.6	5.1
Growth	11.2	6.2	8.0	10.9	7.2	2.5	6.4
Benchmark: Morningstar Multisector Aggressive - Superannuation	11.4	5.5	6.5	9.3	7.5	3.7	5.7
Advocacy	13.6	11.0	13.9	15.9	11.7	6.9	9.9
Benchmark: 75% S&P / ASX 200 Inds and 25% MSCI World ex Australia*	6.8	8.9	5.1	(1.3)	(0.5)	(4.2)	
Smaller Companies	18.4	5.7	8.6	14.9	6.8		
Benchmark: S&P / ASX Small Industrials*	12.0	5.6	8.0	17.6	12.7		
International Shares	11.6	7.0	9.0	13.3	9.4		
Benchmark: MSCI World ex Aus Index*	11.6	6.5	8.1	13.4	10.3		

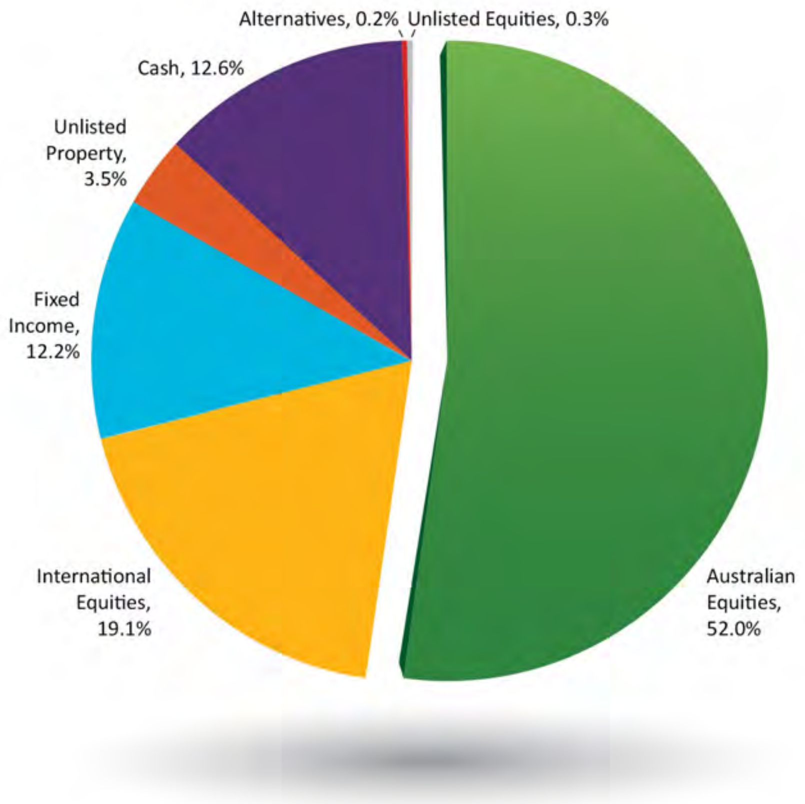
PENSION RETURNS TO 30 JUNE 2017

The Conservative option is the default for pension members who do not make an investment choice. The Conservative option has outperformed its benchmark over the last three years.

Pension option	1Y (%)	2Y (%p.a.)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	15Y (%p.a.)
Defensive	1.6	1.3	1.4	2.0	2.7	3.2	3.9
Benchmark: Australian 90 day bank bill swap rate+	1.4	1.5	1.7	2.2	2.9	3.7	4.3
Conservative	3.9	3.7	4.2	4.9	4.4		
Benchmark: Morningstar Multisector Moderate - Pension	3.6	3.1	3.7	5.4	5.2		
Balanced	8.6	6.3	7.5	9.4	7.3	3.8	6.3
Benchmark: Morningstar Multisector Balanced - Pension	10.1	4.1	5.3	7.6	6.6	3.8	5.5
Growth	12.6	6.5	9.1	11.7	8.5	3.1	7.2
Benchmark: Morningstar Multisector Aggressive - Pension	11.9	5.8	6.9	9.9	8.1	3.9	6.1
Smaller Companies	14.8	10.8	14.5	16.8	13.1	7.6	10.9
Benchmark: S&P/ASX Small Industrials+	7.4	9.7	5.8	(0.7)	0.0	(3.6)	
International Shares	20.2	6.2	8.2	15.3	6.3		
Benchmark: MSCI World ex Australia+	14.3	6.6	9.0	18.2	13.1		

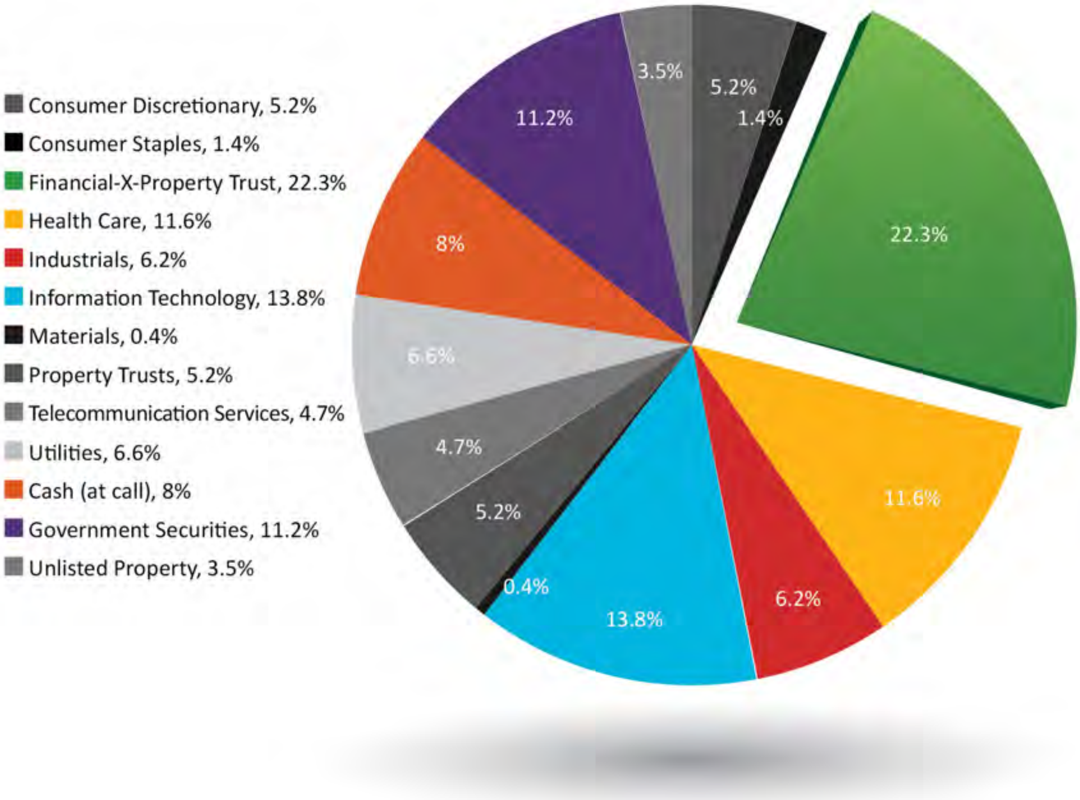
^ After fees performance
* Net of tax and admin fees: effective tax rate of the option is used to estimate tax
+ Net of administration fees
Note: Where benchmarks have changed over time, we have melded them together.

OUR INVESTMENTS BY TYPE OF ASSET



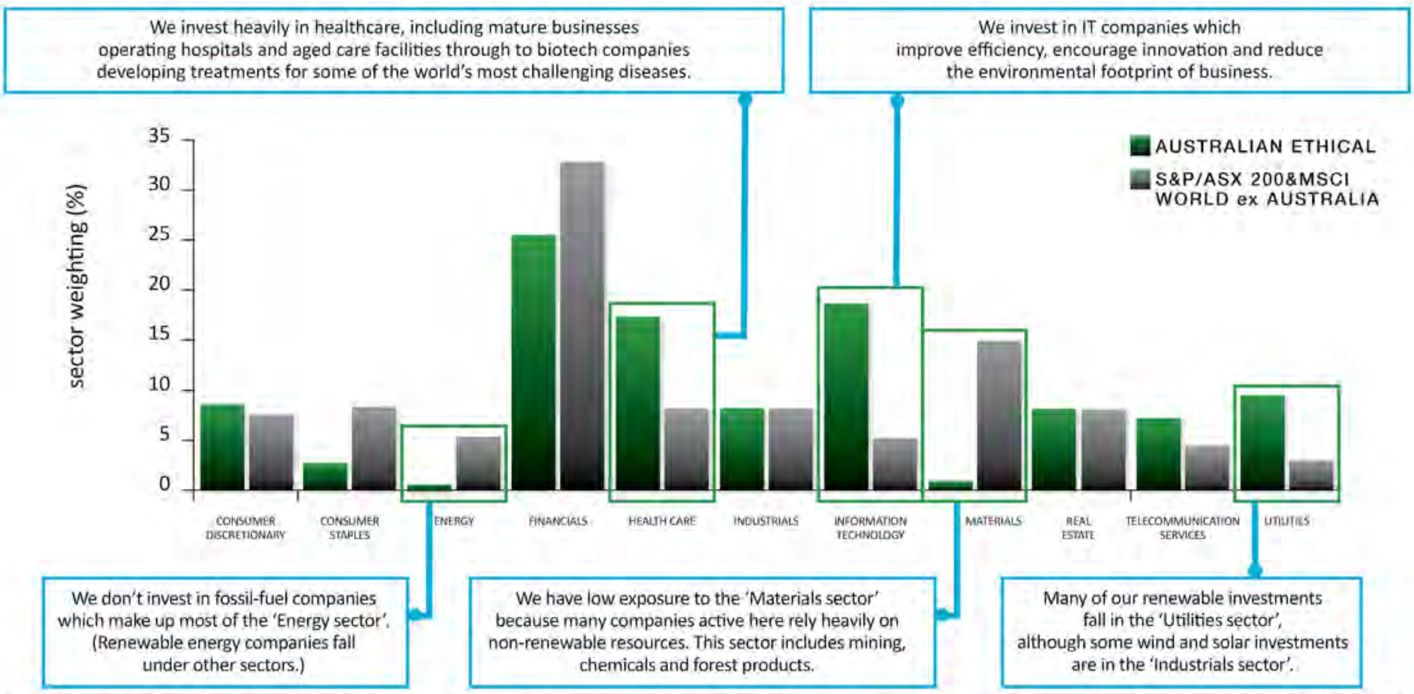
OUR INVESTMENTS BY COUNTRY

OUR INVESTMENTS BY SECTOR



OUR SECTOR ALLOCATION

Our Ethical Charter steers us into parts of the economy that are more positive and sustainable, and away from ones which are less so. This is clearly visible in in the chart below which shows the allocation of our share investments (in green) to different industry sectors compared with the share market as a whole (grey).



As at 31 December 2016. The industry sectors are classified according to the Global Industry Classification Standard (GICS) used broadly in the global investment community. * The overall sharemarket is a blend of the S&P ASX 200 Index (for Australian share holdings) and the MSCI World ex Australia Index (for international share holdings). **'Consumer Discretionary (includes clothing, cars, consumer electronics, retailers and media)'

Towards net zero

The transition to a lower-carbon economy has begun, and we're driving change in three ways: our investment choices; our advocacy on climate action and policy; and reducing and offsetting our own operational emissions. We recognise that climate change presents a specific series of risks for investors, super fund members and shareholders. The economy's reliance on energy from fossil fuels can't continue. Reductions in carbon emissions require a fundamental change in the energy mix that underpins business and investment activity and we all have a responsibility to act.

CLIMATE RISK

Climate change tops the list of current threats facing people, animals and the environment. It is already causing harm through more extreme weather, sea level rise and species extinction. Most tragically, governments, business and individuals have the power to reduce warming, but many are not exercising that power.

Global warming affects our investments in many ways.

Physical impacts like sea level rise and extreme weather are already changing where and how buildings and infrastructure can be safely built. Changes in temperature and rainfall affect the productivity and viability of different types of agriculture.

Government climate policy can radically alter the prospects of different technologies. A price on carbon and higher clean air standards will favour renewables over fossil fuels. Tougher emissions restrictions on new vehicles will help hybrid and electric over conventional vehicles.

Beyond technology-specific impacts, there are flow-on effects across the economy from potential broader changes like the growing availability of cheap and portable clean energy, if we commit to strong climate action. But if we are slow to act, growing inequality and the displacement of people from areas hardest hit by climate change will cause widespread social and economic disruption.

Climate change is ever-present in the way we apply our Ethical Charter, including in the work of our Ethical Advisory Group (EAG) and Board in overseeing the way our investment process takes account of impacts on the planet, people and animals. The EAG consists of our CEO, Chief Investment Officer and Head of Ethics Research, and its work is reported quarterly to the Board for input from directors.

The following pages show how climate change effects our investing in many ways, including exclusion of fossil fuel companies, investment in companies supporting renewable energy and energy efficiency, management of climate risk by the companies we invest in, and our advocacy for climate action by companies and governments.

OUR CARBON FOOTPRINT

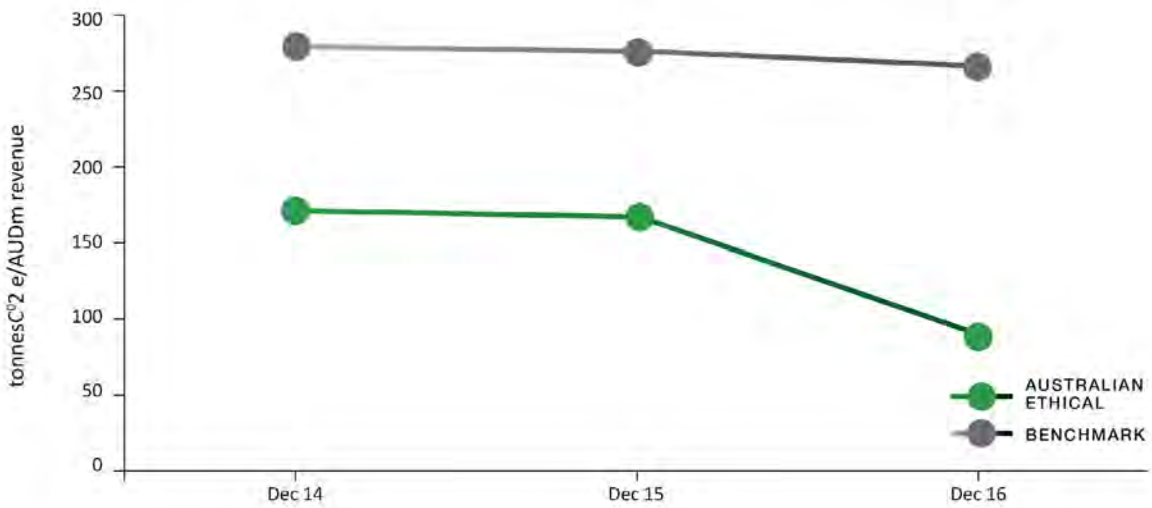
We've set a zero-emissions target for our investment portfolio by 2050. This target has been set in line with the recommendations of the Australian Climate Change Authority, but we are working hard to move more quickly.

The carbon footprint of our investments is one way to track our progress towards zero emissions. We have again used Trucost to assess the carbon footprint of our share investments. In 2016 our share investments were assessed as having a third (34%) of the carbon footprint of the Benchmark*.

Our carbon footprint is less intensive than the Benchmark because we: exclude companies for their exposure to coal, oil and gas; actively select low carbon companies; have lower exposure to carbon intensive sectors such as resources; and finally have higher investment in low-carbon sectors such as healthcare and IT.

This significant reduction in carbon over 2016 can primarily be attributed to our lower investment in utilities and industrial companies and more investment in the lower emissions financial services sector.

Contact, Covanta and Spark Infrastructure are the heaviest contributors to our carbon footprint. Despite their significant operational emissions, the activities of these companies are aligned with the transition to zero emissions, including their generation and transmission of renewable energy.



*Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian share holdings) and MSCI World ex Australia Index (for international share holdings). Assured by KPMG.

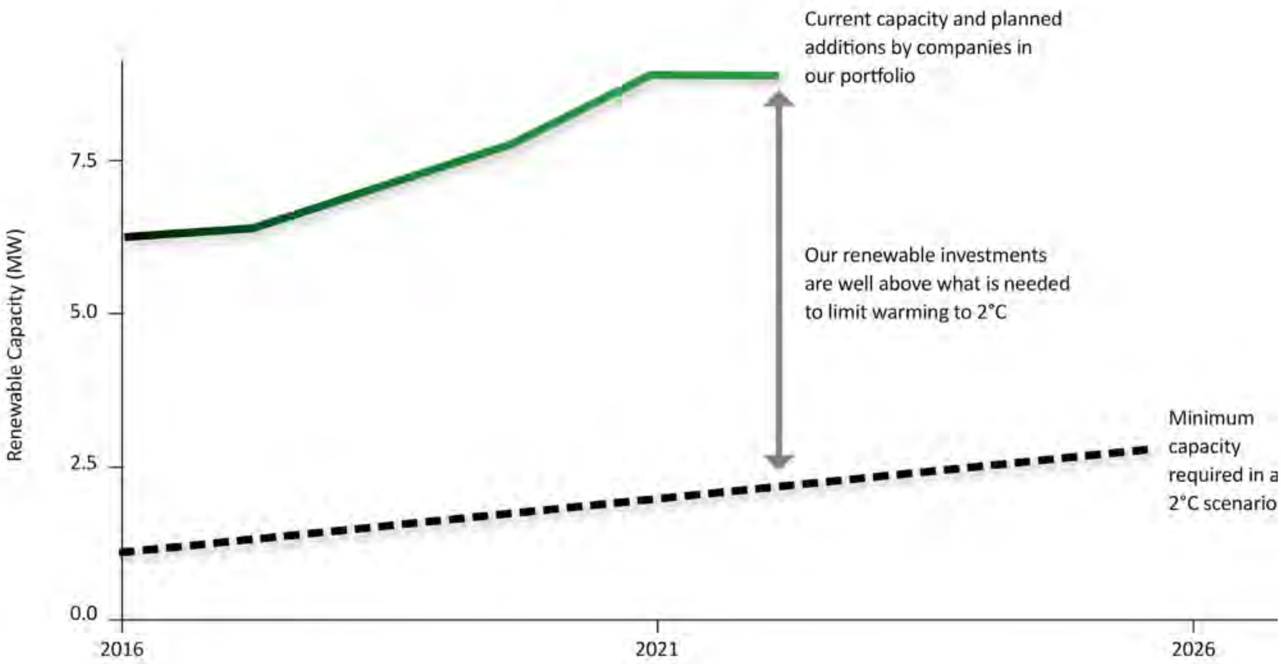
Data has been provided by Trucost, an independent company that provides analysis of carbon and other environmental impacts of companies and portfolios. The footprint includes direct company emissions and some indirect emissions. See trucost.com/glossary-of-terms/ for more information.

Current carbon footprinting methods don't do a good job of including emissions produced, or emissions saved, from use of a company's products by customers. This means that the carbon footprint of a company can misrepresent the company's positive and negative climate impacts. For example, the footprint of a coal mining company generally doesn't include the emissions from the burning of its coal by its customers. And the footprint of a company manufacturing wind turbines doesn't generally include the emissions savings enjoyed by its customers and the planet from generation of zero emissions electricity. We take these limitations of foot-printing into account when we interpret footprint data for individual investments and our broader portfolio.

Making it happen

OUR INVESTMENT IN RENEWABLES IS HELPING TO MAKE THE SHIFT

The European 2° Investing Initiative ('2ii') analysed our investment in power generation to assess whether it is aligned with the massive shift to renewables that is needed to limit warming to 2°Celsius (2°C). The following graph shows how our investment in renewables is streets ahead of what is required.



Source: 2ii, based on Global Data and IEA

Photo credit: Trent Blackmore from AR2

WE OFFSET 100% OF OUR EMISSIONS

In FY17 we had 41.5 tonnes of scope 1 & 2 emissions (direct emissions from our operations and the generation of electricity used in those operations). Our scope 3 emissions from travel were 36.5 tonnes. We offset 100% of all these emissions. This year we purchased premium offsets from the Kariba REDD+ project which teaches farmers to sustainably increase their productivity, which in turn prevents further land clearing.

EMISSIONS FROM DIRECT OPERATIONS AND GENERATION OF ELECTRICITY USED IN THOSE OPERATIONS

41.5

tonnes

EMISSIONS FROM TRAVEL

36.5

tonnes

On a daily level in our own company, all of our kitchen rubbish is segmented into green waste, recyclables and paper products. Even our coffee pods are collected by the relevant provider for recycling. We also have employee initiatives where old clothes are collected for organisations like Dressed for Success, which helps vulnerable women get back into the workforce.

When renovating our office space we paid particular attention to how the previous furniture and materials could be reused. We took solid timber legs from our old boardroom tables and made them into new tables with a durable top. We chose to keep the existing light fittings and ceiling tiles from the old office because there were no re-use options available for these items. Lastly, furniture we could not find any room for, we donated to the not for profit organisation, Fighting Chance.

Our Ethical Charter in action

Making change is not easy. Our Ethical Charter encourages us to grapple with complex problems and far-reaching consequences and to examine issues on their merits from many angles. Our Charter is the compass we use to navigate through the ethical complexities of our investment and business decisions.

Our assessment of a possible investment against the Ethical Charter is neither one-dimensional nor static. If on balance, we believe a business is beneficial for the long-term benefit of the planet, people or animals, and it passes our analysis for portfolio inclusion, then we will make the investment and apply our influence to help achieve that goal. On the other hand, if an investment is initially assessed as aligned with our Ethical Charter, but over time makes a change that moves them out of alignment, we will attempt to influence them back to the right path, or divest.

Photo credit: Trent Blackmore from AR2

SALMON FARMING

We have for many years believed that sustainably farmed fish as a form of protein is lower impact than many other options. Fish farming has the potential to reduce over-fishing of wild fish stocks, and we invested in salmon farming businesses Tassal and New Zealand King Salmon. But while the wild fish component of salmon feed (typically anchovies) has reduced substantially with the introduction of plant and other feed components, this trend has slowed and in some cases reversed. The sustainability of wild anchovy fisheries is a concern, with growing demand for fishmeal feed and fish oil diverting anchovies from their use as a direct source of protein. Salmon farming also has the potential to cause significant local environmental harm if not managed sustainably. These considerations led us to divest from salmon farming in 2017.

THE BANKS

Australian Ethical invests in both small and large banks, provided they are assessed to be aligned with our Ethical Charter. We believe responsible and well-regulated banks actually do provide positive benefits. They make loans to individuals to help them pursue their goals, and fund commercial activity which meets individual and societal needs. They help individuals and organisations save, invest and manage risk; all important needs when building a sustainable future.

Of the big four, we currently invest in Westpac and National Australia Bank (NAB). We believe they are aligning their lending activities with the economic transition needed to limit warming to 2°C. Assessing this alignment is complicated because of the scale and diversity of lending by such large institutions. We use a climate scorecard which assesses:

- bank lending to the fossil fuel sector, including lending restrictions and the type of fuel and its emissions intensity
- bank lending to renewable energy and energy storage
- bank lending to technologies and activities which reduce energy usage or store carbon (e.g. green buildings, low-emissions transport and reforestation).

We also look at the way banks facilitate financing by others, for example by arranging the issue of green bonds. For each of these categories we look at the bank's current lending, historical trends and lending targets. There are also 'no go projects'. We won't invest in any bank which lends to an Adani Carmichael coal mine. Internationally we won't invest in any bank which lends to a Keystone XL pipeline transporting oil from the tar sands of Canada.

We also consider the banks' support for government climate policy aligned with the 2°C transition – both directly and indirectly through participation in industry associations.

INVEST AND PROTEST FOR A BETTER FUTURE

As we invest selectively in banks, we also pressure them to do better. At Westpac's last AGM in 2017, Australian Ethical asked the Chairman to rule out support for the proposed Adani Carmichael mine in order to clearly and publicly demonstrate the integrity of the bank's climate commitments. Pleasingly, Westpac's latest climate action plan does now rule out lending to Carmichael. In the plan Westpac also imposed other fossil fuel lending restrictions and set significant targets for lending to climate change solutions ($10 billion by 2020 and $25 billion by 2030).

STANDING UP FOR WHAT WE BELIEVE IN

We view active shareholder ownership and advocacy as the responsibility of ethical investors and key to creating positive, sustainable change. The growing collaboration between like-minded groups on key issues will have a dramatic impact on future corporate behaviour and performance in Australia and around the world.

Through our advocacy work we want to influence how climate change risks and opportunities are managed. This is why we are constantly engaging with the government and private sector.

THE FOOD CHAIN

In 2017 our advocacy efforts included two related food issues: the need to diversify human protein sources away from animal-based to more plant-based protein, and the reduction of antibiotic usage in agriculture.

The intensive farming of animals for protein often involves serious mistreatment of the animals. Animal protein production is much more emissions (and water) intensive, as well as having wide ranging other negative environmental and animal impacts. Animals that are bred in close proximity are given more antibiotics as bacteria flourish in a 'sweatshop' environment. Overuse of antibiotics in the food chain leads to antibiotic resistant bugs which have significant health implications for both humans and animals.

FINANCIAL WELL-BEING

We believe in the need for greater financial inclusion. In 2017 we joined the Financial Inclusion Action Plan (FIAP) program to help the enabling power of money advance well-being and resilience across the whole of society. A cross-functional working group with Australia Ethical employee representatives from investments, finance, customer services, marketing, product operations, ethics research and human resources collaborated to design our own Financial Inclusion Action Plan. The plan will kick off in FY18 and is wide-reaching, with beneficial impacts for customers, employees, suppliers and the community.

OTHER 2017 ADVOCACY INITIATIVES

- We made a submission to the international **Task Force on Climate-related Financial Disclosures (TCFD)**. We think the TCFD's recommendations will provide a powerful incentive for companies to better manage and disclose their climate action.
- We were signatories to a joint investor letter calling on the G20 governments to **end fossil fuel subsidies by 2020**. It's crazy that these subsidies exist at all, so we need firm commitments from governments to eliminate them as soon as possible.
- We made a submission to the Senate Committee Inquiry into Carbon Risk Disclosure. The submission highlighted the shortfall between the amount of capital being invested in renewables and the amount needed to limit global warming.
- As part of the **Investor Group on Climate Change (IGCC)** we helped develop a new guide to support the way investors manage and disclose climate impacts.
- We made a submission to the public hearing on potential **modern slavery legislation**. We believe there are clear ethical imperatives to eliminate slavery, but also strong economic and investment reasons. Innovation flourishes and societies and economies prosper when individuals are free to choose their work and to enjoy the benefits. The presence of forced labour in the operations and supply chains or any business or industry is unsustainable. It risks disruption of production, prosecutions, financial penalties, regulatory action by local and foreign governments, and severe damage to brand and relationships with customers and other stakeholders.

ADVOCACY HOLDINGS

All our investments are assessed for alignment with our Ethical Charter. But we can acquire nominal holdings in non-aligned companies for the purpose of advocating for change. So, for example, we acquired five shares in Shell (worth about A$100) so that we could support a shareholder resolution for climate action by that company. Our company constitution allows us to hold shares in any company in order to further the aims of our Ethical Charter.

Though Australian Ethical doesn't invest in fossil fuel companies, we still look for opportunities to influence them. In May 2017, we supported a shareholder resolution asking oil and gas producer Santos to explain how they are addressing climate risk in their business. We did this by holding a small number of Santos shares in our Advocacy Fund which allowed us to vote at the company's annual general meeting (AGM). We are concerned that Santos has said on one hand that it will "align business strategy with the Paris Climate Change Agreement", but their Chairman has said they "adopt a 4^{o}C pathway" when making investment decisions (Santos Chairman speaking at the AGM). Investors need clarity.

We currently have fewer than 10 of these nominal 'advocacy holdings', representing less than 0.0001% of our overall investments.

Our sustainable impact more than double

One measure of the impact of companies is the annual revenue they earn from products and services which are helping to meet the Sustainable Development Goals (SDGs). The SDGs identify seventeen things which governments, business and civil society need to deliver to build a just and sustainable future, things like climate action, reducing inequality and responsible consumption and production.

In the table below we estimate the value of selected ‘sustainable impact’ products and services produced annually by Australian and international companies that we invest in. This estimates our total sustainable impact to be 2.2 times the sustainable impact of an equivalent investment in the overall sharemarket[1].

Australian Ethical investments in sustainable impact								
	Social impact solutions including			*Environmental impact solutions including*				
	Major disease treatment	**Sanitation**	**Education**	**Alternative energy**	**Energy efficiency**	**Green building**	**Sustainable water**	**Pollution prevention**
Sustainable impact revenue / value per $1 million invested	$4,031	$2,905	$2,260	$12,683	$14,208	$12,021	$2,984	$1,787
Investment examples	Resmed Inc CSL Limited Qiagen N.V.	Essity Toto Ltd	Pearson Plc Seek Limited	Contact Energy Mercury NZ Meridian Energy Vestas Wind	East Japan Railway Intel Corp Fujitsu Limited Tesla	Mirvac Lend Lease	Xylem Inc. United Utilities Group Plc Veolia Environment	LKQ Corporation NGK Insulators
Positive product and service examples	Antibiotics Vaccines Treatments of hepatitis and breathing disorders	Baby care, feminine care, wound care and other hygiene products	Digital learning tools for teachers, learners and researchers	Wind, geothermal, solar and hydro electricity	Low emissions transport Technologies for more efficient power use	Certified green buildings	Water supply, treatment and recycling	Waste treatment and recycling Purification of auto exhaust gas
Contributing to Sustainable Development Goals	3 Good health and well-being	6 Clean water and sanitation	4 Quality education	7 Affordable and clean energy 12 Responsible consumption and production 13 Climate action			6 Clean water and sanitation 14 Life below water 15 Life on land	

[1] The revenue estimates in the table are for selected positive products and services which are produced by Australian and international companies whose shares we invest in and that have been analysed by global research firm MSCI ESG Research LLC for their ‘sustainable impact’. MSCI ESG Research have done this analysis for 58% of our share investments (by value). We assume that the $1 million is invested in listed shares of these companies only. We do not take account of our other investments such as fixed income, unlisted investments or our investments in companies which are not analysed by MSCI ESG Research for sustainable impact (such our investments in private equity and smaller IT and healthcare companies, many of which will also have sustainable impact). Since they only look at selected products and services, MSCI ESG Research’s analysis of revenue from sustainable impact does not take account of all positive contributions that companies make to the SDGs. They also do not take account of the negative impacts of the way companies deliver their product and services – for example, if a company overcharges, advertises in a misleading way or mistreats its workers. However, our negative screening aims to eliminate such investments from our portfolio. The MSCI ESG Research calculation methodology makes many assumptions, further information is available here: msci.com/esg-sustainable-impact-metrics.

Using the MSCI ESG Research analysis we estimate our total sustainable impact to be 2.2 times the sustainable impact of investment of the same amount in the overall sharemarket. This estimate is based only on investment in shares in companies which MSCI ESG Research analyse for sustainable impact. The overall sharemarket is a blend of the S&P ASX 200 Index (for Australian share holdings) and the MSCI World ex Australia Index (for international share holdings).

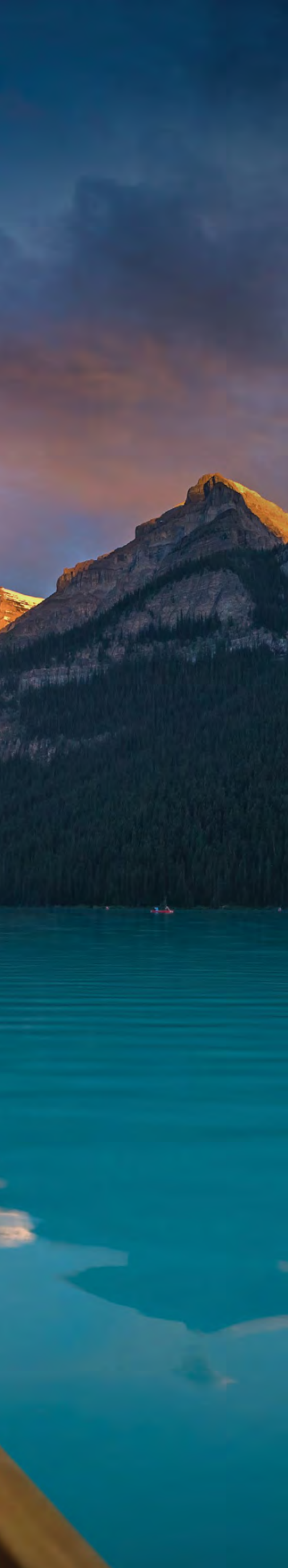
The above analysis is based on our share investments as at 31 December 2016. Although we have used company research data provided by MSCI ESG Research, MSCI ESG Research is not responsible for the way in which we have used that data to calculate the above amounts. MSCI ESG Research accept no liability for any errors in their data or for our reporting and use of their data.

Leading the change

As well as influencing change by choosing who we will or won't invest in, we take a keen interest in educating others and collaborating with like-minded groups.

We were foundation members of B Corp in Australia. We maintain our ranking as 'Best in the World' and we're the first Australian Securities Exchange-listed B Corp and the first super and investments B Corp in Australia. We are founding members of Responsible Investment Association Australasia (RIAA) and represent at both the board and committee level. We also take active roles in the Future Business Council, Investor Group on Climate Change, United Nations Principles for Responsible Investment, Sustainable Business Australia and the Financial Services Council.

In all of these forums we focus on the imperative for investors to consider environmental and social impacts of their investments and to disclose these in a transparent and consistent manner. Getting this right is a complex and critical task for all investors, and one that we are determined to champion.



Awards, ratings and certifications

Category	Award	What it means
Ethical Business	B Corp certification by B Lab AEI recognised as one of the 2017 Best for the World companies by B Lab.	B Corps are a diverse community with one unifying goal: to redefine success in business. B Corp certification is to sustainable business what Fair Trade certification is to the food and drink industry. Certification shows that across our business we meet rigorous standards of social and environmental performance, accountability, employee engagement and transparency.
Ethical Investment	Responsible Investment Association of Australasia: Certified Ethical Investment United Nations Principles for Responsible Investment: Responsible Investment Scores A+ & A Morningstar: 5 Globes (top Sustainability Rating) for Australian Shares Fund.	Certifications and high ratings for our ethical funds and investment approach show our leadership in advancing growth and best practice in responsible investment.
Transparency, accountability and advocacy	2° Invest award on Investor Climate Related Disclosures (for our disclosure about our alignment with our climate goals including in our 2016 Annual & Sustainability Report) RI (Responsible-Investor) 2016 Reporting Award for Best RI Report by an Asset Manager (for 2015 Sustainability Report).	Recognition of our reporting shows that: • our transparency helps to enable conscious investment choices by investors • we are accountable for our ethical investment performance • we exercise a strong public voice advocating for ethical business and investment.

*The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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Reporting what matters most

BEING TRUE TO OURSELVES, OUR CLIENTS, OUR SHAREHOLDERS

In 2017, we again asked our customers, our employees, our shareholders, and other key stakeholders what was of most importance to them and to our financial, economic, environmental and social performance. From this we sourced a wide variety of sustainability topics.

We also conducted a formal materiality assessment with our senior management team at our annual business strategy day, asking for their views on sustainability within the business and sustainability within a broader world view. Sustainability topics were brainstormed and ranked, the outcomes of which are shown in the materiality matrix. The corresponding GRI 'Aspects' (or topics) were mapped against the assessment outcomes, leading to the sustainability story we are sharing with you in this report. The topics below were those in the highest quartile when mapped against 'Importance to stakeholders' and 'Importance to Australian Ethical's financial, economic, environmental and social performance'. The full materiality matrix and topics identified can be found at www.australianethical.com.au/wp-content/uploads/2017/09/GRI-Content-Index-FINAL.pdf

There are 4 main stakeholder groups we need to keep happy for continued success:

- Customers
- Shareholders
- Employees
- Intermediaries (employers, advisers, ratings agencies, asset consultants)

Numbers are in order of priority. For example, number 1 priority for customers is 'ethical business practices'.

SUCCESS MATRIX

Our people

Our people truly are our most valuable assets and our culture is of great importance to us. Through our people we serve our clients, generate long term value for our shareholders and put good money to work.

On the back of our unprecedented year-on-year growth, we saw the need to review our organisational structure. We made it a priority to build our internal capability and capacity to deliver our strategy of $5 billion in FUM by 2020 in a sustainable way. In FY17 we saw a lot of change in our organisation, with the team growing from 35 to 49 employees. This was a deliberate strategy to build our bench-strength and talent pool in key areas, particularly in the areas of finance and operations, risk, marketing and client services. We also strengthened and scaled our senior leadership capabilities with the addition of a Chief Operating Officer, Chief Risk Officer, Chief Customer Officer, and Head of Strategy & Execution. Other new senior roles include a Head of Finance, Head of Product Finance & Administration, and Head of Client Relationships. For the remainder of 2017, one of our strategic initiatives will be to embed the necessary cultural change needed as a result of our growth, encompassing a risk accountability focus and a refresh of our values to incorporate values-based behaviour measures.

To accommodate our growth plans, we doubled our office space taking over the whole floor of our Pitt Street, Sydney premises. We used this opportunity to redesign our working environment so it more closely reflects our social and environmental values, building a highly collaborative, inspiring and productive place to work.

The new environment is very welcoming, full of light and features innovative repurposed furniture, recycled materials and 100% of the bamboo desks are sit-to-stand for greater employee wellbeing benefits. There are more than 220 plants featured in overhead planters and the stunning centre-piece is a living green wall. We take great pleasure in showcasing our new office to visitors as it is an embodiment of what we proudly stand for.

Sustainability was the leading driver in the new office fit-out.

We take the approach that every single employee has an impact on our company culture, and that to truly do well by our clients, our culture has to be great inside and out.

OUR ETHOS

It is core to Australian Ethical's ethos to promote human happiness and dignity and avoid discrimination in all its forms. We believe that a culturally diversified workplace that reflects society as a whole brings a broad perspective to better service our clients. Diversity of ideas and perspectives leads to better outcomes and we encourage an environment where all perspectives are welcomed and can be robustly debated.

Our approach goes beyond the mere avoidance of discrimination but a proactive approach to inclusiveness and addressing structural inequities in the marketplace that prevent our workforce from reflecting society as a whole. We strive to ensure:

i) No discriminatory practices exist in the organisation regarding compensation and opportunity

ii) A shift in the makeup of the workforce through our recruitment practices

iii) That parenting is not an impediment to career through our support for carers and flexible work practices

iv) Behaviour change is encouraged in the companies in which we invest

v) Debate and solutions are encouraged through our involvement in industry forums

To ensure we truly reflect the community we work in, and benefit from the full range ideas, thinking styles and approaches to work, we strive to achieve diversity with our employees on a number of dimensions. As we hired people throughout 2017 we were able to address a number of diversity areas including gender, age and ethnicity in our employee population.

Our progress against our gender target is

Category	FY17 (Actual)	FY18 (Target)
Board	40%	40%
Senior Management Team	37%	40%
Employees	48%	50%

Total number of employees by employment contract and gender

	M	F
Permanent	24	17
Perm P/T	1	5
Fixed term	1	1

Employees by employment type

	M	F
Professional	19	19
Management	6	3
Support	1	1

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

	2014-15	2015-16	2016-17
Management	N/A	N/A	0.60:1
Professional	0.78:1	0.76:1	0.69:1
Support	1.34:1	2.23:1	1.26:1

	2014-15	2015-16	2016-17
Management	N/A	N/A	N/A
Professional	78%	76%	69%
Support	134%	223%	126%
Total	59%	69%	75%

Female-male average salary ratio

	F	M	F:M Ratio	Pay Gap Ratio
Avg Salary - Total	113,381	155,377	73%	27%

Volunteering at the Wayside Chapel May 2017

DIVERSITY OF ETHNICITY

We have recently included an ethnicity dimension to our diversity policy. Though only recently codified, new recruits in 2017 hail from a variety of cultural backgrounds including Sri Lanka, South Africa, Vietnam, Taiwan, Scotland and Columbia resulting in a total workforce where 51% of employees were born outside of Australia. Our employees possess conversation competencies in a number of languages including English, French, Spanish, Afrikaans, Sinhalese, Swedish, Vietnamese, Punjabi, Hindi, Telugu, Italian, Mandarin and Croatian.

Employees born in Australia	49%
Other (Sri Lanka, New Zealand, Sweden, South Africa, Vietnam, India, Columbia, England, Scotland, Wales, Ireland, Canada, Taiwan, Croatia)	51%

VALUES ALIGNMENT

Our employees will tell you it feels good to live your purpose and values every day through your work. At Australian Ethical, every dollar invested, every customer touch-point, every business decision and every team interaction is designed to grow and communicate the power of good money. This alignment means our employees are motivated by an alignment of their personal beliefs to be empowered and productive. 91%* of our employees agree that they value working for a socially and environmentally responsible organisation.

Every employee has two paid volunteering days a year. This year we helped out at the Wayside Chapel, Animal Welfare League and OzHarvest. The whole AEI team had a fantastic day at the Big Kitchen in Bondi where we had a chance to team-build with a purpose: get to know each other better while helping to prepare food for some of the most marginalised people in our community.

Our employees participate in the Community Grants program where they have the opportunity to vote for the winners. In 2017 we held a clothes drive for Dressed for Success and Dress for Work where we donated 15kg of clothes to provide professional attire for interviews as well as a network of support and the career development tools to help women thrive in work. We ran a Cancer Council Morning Tea raising funds for research, support services and prevention programs that will one day eliminate the devastation that a cancer diagnosis can bring. To connect with the vulnerable in our society, we donated 10 care packs to a charity which provides support for those who are disadvantaged and cannot afford the basics.

We also ran an employee incentive trip in 2016, where one of our employees travelled to Borneo to see the impact of our Community Grants program funding on the Orangutan project. A photo of an orangutan encountered on this trip is featured on page 37.

LONG-TERM SUSTAINABILITY

Our employees share in the success of our business as each is a shareholder. Each is entitled to a Short Term Incentive (STI) payment based on their individual performance, and after passing a three-year retention hurdle, and the requisite earnings per share hurdle has been achieved, a Long Term Incentive is paid. During the three years the shares are held in an Employee Share Trust, employees receive dividends and are entitled to vote on company resolutions.

PERFORMANCE MANAGEMENT

Each year, we translate our business strategy into critical success factors that are cascaded to our employees. Informal feedback on their performance and action towards these goals is provided throughout the year. This is supplemented by a more formal biannual performance and career development discussion which encourages learning and development.

HEALTH AND WELLBEING

We want to help our employees balance their professional and personal life. We facilitate flexible working arrangements; provide $2,000 per employee for training opportunities, 18 weeks paid parental leave for primary carers, two week's paid parental leave for secondary carers and we pay superannuation contributions while an employee is on parental leave for up to 12 months.

Health and wellness can be many things to many people, and individuals will always have a preference over what works for them. For us, wellness is an everyday focus and as part of our vibrant office environment we aim to provide a range of benefits including healthy, organic food in our kitchen, we hold meditation, yoga and Pilates classes in the office, and have a table tennis table which lifts the heart-rate and encourages much inter-team friendly rivalry.

This year we ran a 'Happy Bodies at Work Program' to encourage people to embrace the new workspaces, think about their wellbeing, move more and sit less and hopefully stress less and sleep better. One hundred per cent of participants thought the strategies they learnt were beneficial: 89% felt the program showed we care about the challenges faced by employees at work and at home; 95% were sitting less and moving more.

We encourage our workplace parents to bring their kids to work a number of times a year. These days are fun-filled for the kids and allows them to see what their parents do, get to know their teams, understand where they go every day, why they spend time at work and the benefits of their contribution to the workplace.

ENGAGING OUR EMPLOYEES

Our annual employee survey* is one of our key indicators of employee engagement. In FY17, the business experienced a very high volume of growth with 27 new starters including fixed-term contractors during the year. The employee participation rate in the survey was 80% and our engagement score was 55%, which is just below the Australia and New Zealand Average of 58%. This is a decline from our top quartile placement for the previous three years which proved difficult to sustain during such high volumes of change and growth.

Management is focused on stabilising the change and addressing the concerns raised in the survey. We know from the survey results that our focus areas for the next year will be in the areas of improving leadership, communication, career opportunities, change management and work/life balance.

*AEI Employee Engagement Survey 2017, AON Hewitt Best Employers, Australia and New Zealand

Our clients

We love our clients. Like us, they really want to use the power of good money to make the world a better place. They tell us "I choose Australian Ethical because they have a conscience and so do I"; "Good performance and good for the heart!; I think this is a powerful way to put your money where your mouth is"; "Australian Ethical offers peace of mind and financial gain! They are doing very well financially and rest assured your money is doing good."[1]

We measure our clients' satisfaction through phone-based and Net Promoter Score (NPS) surveys. Our NPS at +55[2] is a remarkable achievement for a financial services organisation.

WOW THE CUSTOMER

In 2017 we spent a lot of time speaking to our super fund members to understand in detail their experience with us. What they like, their pain points and opportunities for us to do better. We did this through one-on-one phone interviews and online satisfactions surveys. We captured all of this feedback and used it develop a new programme called 'Wow the customer'. We will be rolling this out over the next 12 months and will also extend this work to our managed fund clients in 2018.

As part of the program we will move to a new super fund administrator Mercer Outsourcing Australia (Mercer) in December 2017. Mercer offers an integrated digital environment which will further enable our member engagement strategy.

GROWTH

We believe our thriving digital community coupled with our unique proven, ethical investment product suite is the secret to our unprecedented year-on-year growth. In an industry where funds are fighting to retain member numbers, this trajectory is really significant.

As highlighted earlier in this report, KPMG's Super Insights Report cited Australian Ethical Super as the fastest growing Superfund in Australia in 2016.

BRAND EVOLUTION

This report is one of the first artefacts to feature our new evolved brand. Over the next several months we will roll out this new identity and positioning across our website and all other collateral.

DIGITAL SAVVY

We have a passionate online social community. Unlike other super funds and managed funds providers, our customers and even the community around us is engaged and passionate about what we do. They tell us when we get things right and are also quick to challenge us if they don't agree.

We have almost 110,000 followers on social media, around double that of the next highest competitor. Our followers are vocal and also active, encouraging us and also challenging us on our positions across a multitude of ethical issues. They share our social media posts and even our advertising (one of our online ads was shared over 2,000 times).

In FY17 we gave our active Facebook community an opportunity to contribute to shaping our climate change policy submission to the government. The online poll reached 1,600 people on Facebook with a remarkable 440 people signing the petition.

We also launched the Orangutan Odyssey Expedition competition inviting our community to win a trip to Borneo to visit the orangutans. We were overwhelmed by the response from our community.

Super members 2013-2017

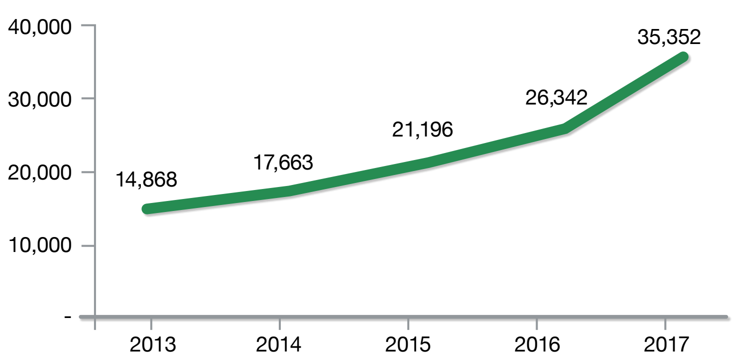

Photo taken by AEI employee Jacqueline Lapensee, Borneo 2016

RELATIONSHIP BUILDING

In 2017 we also scaled our service offering to manage our growth trajectory. We have built out our client relationship team to better support our growing adviser and employer community and to develop important industry relationships with platforms, rating agencies and institutions.

Shareholders

Our shareholders continue to enjoy sustained performance with our share price increasing from $81.11 at the end of FY16 to $94.60 on 30 June 2017. In FY17 our total shareholder return was 19%. This was achieved despite the significant costs of the unit pricing error.

"I love supporting ethical companies who give support to such great causes... Whoever wins the competition I really hope they also promote awareness for these beautiful creatures."

[1] Source: Prodcut Review
[2] Pollinate Research February 2017

Photo credit: Bio R

Our community

THE AUSTRALIAN ETHICAL FOUNDATION

For the last 17 years Australian Ethical has donated 10% of its prior year's profits* for charitable, benevolent or conservation purposes. Since 2000, we have paid more than $2.2m in grants to not for profit organisations who do good for the planet, people and animals.

In FY17 the Foundation distributed $280,000 in community grants to 18 organisations. Over 450 applications were received and the winners were voted on by the Australian Ethical community including members, employees and the general public (through our active social media community). We also expanded the reach of this program by creating a media kit for all finalists to share with their own social media communities.

*before deducting bonus and grant expense

THE 2017 WINNERS ARE LISTED BELOW AND ALSO SHOWCASED ON OUR WEBSITE

ANIMALS

Free The Bears Fund Inc.
Rescues and protects orphaned Moon and Sun bears from the cruel bear bile trade throughout Laos

Australian Wildlife Assistance, Rescue & Education (A.W.A.R.E.)
Australian Wildlife Assistance, Rescue and Education (A.W.A.R.E) provides bush fire rescue and ongoing care for thousands of injured and orphaned native wildlife.

Wildlife Asia
The Community Grant will help fund a Rhino Protection Unit to ensure the safety of the critically endangered Sumatran Rhino.

Wildlife Victoria
Fund the training of new volunteers to safely and successfully rescue Australian native wildlife

Friends of the Koala Inc
Friends of the Koala is committed to saving koalas and their habitat in the Northern Rivers region of New South Wales to make a key contribution to Australia's biodiversity.

BioR
The Community Grant will help fund the reconstruction of habitats and bio-diversity breeding sites for native Australian wildlife

PEOPLE

Enterprise Learning Projects
Support Enterprise Learning Projects fund, grow and develop Minyerri's 'Gulbarn Bush Tea' business.

Free To Feed
Free To Feed provides real jobs to refugee chefs/cooks through its hands-on cooking classes, spice trade and events, as well as an opportunity for local Australians to hear their stories and learn to cook authentic and exotic food.

One Girl Australia
The Community Grant will help fund business and health education programs to empower vulnerable women across Uganda.

Asylum Seeker Resource Centre (ASRC)
The ASRC works to ensure those seeking asylum in Australia have their human rights upheld and receive the support and opportunities they need to live independently.

Orange Sky Laundry
Orange Sky's mission is to positively connect communities and transition people out of homelessness. It starts by restoring dignity with clean clothes and conversation and it continues with providing people with employment opportunities.

Earbus Foundation
The Earbus Foundation is working to see current and future generations of Indigenous children succeed at school unhindered by the debilitating effects of middle ear diseases such as Otitis media and its impacts upon their ability to learn and achieve their full potential.

PLANET

Food Ladder
Food Ladder is an award winning not-for-profit organisation that creates social enterprises to address food security in remote communities in Australia.

The Wilderness Society (South Australia)
The Wilderness Society works to protect, promote and restore wilderness and natural processes across Australia for the survival of life on Earth. This grant will fund a campaign to stop big oil companies turning the seas of the Great Australian Bight into oil fields

Australian Conservation Foundation
The Community Grant will support a campaign to stop the Adani Coal Mine from operating and help save the Great Barrier Reef

Lock the Gate Alliance Ltd
This project will help fill a critical void in publicly available data on the chemical composition of air and water emissions from CSG mining, and thus providing the basis for better information in the future on the range of health impacts it causes.

Pollinate Energy
Pollinate Energy brings life-changing products to those in India who need them most. The Community Grant from Australian Ethical will help expand Pollinate's product offering and network of pollinators into a new city in India.

Our Board

Non-Executive Director since 2012 and Chair since 2013

BEcon, MBA

Steve chairs the People, Remuneration and Nominations Committee, is a member of the AEI and AES Audit, Compliance and Risk Committees and is Chair of the Australian Ethical Superannuation Pty Limited (AES) and the Australian Ethical Foundation Ltd. Steve has a long history of involvement in the investment and superannuation industries, particularly focused on ethical and responsible investing.

Non-Executive Director since 2013

BEc, FCA, GAICD

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

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 20 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients.

Kate is also a Director and chair of the Audit, Finance and Risk committee of a not-for-profit organisation in the education sector.

Non-Executive Director since 2013

BA

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

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar to Australian Ethical. She also is Chair of the board of the Gold Coast Waterways Authority and a Non-Executive Director of Enova Community Energy, a Byron Bay based social enterprise.

Mara consults to research, business and government agencies; currently she leads Strategy and Development pathways for Food Agility CRC, a ten-year research program enabling digital solutions across Australian food value chains; is a member of Seqwater's statutory 'Water Security Program - Independent Review Panel'; and supports technology road-mapping and big data integration for Simba Global, Australia's largest commercial textile business.

CEO since 2009 and Managing Director since 2010

BEc, MCom, MBA, FCPA, FAICD

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

He is a director of two industry associations; the Responsible Investment Association, and the Investor Group for Climate Change. He is also a director of the not-for-profit environmental group, the Planet Ark Foundation and is Chair of Beyond Zero Emissions, a climate change research organisation.

Phil is a Fellow of the Australian Institute of Company Directors and the Australian Society of Certified Practising Accountants.

Non-Executive Director from 2013 to 30 June 2017

AO, BEc

Tony was a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd. Tony was also a member of the People, Remuneration and Nominations Committee and the AEI and AES Audit, Compliance and Risk Committees. Tony has an extensive background in investment and public service.

Our senior leadership team

Managing Director

BEc, MCom, MBA, FCPA, FAICD

Phil provides overall leadership and strategic direction to the company including acting as a direct liaison between the Board and the senior management team. He was a previous member of Perpetual's Executive Committee. Phil is the chairman of Beyond Zero Emissions and a board member of the Responsible Investment Association, the Investor Group for Climate Change, and Planet Ark.

CFO and COO

FCA, GAICD

Mark oversees a range of corporate services including finance, fund accounting and administration, product operations and information technology infrastructure. Mark was formerly the CFO of Macquarie Group's Banking and Financial Services division.

Chief Investment Officer

BSc, CFA

David is responsible for ensuring the effective management of all investment aspects of the company. David has 19 years' experience in the investment industry with previous roles at Macquarie Securities, Credit Suisse Asset Management, Mellon and Mercer.

Chief Customer Officer

BA, GAICD

Allyson oversees a range of customer-focused activities in the company, including client services, sales, marketing, brand management and communications. She has previously held roles with NAB Wealth (MLC), InvestSmart, Bell Direct, Zurich Financial Services, St. George Wealth and BT Financial Group.

Chief Risk Officer

BSc (Hons), ACA (ICAEW), GAICD

Karen is responsible for the Risk Management Framework at Australian Ethical. Karen has over 25 years' experience in risk and compliance with previous roles at StatePlus, Tyndall, Jardine Fleming and PriceWaterhouse.

General Counsel and Company Secretary

BA, LLB, MBA, FGIA, MAICD

Tom oversees the company's governance including company secretarial and legal functions to ensure that the Group meets its regulatory obligations. Tom has over 25 years legal experience in Australia, Asia and Europe.

Head of Ethics Research

BA, LLB, MLitt, PhD

Stuart evaluates the impacts which companies' products, services and operations have on people, animals and the environment. He also contributes to our voice for more sustainable business and investment models and practices. Stuart has previously worked with St James Ethics Centre and as a banker and lawyer.

Head of People and Culture

MBus (HRM)

Fiona ensures effective delivery of People & Culture initiatives to build an engaging and inspiring workplace aligned with our purpose and values. She has previously held roles with State Street Australia, Commonwealth Bank, and Pioneer Investments in Australia and Europe.

Head of Strategy & Execution

BA (Hons), FCA (ICAEW), GAICD

Rob is responsible for the formulation and implementation of the strategic initiatives in the company. Rob has over 25 years' experience in financial services with KPMG, MLC, NAB and UBank in Australia, Asia and Europe.

Directors' Report

The Directors present their report, together with the financial statements, on the consolidated Group (referred to hereafter as 'the Group') consisting of Australian Ethical Investment Limited (referred to hereafter as the 'Company' or 'Parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are detailed on page 40 of this report.

COMPANY SECRETARY

Tom May BA, LLB, MBA, FGIA, MAICD has experience in superannuation, managed fund 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.

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

The profit for the consolidated group after providing for income tax amounted to $2,924,000 (30 June 2016: $3,186,000).

Underlying profit after tax attributable to shareholders was $4.235m, up 11% compared with the prior corresponding period and revenue increased 23% to $28.3m, up from $23.0m. Funds under management (FUM) for the full year increased by 38% to $2.15 billion, up from $1.55 billion reported for the previous corresponding period. The increase was driven by significant member growth, net inflows and positive investment performance. Membership of Australian Ethical Super grew 34% from the previous corresponding period to 35,352.

The year's results were impacted by remediation and project costs associated with a unit pricing error in our Super Fund as well as employment restructure expenses. In order to minimise the chances of such an error reoccurring we have increased our resources in key operational, risk and compliance roles.

MANAGEMENT ANALYSIS - FINANCIAL PERFORMANCE

	2017 $'000	2016 Restated $'000	% Increase/ (Decrease)
Net profit after tax (NPAT)	2,924	3,186	(8%)
Less: Net profit after tax attribution to The Foundation	(4)	(176)	
Net profit after tax attributable to shareholders	2,920	3,010	(3%)
Adjustments:			
• Impairment on investment property	(228)	181	
• Add back employment restructure expenses	250	-	
• Add back provision for remediation	795	900	
• Add back unit pricing project costs	1,160	-	
• Tax on adjustments	(662)	(270)	
Underlying profit after tax (UPAT)	4,235	3,821	11%
Basic EPS on NPAT (cents per share)	269.98	298.50	
Basic EPS on NPAT attributable to shareholders (cents per share)	269.62	281.97	
Basic EPS on UPAT (cents per share)	391.07	357.92	

DIVIDENDS

Dividends paid during the financial year were as follows:

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 180 cents (2015: 120 cents) per ordinary share	2,009	1,313
Interim dividend for the year ended 30 June 2017 of 50 cents (2016: 120 cents) per ordinary share	558	1,313
	2,567	2,626

Since year end the Directors have declared a final dividend of 210 cents per fully paid ordinary share (2016: 180 cents), fully franked based on tax paid at 30%. The aggregate amount of the declared dividend expected to be paid on 22 September 2017 out of profits for the year ended at 30 June 2017, but not recognised as a liability at year end, is $2,350,013 (2016: $2,009,000).

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

SHARES ISSUED DURING THE YEAR AND PRIOR TO THE ISSUE OF THE REPORT

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

Grant date	Reason	Number of shares issued
Balance as at 30 June 2016		1,094,209
1 September 2016	Issue of deferred shares to the Employee Share Trust as long term incentives	6,240
8 September 2016	Vesting of LTI performance rights (AEFAE)	14,812
14 October 2016	Vesting of deferred shares in the Employee Share Trust	593
Balance as at 30 June 2017		1,115,854
No amounts are unpaid on any of the shares.		

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

3,200 shares will be issued on 7 September 2017 to the Employee Share Trust for employee long term incentives. This amount comprises 12,416 shares for financial year 2017-2018 less 9,216 shares forfeited from prior years.

Other than the dividend declared subsequent to year end and the above matter, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated group's operations, the results of those operations, or the consolidated group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

ENVIRONMENTAL REGULATION

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

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each Director were:

	Full Board		People, Remuneration and Nominations Committee		Audit, Compliance and Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	15	15	5	5	9	9
Kate Greenhill	15	15	5	5	9	9
Mara Bun	14	14	4	4	8	8
Phil Vernon	15	15	5	5	9	9
Tony Cole	15	15	5	5	9	9

INDEMNITY AND INSURANCE OF OFFICERS

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

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and officers of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 31 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 31 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF KPMG

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

ROUNDING OF AMOUNTS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

AUDITOR

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

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

On behalf of the Directors

Phil Vernon
Managing Director and Chief Executive Officer

30 August 2017

Remuneration Report 2017

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for 2017.

The 2017 financial year has been another extraordinary one in terms of growth for the Company. Our funds under management grew 38% and our superannuation fund was the fastest growing superannuation fund in 2016 according to the KPMG Super Insights Report [1]. The foundations that we have laid over the past few years including making our fees more competitive, broadening our marketing capacity and capabilities and strengthening our risk and operations have taken our funds under management beyond $2.0bn and delivered a strong increase in underlying profit after tax and increasing share price for shareholders.

We believe that the introduction of our new remuneration system in 2014 has been a key contributor to that success as it has provided a more direct link between contribution and reward and better alignment with the long term performance of the Company. It is also aligned to the philosophy of the Company that sees our people as key stakeholders in the Company's success.

We will continue to review our remuneration arrangements to ensure they remain effective in attracting and retaining the best talent to drive Australian Ethical forward.

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee (PRNC)
30 August 2017

[1] KPMG Super Insights Report - June 2017 issue

About this report

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. The report has been audited as required by section 308(3C) of the Corporations Act 2001.

Our 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
- attract and retain talented people
- build long term ownership in the Company
- align reward with contribution to the Company's performance
- align shareholder interests and the Company's capacity to pay
- promote the values of the Charter and be aligned with the purpose of the Company
- be motivating for employees
- 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)

- it is designed so as to not "discriminate by way of race, religion or sex in employment, marketing, or advertising practices" - Charter element (x)

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

REMUNERATION FRAMEWORK SUMMARY

Element	Key Driver	Quantum	How Paid	Criteria
Fixed remuneration (FR)	Pay people fairly.	Assessed against market data based on position and skills and experience brought to the role. Target remuneration is based around the Median of the relevant comparator group for each job role.	Paid fornightly. Note, the payment cycle changes to monthly from July 2017 onwards.	Continued employment.
Short Term Incentive (STI)	Incentivises and rewards for achieving annual objectives.	Percentage of Fixed Remuneration based on market assessment.	Paid annually in September. Timing allows for the inclusion of financial results in performance assessments.	Objectives include (depending on role): • Profit • Growth • Customer focus • Investment performance • Individual performance • Culture • Continued employment
Long Term Incentive (LTI)	Retention and fostering an interest in the Company's long term performance.	Percentage of Fixed Remuneration based on market assessment.	Shares held in trust and vest after 3 years.	Shares subject to 3 year vesting as follows: • 50% based on remaining employed with the Company • 50% based on compound annual growth in Diluted Earnings per Share (EPS)

SHORT TERM INCENTIVE SCHEME

The aim of the Short Term Incentive Scheme is to incentivise and reward employees for performance against annual objectives.

The maximum incentive paid each year is based on a percentage of each employee's Fixed Remuneration and their role and responsibility and benchmarked against market data.

It is paid in cash in September of each year following the finalisation of annual results and performance reviews.

Outcomes are assessed based on performance against a "balanced scorecard" of objectives. The actual objectives and percentage vary depending on the role and cover the following:

Measure	Description
Profit	A portion of the incentive is based on meeting annual profit targets determined by the Board
Growth	Focussed on building long term growth. Measures include growth in client numbers and net inflows
Customer focus	Focussed on improving customer satisfaction and improving the customer's experience
Investment performance	Assessed according to performance against investment benchmarks
Individual objectives	Each employee will have certain individual objectives to achieve for the year
Culture	Employees have an obligation to adhere to certain cultural standards. These include abiding by the Company's values and risk management requirements

LONG TERM INCENTIVE SCHEME

The aim of the Long Term Incentive Scheme is to foster an interest in the long term performance of the Company, to encourage participation in the affairs of the Company and to encourage the retention of employees.

The maximum incentive paid each year is based on a percentage of each employee's Fixed Remuneration and role, benchmarked against market data.

Shares are issued each financial year and held in trust for 3 years. They vest in the name of the employee after 3 years, provided that the employee remains employed and that long term financial performance hurdles are met. Whilst the shares remain unvested, employees participate in dividends and have voting rights.

The Deferred Share Scheme operates as follows:

	Deferred Share Scheme
Description	Shares are issued or bought on market at the commencement of the 3 year performance period and held on trust. At the end of the period, subject to performance hurdles being met, shares transfer into the name of the employee.
Performance hurdles	50% will vest if the employee remains with the Company continuously from grant date. 50% will vest upon meeting the following performance hurdle: • If EPS growth[1] is less than 5% pa, zero will vest. • If EPS growth is between 5% and 10% pa, a pro rata amount will vest. • If EPS growth is greater than 10% pa, 100% will vest.
Dividends	Dividends are paid on unvested shares, which: • provides real value that employees lose if they leave the Company. • provides a direct real interest in the six monthly dividend performance of the Company and hence alignment with shareholders' interests.
Voting	Employees can vote on the unvested shares beneficially held for them.
Expense to Company	The cost of shares allocated to employees is fixed at the time of issue and expensed over a three year period.
Tax impact on Company	Fully deductible in the year of issue.
Tax impact on employees	Tax crystallises on vesting or release of shares from the employee share trust and therefore the payment of tax is the responsibility of the employee.

[1] Growth in EPS is defined as compound annual growth in the Company's earnings per share comprising diluted earnings per share (after tax). The compound annual growth is measured over a 3-year period and is based on audited financial information. The Board may adjust EPS for items that do not reflect management and employee performance and day-to-day business operations and activities.

Actual Remuneration

TOTAL REMUNERATION PAID AND ALIGNMENT WITH COMPANY PERFORMANCE

Short term incentive (STI) rewards for KMPs are based on a range of key performance measures. Depending on the role, these include a portion linked to current year profit. For the investment team a portion is linked to the performance of the investment funds for which they are responsible, and for the sales and marketing team a portion is linked to net flows. STI rewards are provided for in the year they relate to and paid in the following year following the performance review process.

Other elements of remuneration are aimed at building longer term value. A portion of the long term incentives (LTI) are subject to Earnings per Share Growth ('EPS') performance hurdles[2] over the three year vesting period and continued employment over the period. If the conditions are not met the unvested shares remain in the Employee Share Plan Trust.

In considering the Company's performance and benefits, the remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Net Profit After Tax attributable to shareholders ($'000)[3]	1,063	2,543	1,970	3,010	2,920
Underlying Profit After Tax ($'000)[3]	1,675	3,111	2,454	3,821	4,235
Earnings per share – diluted ($ per share)	1.02	2.41	1.80	2.88	2.62
Earnings per share growth – diluted (diluted 3 years)			66.1%	38.5%	2.8%
Share price at end of period ($)	19.50	35.45	58.80	81.11	94.60
Dividends (c per share)	85	200	200	300	260
Total shareholder return (TSR)	16%	92%	72%	42%	19%

Over the 3 year period ending 2017, the minimum compound annual EPS growth hurdle was not met. As a result, in 2017, there has been a reduction in LTI reflecting 50% of the 2015 LTI share issuance.

[2] Growth in EPS is defined as compound annual growth in the Company's earnings per share comprising diluted earnings per share (after tax). The compound annual growth is measured over a 3 year period and is based on audited financial information. The Board may adjust EPS for items that do not reflect management and employee performance and day-to-day business operations and activities.

[3] Refer to Directors' Report on page 46 for reconciling table.

NON-FINANCIAL OUTCOMES

As described earlier, in addition to profit targets a number of non-financial objectives are used to determine incentive outcomes. Many of these develop the long term sustainability of the business and so are not necessarily correlated to short term financial performance. These objectives are applied in varying degrees depending on the role. Performance against some of these objectives in the past financial year have been:

Measure	2017 Performance
Growth	Total net flows of $454m, a 42% increase on the previous year. Superannuation members increased by 34% over the year.
Investment performance	Regular top quartile investment performance in a number of funds.
Culture	Employees comply with the Company's values and risk management requirements.

MANAGEMENT TEAM REMUNERATION

The following table shows the remuneration mix for the management team in the current year. The short-term incentive is estimated and subject to finalisation of the performance appraisal process, and the long-term incentive is calculated using the value of shares granted in the current year. Actual amounts received are shown below in the Statutory Reporting section of this report.

		Fixed Remuneration (%)	Short-Term Incentive (%)	Long-Term Incentive (%)	Total ($)
Managing Director & CEO P Vernon	Managing Director & CEO	61%	23%	16%	100%
Current Management					
K Hughes (app 1 May 2017)*	Head of Risk & Compliance	100%	0%	0%	100%
A Lowbridge (app 10 Oct 2016)**	Chief Customer Officer	71%	15%	14%	100%
D Macri	CIO	55%	27%	18%	100%
T May	General Counsel & Company Secretary	83%	9%	8%	100%
S Palmer	Head of Ethics	83%	10%	7%	100%
M Shanahan (app 1 Jan 2017)**	CFO / COO	61%	21%	18%	100%
Departed Management					
D Barton (resigned 2 Sep 2016)	CFO	77%	15%	8%	100%
A Kirk (resigned 14 Oct 2016)	Head of Business Development & Client Relations	71%	21%	8%	100%

* Remuneration entirely fixed as the management team member was not yet eligible for STI and LTI.
** These percentages reflect the impact of being appointed part way through the year.

CONTRACT TERMS

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

	Term	Notice Period
Managing Director	3 years concluding on 31 March 2019	52 weeks before the Contract expiry date, the Company may terminate the Managing Director's employment 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.
Management Team	No fixed term	12 weeks

NON-EXECUTIVE DIRECTORS REMUNERATION

In addition to fixed remuneration, Non-Executive Directors (NEDs) are entitled to be paid reasonable expenses, remuneration for additional services and superannuation contributions. Non-executive Directors are not eligible to participate in employee incentive plans.

The total paid to non-executive directors of the Company is approved by shareholders at the Annual General Meeting. The current pool of $360,000 was approved at the AGM in October 2014. A review of Non-executive Directors' remuneration is undertaken annually by the Company Board, taking into account recommendations from the People, Remuneration and Nominations committee.

All Directors are Directors of Australian Ethical Investment Limited, Australian Ethical Superannuation Pty Ltd and members of each Board's Audit, Compliance and Risk Committee.

The following table sets out the agreed remuneration for Non-Executive Directors by position for a full year. For actual remuneration received, refer to tables under the Statutory Reporting section of this report.

Non-Executive Director	Chair $	NED $	ACRC Chair $	ACRC Member $	Total $
Stephen Gibbs					
AEI	70,000	-	-	8,000	78,000
AES	23,500	-	-	8,000	31,500
Total	93,500	-	-	16,000	109,500
Tony Cole (resigned 30 Jun 17)					
AEI	-	40,000	-	8,000	48,000
AES	-	23,500	-	8,000	31,500
Total	-	63,500	-	16,000	79,500
Kate Greenhill					
AEI	-	40,000	14,000	-	54,000
AES	-	23,500	14,000	-	37,500
Total	-	63,500	28,000	-	91,500
Mara Bun					
AEI	-	40,000	-	8,000	48,000
AES	-	23,500	-	8,000	31,500
Total	-	63,500	-	16,000	79,500
Group Total	**93,500**	**190,500**	**28,000**	**48,000**	**360,000**

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

Senior management team remuneration reporting

We set out senior management team remuneration in the following two tables:

- the table 'Senior Management Team Remuneration – Statutory Reporting' is aligned to the way the company expenses the remuneration of the senior team under the accounting standards and the Corporations Act
- the table 'Senior Management Team Remuneration – Cash & Vesting basis' shows amounts received by the senior management team in cash and shares.

The difference between the two tables is explained in the footnotes.

SENIOR MANAGEMENT TEAM REMUNERATION - STATUTORY REPORTING

The table on page 59 outlines senior management team remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements for the particular year.

Notes in relation to reporting of Senior Management Team Remuneration – Statutory Reporting:

1. The Short Term Incentive (STI) expense is the amount accrued for performance during the respective financial year using agreed KPI's plus or minus any prior year over or under accrual. The 2017 amounts will be finalised at an individual level in September 2017 after performance reviews are completed and amounts are approved by the People, Remuneration and Nominations Committee.

2. The Long term incentive (LTI) expense for 2017 includes the relevant 2017 expense impact of each of the 2015, 2016 and 2017 grants under the Deferred Employee Share Plan (new scheme). This includes a reduction in LTI expense reflecting 50% of the 2015 LTI share issuance not vesting due to the minimum compound annual EPS growth hurdle not having been met. The vesting of the remaining 50% time based portion of the 2015 grant will be finalised at an individual level in September 2017. Under the new scheme, the cost of shares is fixed at time of issue and expensed over a three year period using an annual probability assessment of the hurdles being met.

3. The LTI expense for 2016 includes the relevant 2016 expense impact of each of the 2015 and 2016 grants under the Deferred Employee Share Plan (new scheme) plus the 2016 cost of the Performance Rights scheme (AEFAE / old scheme). Under the old scheme, rights were amortised over 3 years based on an annual assessment of the share price at the end of the 3 year period - a rising share price led to a greater expense.

For details on the performance criteria for each tranche of performance rights and deferred shares refer to Note 38 of the Notes to the Consolidated Financial Statements.

Name	Short Term Benefits		Post-Employment Benefits		Long Term Benefits	Equity	
	Salary	Short Term Incentives $ (1)	Super-annuation $	Termination Benefits $	Long Service Leave $	Long Term Incentives $ (2)	Total $
2017							
Managing Director							
P Vernon	394,432	199,006	19,616	-	19,703	41,502	674,259
Management Team							
K Hughes (appointed 1 May 2017)	41,096	-	3,904	-	867	-	45,867
A Lowbridge (appointed 10 Oct 2016)	188,541	45,395	16,267	-	4,384	7,000	261,587
D Macri	314,898	127,650	19,616	-	11,243	39,798	513,205
T May	212,002	29,149	19,616	-	6,980	8,629	276,376
S Palmer	227,780	43,594	19,616	-	8,659	7,730	307,379
M Shanahan (appointed 3 Jan 2017)	181,707	68,274	17,218	-	3,956	9,333	280,488
Departed Management							
D Barton (resigned 2 Sep 2016)	58,482	-	4,445	-	-	(19,918)	43,009
A Kirk (redundant 14 Oct 2016)	157,648	34,458	21,842	90,990	21,940	10,366	337,244
Total	**1,776,586**	**547,526**	**142,140**	**90,990**	**77,732**	**104,440**	**2,739,414**
2016						**(3)**	
Managing Director & CEO							
P Vernon	355,753	69,435	19,307	-	11,871	293,998	750,364
Management Team							
D Barton	247,193	(3,261)	19,252	-	5,732	12,740	281,656
A Kirk	232,324	38,612	19,233	-	5,719	62,882	358,770
D Macri	298,144	119,479	19,307	-	10,084	242,883	689,897
T May	201,678	20,327	19,308	-	6,952	53,938	302,203
S Palmer	178,449	23,221	19,465	-	3,970	8,533	233,638
Total	**1,513,541**	**267,813**	**115,872**	**-**	**44,328**	**674,974**	**2,616,528**

SENIOR MANAGEMENT TEAM REMUNERATION – CASH & VESTING BASIS

The table below outlines senior management team remuneration received individually during the year including prior year bonus paid in cash in the reporting year and the vesting of shares granted under the relevant scheme three years previously.

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits	Equity	
Name	Salary	Cash Bonus $ (1)	Super-annuation $	Termination Benefits $	Long Service Leave $	Settled Share-based payments $ (2)	Total $
2017							
Managing Director & CEO							
P Vernon	394,432	117,036	19,616	-	19,703	327,441	878,228
Management Team							
K Hughes (appointed 1 May 2017)	41,096	-	3,904	-	867	-	45,867
A Lowbridge (appointed 10 Oct 2016)	188,541	-	16,267	-	4,384	-	209,192
D Macri	314,898	118,453	19,616	-	11,243	261,418	725,628
T May	212,002	25,764	19,616	-	6,980	58,399	322,761
S Palmer	227,780	32,606	19,616	-	8,659	-	288,661
M Shanahan (appointed 3 Jan 2017)	181,707	-	17,218	-	3,956	-	202,881
Departed Management							
D Barton (resigned 2 Sep 2016)	58,482	-	4,445	-	-	-	62,927
A Kirk (redundant 14 Oct 2016)	157,648	34,458	21,842	90,990	21,940	97,532	424,410
Total	**1,776,586**	**328,317**	**142,140**	**90,990**	**77,732**	**744,790**	**3,160,555**
2016							
Managing Director & CEO							
P Vernon	355,753	139,342	19,307	-	11,871	258,661	784,934
Management Team							
D Barton	247,193	37,183	19,252	-	5,732	33,281	342,641
A Kirk	232,324	55,247	19,233	-	5,719	114,836	427,359
D Macri	298,144	132,033	19,307	-	10,084	186,043	645,611
T May	201,678	29,679	19,308	-	6,952	82,849	340,466
S Palmer	178,449	26,451	19,465	-	3,970	8,761	237,096
Total	**1,513,541**	**419,935**	**115,872**	**-**	**44,328**	**684,431**	**2,778,107**

Notes in relation to reporting of Senior Management Team Remuneration – Cash & Vesting basis:

1. The Cash Bonus amount is what was paid in the financial year for performance during the prior financial year using agreed KPI's.

2. The Settled Share Based Payment amounts for 2017 and 2016 relate only to the old scheme and represent the market value of the shares on the day that the relevant performance rights were converted into ordinary shares. For 2017 this reflects a price at vesting of AEFAE of $81.11 per share (price at grant was $35.45).

NON-EXECUTIVE DIRECTORS REMUNERATION

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

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits	Equity	
Name	Salary	Cash Bonus $	Super-annuation $	Termination Benefits $	Long Service Leave $	Settled Share-based payments $	Total $
2017							
S Gibbs	99,201	-	9,424	-	-	-	108,625
T Cole (resigned 30 Jun 2017)	71,804	-	6,821	-	-	-	78,625
K Greenhill	82,763	-	7,862	-	-	-	90,625
M Bun	71,804	-	6,821	-	-	-	78,625
Total	**325,572**	**-**	**30,928**	**-**	**-**	**-**	**356,500**
2016							
S Gibbs	93,413	-	8,874	-	-	-	102,288
T Cole	63,444	-	6,027	-	-	-	69,471
K Greenhill	78,253	-	7,434	-	-	-	85,687
M Bun	62,198	-	5,909	-	-	-	68,107
R Medd (resigned 25 Dec 2015)**	21,084	-	2,003	-	-	-	23,087
L Coleman (resigned 7 Aug 2015)**	10,854	-	1,031	-	-	-	11,885
Total	**329,246**	**-**	**31,278**	**-**	**-**	**-**	**360,525**

** R Medd and L Coleman were Directors of AES Pty Limited and members of AEI's Audit, Compliance and Risk Committee and retired in 2016.

Non-executive Directors remuneration includes Directors of the subsidiary Company which are not included in the Directors' pool approved at the AGM in October 2014.

PERFORMANCE RIGHTS, DEFERRED AND ORDINARY SHARES

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

Name	Grant Date	Vesting/ Conversion Date	Share Price at Grant Date	Balance at 1 July 2016	No. of Rights/ Shares Granted	No. Forfeited/ Expired	No. Sold	No. Vested & Exercised	Balance at 30 June 2017
Managing Director & CEO									
P Vernon									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	2,412	-	(1,206)	-	-	1,206
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	1,913	-	-	-	-	1,913
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	1,556	-	-	-	1,556
AEFAE	30-Jun-14	31-Aug-16	35.45	4,037	-	-	-	(4,037)	-
AEF Ordinary Shares				9,412	-	-	-	4,037	13,449
Total				**17,774**	**1,556**	**(1,206)**	**-**	**-**	**18,124**
Current Management									
A Lowbridge									
Deferred Shares - 2015/16	3-Jan-17	31-Aug-19	68.34	-	465	-	-	-	465
2017 Total				**-**	**465**	**-**	**-**	**-**	**465**
D Macri									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	2,313	-	(1,156)	-	-	1,157
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	1,834	-	-	-	-	1,834
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	1,492	-	-	-	1,492
AEFAE	30-Jun-14	31-Aug-16	35.45	3,223	-	-	-	(3,223)	-
AEF Ordinary Shares				901	-	-	(2,148)	3,223	1,976
Total				**8,271**	**1,492**	**(1,156)**	**(2,148)**	**-**	**6,459**
T May									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	501	-	(250)	-	-	251
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	398	-	-	-	-	398
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	324	-	-	-	324
AEFAE	30-Jun-14	31-Aug-16	35.45	720	-	-	-	(720)	-
AEF Ordinary Shares				-	-	-	(720)	720	-
Total				**1,619**	**324**	**(250)**	**(720)**	**-**	**973**
S Palmer									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	382	-	(191)	-	-	191
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	341	-	-	-	-	341
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	294	-	-	-	294
AEF Ordinary Shares				149	-	-	-	-	149
Total				**872**	**294**	**(191)**	**-**	**-**	**975**
M Shanahan									
Deferred Shares - 2015/16	3-Jan-17	31-Aug-19	68.34	-	856	-	-	-	856
Total				**-**	**856**	**-**	**-**	**-**	**856**

Name	Grant Date	Vesting/ Conversion Date	Share Price at Grant Date	Balance at 1 July 2016	No. of Rights/ Shares Granted	No. Forfeited/ Expired	No. Sold	No. Vested & Exercised	Balance at 30 June 2017
Management who have departed during the year									
D Barton									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	604	-	(604)	-	-	-
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	479	-	(479)	-	-	-
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	390	(390)	-	-	-
AEF Ordinary Shares				566	-	-	(566)	-	-
Total				**1,649**	**390**	**(1,473)**	**(566)**	**-**	**-**
A Kirk									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	537	-	(149)	-	(388)	-
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	426	-	(253)	-	(173)	-
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	347	(316)	-	(31)	-
AEFAE	30-Jun-14	31-Aug-16	35.45	856	-	-	-	(856)	-
AEF Ordinary Shares				81	-	-	(1,509)	1,448	20
Total				**1,900**	**347**	**(718)**	**(1,509)**	**-**	**20**

Governance

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

The PRNC members for the 2016/17 financial year were:

- Stephen Gibbs (Chair);
- Mara Bun;
- Kate Greenhill; and
- Anthony Cole.

The PRNC met five times during the year.

Attendance at these meetings is set out in the Directors' Report. At the PRNC's invitation, the Managing Director and Head of the People and Culture 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.

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 measurement of performance against agreed KPI's and Company performance.

The bonus received by the Managing Director during 2016/17 is shown in Statutory Reporting table and relates to the previous financial year of 2015/16. 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.

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

HEDGING POLICY

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

TRADING RESTRICTIONS AND WINDOWS

All Directors and employees are constrained from trading the Company during "blackout periods". These periods occur between the end of the half year and full year and two days after the release of the half year and full year results.

OUTCOMES OF VOTES AT ANNUAL GENERAL MEETINGS

At the 2016 AGM, the Company's remuneration report received a 'no' vote of more than 28.5% cast on a resolution that the remuneration report be adopted (out of 54.6% of shareholders that voted on the report). This constituted a 'second strike' and a spill resolution was put to shareholders. The spill motion failed. Directors are of the view that the reasons for the no vote are not related to the Company's remuneration model as (a) engagements with shareholders in relation to remuneration issues has not yielded any substantive objections and (b) the remuneration model is in line with market expectations for companies in our industry of similar size and complexity.

In setting the remuneration structure we have carefully considered comments made by shareholders, sought advice from remuneration consultants and reviewed practises of our peers. We believe that the structure we have adopted is the most appropriate for our people, shareholders and the business providing the right balance between motivation, retention and alignment of interests between employees and shareholders.

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

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee (PRNC)
30 August 2016

KPMG

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

To the Directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Investment Limited for the financial year ended 30 June 2017 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
30 August 2017

AUSTRALIAN ETHICAL INVESTMENT LIMITED
AND ITS CONTROLLED ENTITIES
ABN 47 003 188 930

Annual Financial Statements

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AUSTRALIAN ETHICAL INVESTMENT LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated#		Parent	
	Note	2017	2016	2017	2016
		$'000	Restated* $'000	$'000	$'000
Revenue	5	28,305	23,040	22,230	19,656
Total Revenue		28,305	23,040	22,230	19,656
Expenses					
Operating Expenses					
Employee Benefits	6	(10,185)	(8,214)	(9,896)	(8,077)
Fund Related	7	(4,178)	(3,322)	(1,157)	(1,004)
External Services	8	(2,517)	(1,821)	(2,059)	(1,598)
Marketing		(2,039)	(1,382)	(2,033)	(1,364)
Occupancy		(906)	(365)	(906)	(365)
Depreciation and Amortisation		(284)	(182)	(284)	(182)
Community Grants	10	(380)	(220)	(379)	(395)
Other Expenses	9	(1,821)	(1,548)	(1,730)	(1,454)
Total Operating Expenses		(22,310)	(17,054)	(18,444)	(14,439)
Non-Operating Expenses					
Remediation Expense	21	(1,955)	(900)	(1,894)	-
Gain/(loss) on Disposal of Assets		(210)	7	(210)	7
Reversal of Impairment/(Impairment) of Investment Property		228	(181)	228	(181)
Total Non-Operating Expenses		(1,937)	(1,074)	(1,876)	(174)
Total Expenses		(24,247)	(18,128)	(20,320)	(14,613)
Profit Before Income Tax Expense		4,058	4,912	1,910	5,043
Income Tax Expense	11	(1,134)	(1,726)	(77)	(1,011)
Net Profit for the Year		2,924	3,186	1,833	4,032
Total Comprehensive Income for the Year		2,924	3,186	1,833	4,032

		Cents	Restated* Cents
Basic Earnings Per Share	37	269.98	298.50
Diluted Earnings Per Share	37	262.25	287.74

* Refer to note 4 for detailed information on Restatement of comparatives.
# Comprehensive income includes the results of The Foundation (refer to Note 40)

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

AUSTRALIAN ETHICAL INVESTMENT LIMITED
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 Restated* $'000	Parent 2017 $'000	Parent 2016 $'000
Assets					
Current Assets					
Cash and Cash Equivalents	12	12,591	14,324	8,613	12,349
Trade and Other Receivables	13	963	495	1,786	149
Income Tax Refund Due	11	303	-	310	-
Other	14	350	368	306	313
		14,207	15,187	11,015	12,811
Investment Property Held for Sale	15	1,610	-	1,610	-
Total Current Assets		15,817	15,187	12,625	12,811
Non-Current Assets					
Term Deposit	18	504	-	504	-
Investments in Subsidiary	16	-	-	316	316
Property, Plant and Equipment	17	2,060	1,823	2,060	1,823
Deferred Tax	11	902	914	810	641
Total Non-Current Assets		3,466	2,737	3,690	2,780
Total Assets		19,283	17,924	16,315	15,591
Liabilities					
Current Liabilities					
Trade and Other Payables	19	2,557	1,508	1,894	1,301
Income Tax	11	-	605	-	412
Employee Benefits	20	1,727	1,500	1,727	1,500
Provisions	21	207	900	26	-
Total Current Liabilities		4,491	4,513	3,647	3,213
Non-Current Liabilities					
Trade and Other Payables	22	547	69	547	69
Employee Benefits	23	104	99	104	99
Provisions	24	228	-	228	-
Total Non-Current Liabilities		879	168	879	168
Total Liabilities		5,370	4,681	4,526	3,381
Net Assets		13,913	13,243	11,789	12,210
Equity					
Issued Capital	25	9,923	8,693	9,923	8,693
Reserves	26	1,012	1,929	1,012	1,929
Retained Profits		2,978	2,621	854	1,588
Total Equity		13,913	13,243	11,789	12,210

* Refer to note 4 for detailed information on Restatement of comparatives.

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

AUSTRALIAN ETHICAL INVESTMENT LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital	Share-based Payment Reserves	Retained Profits	Total Equity
Consolidated	**$'000**	**$'000**	**Restated* $'000**	**$'000**
Balance at 1 July 2015	7,004	2,338	1,810	11,152
Impact of restatement	-	-	251	251
Balance at 1 July 2015 – restated	7,004	2,338	2,061	11,403
Net profit for the year	-	-	3,186	3,186
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	3,186	3,186
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(2,626)	(2,626)
Shares issued due to rights vesting during the year	1,689	(1,689)	-	-
Employee share scheme – Rights	-	868	-	868
Employee share plan – Deferred Shares	-	412	-	412
Balance at 30 June 2016	8,693	1,929	2,621	13,243

* Refer to note 4 for detailed information on Restatement of comparatives.

	Issued Capital	Share-based Payment Reserves	Retained Profits	Total Equity
Consolidated	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2016 – restated	8,693	1,929	2,621	13,243
Net profit for the year	-	-	2,924	2,924
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	2,924	2,924
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(2,567)	(2,567)
Shares issued due to rights vesting during the year	1,201	(1,201)	-	-
Shares vesting during the year	28	(28)	-	-
Employee share scheme – Deferred Shares	-	312	-	312
Balance at 30 June 2017	9,923	1,012	2,978	13,913

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

AUSTRALIAN ETHICAL INVESTMENT LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

Parent	Issued Capital $'000	Share-based Payment Reserves $'000	Retained Profits Restated* $'000	Total Equity $'000
Balance at 1 July 2015	7,004	2,338	182	9,524
Net profit for the year	-	-	4,032	4,032
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	4,032	4,032
Transactions with owners in their capacity as owners:				
Shares issued due to rights vesting during the year	1,689	(1,689)	-	-
Employee share scheme – Rights	-	868	-	868
Employee share plan – Deferred Shares	-	412	-	412
Dividends provided for or paid	-	-	(2,626)	(2,626)
Balance at 30 June 2016	8,693	1,929	1,588	12,210

Parent	Issued Capital $'000	Share-based Payment Reserves $'000	Retained Profits Restated* $'000	Total Equity $'000
Balance at 1 July 2016	8,693	1,929	1,588	12,210
Net profit for the year	-	-	1,833	1,833
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	1,833	1,833
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(2,567)	(2,567)
Shares issued due to rights vesting during the year	1,201	(1,201)	-	-
Shares vesting during the year	28	(28)	-	-
Employee share scheme – Deferred shares	-	312	-	312
Balance at 30 June 2017	9,923	1,012	854	11,789

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

AUSTRALIAN ETHICAL INVESTMENT LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated		Parent	
	Note	2017	2016	2017	2016
		$'000	Restated $'000	$'000	$'000
Operating Activities					
Receipts from customers		27,774	23,982	19,007	18,402
Payments to suppliers and employees		(22,549)	(16,946)	(18,063)	(13,400)
Interest received		257	216	210	172
Community grants paid		(280)	(230)	(395)	(481)
Income taxes paid		(1,919)	(2,348)	(857)	(1,022)
Net cash from/(used in) operating activities	36	3,283	4,674	(98)	3,671
Investing Activities					
Payments for property, plant and equipment		(1,921)	(58)	(1,921)	(58)
Payment for term deposit		(504)	-	(504)	-
Dividends received from subsidiary		-	-	1,378	2,689
Net cash from/(used in) investing activities		(2,425)	(58)	(1,047)	2,631
Financing Activities					
Dividends paid		(2,591)	(2,519)	(2,591)	(2,519)
Net cash used in financing activities		(2,591)	(2,519)	(2,591)	(2,519)
Net increase/(decrease) in cash and cash equivalents		(1,733)	2,097	(3,736)	(3,783)
Cash and cash equivalents at the beginning of the financial year		14,324	12,227	12,349	8,566
Cash and cash equivalents at the end of the financial year	12	12,591	14,324	8,613	12,349

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

Notes to the financial statements

NOTE 1. ABOUT THIS REPORT

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

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 August 2017. The Directors have the power to amend and reissue the financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The consolidated group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

BASIS OF PREPARATION

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

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

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

PARENT ENTITY INFORMATION

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Ethical Investment Limited ('Company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when the parent entity 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 consolidated entity. They are de-consolidated from the date that control ceases.

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

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

CURRENT AND NON-CURRENT CLASSIFICATION

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

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

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

ROUNDING OF AMOUNTS

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

COMPARATIVES

Where necessary, comparative information has been reclassified to be consistent with current reporting period.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated group for the annual reporting period ended 30 June 2017. The consolidated group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets, financial liabilities, and hedging. Based on the preliminary analyses performed, the amendments are not expected to have a material impact on the Group.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition replacing both AASB 118 'Revenue' and AASB 111 'Construction Contracts'. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard redefines the model for recognising revenue earned from a contract. In addition to giving consideration to credit risk and contracts where performance obligations are satisfied over time, the new standard also requires additional disclosures in both quantitative and qualitative forms. Based on the preliminary analyses performed, the amendments are not expected to have a material impact on the Group.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Based on the preliminary analyses performed, the amendments are expected to result in a change in accounting for some leased assets.

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The areas involving significant estimates or judgements are:

- Income tax & recovery of deferred tax assets – refer to Note 11
- Investment property held for sale – refer to Note 15
- Estimation of useful lives of assets – refer to Note 17
- Measurement of the provision for remediation – refer to Note 21
- Employee benefits provision – refer to Note 20 and 23
- Lease make-good provision – refer to Note 24
- Share-based payment transactions – refer to Note 38

Business segments

The Group determines and represents operating segments based on the information that is internally provided to the Managing Director (MD), who is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group comprises one main operating segment being Funds Management.

NOTE 4. RESTATEMENT OF COMPARATIVES

On 28 July 2015, the Australian Ethical Foundation was established. The purpose of the Foundation is to be vehicle for the disbursement of profits that are subject to clause 15.1 (c)(ii) of the Parent entity's constitution which requires a portion of profits to be provided for charitable, benevolent or conservation purposes. The creation of the Foundation allows for flexibility when allocating money, to manage multi-year grants and for the creation of a corpus for long term funding of worthwhile causes and organisations.

Following a review of current industry practice, the Group determined that The Foundation should be consolidated and form part of the Group.

In addition, the presentation of annual leave provision has been changed to be included into employee benefits liabilities. We have reclassified the comparative balance to be consistent with the current year presentation.

As a result, prior periods have been restated as outlined below.

Refer to Note 40 for further details on the financial results of The Foundation.

Statement of comprehensive income

	Consolidated		
	2016		2016
	$'000 Reported	$'000 Adjustment	$'000 Restated
Revenue	23,039	1	23,040
Community grants expense	(395)	175	(220)
Profit before income tax expense	4,736	176	4,912
Net profit for the year	3,010	176	3,186
Total comprehensive income for the year	3,010	176	3,186

	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	281.97	16.53	298.50
Diluted earnings per share	271.80	15.94	287.74

NOTE 4. RESTATEMENT OF COMPARATIVES (CONTINUED)

Statement of financial position at the end of the earliest comparative period

	Consolidated		
	2016		2016
	$'000 Reported	$'000 Adjustment	$'000 Restated
Cash and cash equivalents	14,072	252	14,324
Total current assets	14,935	252	15,187
Total assets	17,672	252	17,924
Trade and other payables	2,014	(506)	1,508
Employee benefits	1,169	331	1,500
Total current liabilities	4,688	(175)	4,513
Total liabilities	4,856	(175)	4,681
Net assets	12,816	427	13,243
Retained profits	2,194	427	2,621
Total equity	12,816	427	13,243

Included in the $427,000 adjustment to Retained Earnings is an adjustment of $251,000 for Community Grants provision as at 30 June 2015 that was intended to be directed to the Foundation on incorporation. The remainder of the adjustment relates to the elimination of intercompany transactions during the financial year ended 30 June 2016.

NOTE 5. REVENUE

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	Restated* $'000	$'000	$'000
Management and performance fees (net of rebates)	20,921	16,069	20,482	16,674
Adminstration fees	4,306	4,615	-	-
Member and withdrawal fees	2,662	2,018	-	-
Interest income	259	247	213	202
Rental income	157	91	157	91
Dividends	-	-	1,378	2,689
Revenue	28,305	23,040	22,230	19,656

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

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

NOTE 5. REVENUE (CONTINUED)

Dividends

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

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income

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

NOTE 6. EMPLOYEE BENEFITS EXPENSE

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Employee remuneration	9,785	7,757	9,622	7,757
Directors' fees	356	361	230	224
Other employment costs	44	96	44	96
	10,185	8,214	9,896	8,077

NOTE 7. FUND RELATED EXPENSES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Administration and custody fees	3,738	2,901	834	681
License and levy fees	440	421	323	323
	4,178	3,322	1,157	1,004

NOTE 8. EXTERNAL SERVICES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Ethical research	71	134	71	134
Audit	638	543	331	420
Consultants	442	325	318	237
Legal services	245	118	232	115
Other	1,121	701	1,107	692
	2,517	1,821	2,059	1,598

NOTE 9. OTHER EXPENSES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Insurance	157	117	79	49
IT	1,148	1,027	1,161	1,014
Travel	238	205	238	203
Subscriptions and listing	106	87	106	87
Other	172	112	146	101
	1,821	1,548	1,730	1,454

NOTE 10. COMMUNITY GRANTS EXPENSE

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

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

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

Community grants amounting to $380,000 (2016 restated: $220,000) have been provided for or paid in the current year.

NOTE 11. INCOME TAX

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	Restated $'000	$'000	$'000
Income tax expense				
Current tax	1,122	1,865	246	907
Deferred tax - origination and reversal of temporary differences	12	(142)	(169)	101
Adjustment recognised for prior periods	-	3	-	3
Aggregate income tax expense	1,134	1,726	77	1,011
Deferred tax included in income tax expense comprises: Decrease/(increase) in deferred tax assets	12	(142)	(169)	101
Reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	4,058	4,912	1,910	5,043
Tax at the statutory tax rate of 30%	1,217	1,474	573	1,513
Tax effect amounts which are not deductible/ (taxable) in calculating taxable income:				
Profit in relation to The Foundation not subject to tax	(2)	(53)	-	-
Impairment of property, plant and equipment	(68)	54	(68)	54
Share-based payments	-	260	-	260
Non-taxable intercompany dividends from AES	-	-	(413)	(807)
Other non-taxable items	(13)	(12)	(15)	(12)
	1,134	1,723	77	1,008
Adjustment recognised for prior periods	-	3	-	3
Income tax expense	1,134	1,726	77	1,011

The applicable weighted average effective tax rate for the consolidated Group is 28% (2016: 36%) and for the parent entity is 4% (2016: 20%).

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Amounts recognised directly in equity				
Deferred tax: Employee share plan 2014/2015	98	82	98	82
Deferred tax: Employee share plan 2015/2016	83	150	83	150
Deferred tax: Employee share plan 2016/2017	167	-	167	-
	348	232	348	232

NOTE 11. INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Employee benefits	298	250	298	250
Audit fees	107	45	69	42
Community grants	114	119	114	119
Provision for remediation	62	270	8	-
Provision for employee leave	252	230	252	230
Provision for make-good	69	-	69	-
Deferred tax asset	902	914	810	641
Movements:				
Opening balance	914	772	641	742
Credited/(charged) to profit or loss	(12)	142	169	(101)
Closing balance	902	914	810	641

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Income tax refund due				
Income tax refund due	303	-	310	-

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Provision for income tax				
Provision for income tax	-	605	-	412

Recognition and measurement

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

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

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

NOTE 11. INCOME TAX (CONTINUED)

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. These are offset if there is a legally enforceable right to offset. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Australian Ethical Investment Limited and its wholly owned subsidiaries 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 pays the Australian Taxation Office for Group tax liabilities.

NOTE 12. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	Restated $'000	$'000	$'000
Cash at bank	108	129	102	123
Deposits at call	7,383	9,095	3,511	7,226
Term deposits	5,100	5,100	5,000	5,000
	12,591	14,324	8,613	12,349

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

NOTE 13. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables	963	495	1,786	149

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

There are currently no past due receivables as at 30 June 2017 (2016: nil).

NOTE 14. CURRENT ASSETS – OTHER

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Prepayments	350	368	306	313

NOTE 15. CURRENT ASSETS – INVESTMENT PROPERTY HELD FOR SALE

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Investment property held for sale	1,610	-	1,610	-

Recognition and measurement

During the period, the Canberra premises (Trevor Pearcey House) ceased to be owner-occupied. As a result, the property asset (leasehold land and buildings) was reclassified from Property, Plant and Equipment to Investment Property. Subsequently, the property was classified as held for sale as a result of the Group's intention to dispose of the property and the commencement of an active sales campaign. A sale is expected in the next 12 months.

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

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

	Property, Plant & Equipment		Investment Property		Investment Property Held for Sale	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 30 June	1,460	1,725	-	-	-	-
Transfer from Property, plant and equipment	(1,427)	-	1,427	-	-	-
Depreciation for the period	(33)	(84)	(45)	-	-	-
Impairment loss	-	(181)	-	-	-	-
Reversal of carry forward impairment losses	-	-	228	-	-	-
Transfer to Investment property held for sale	-	-	(1,610)	-	1,610	-
Balance as at 30 June	-	1,460	-	-	1,610	-

NOTE 16. NON-CURRENT ASSETS - INVESTMENTS IN SUBSIDIARY

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	-	-	316	316
Australian Ethical Foundation Limited	-	-	-	-

NOTE 17. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Leasehold land - at cost	-	230	-	230
Building - at cost	-	1,657	-	1,657
Less: Accumulated depreciation	-	(594)	-	(594)
	-	1,063	-	1,063
Leasehold improvements - at cost	2,142	1,090	2,142	1,090
Less: Accumulated depreciation	(194)	(625)	(194)	(625)
	1,948	465	1,948	465
Plant and equipment - at cost	193	409	193	409
Less: Accumulated depreciation	(81)	(344)	(81)	(344)
	112	65	112	65
	2,060	1,823	2,060	1,823

Reconciliations

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

	Leasehold Land	Buildings	Leasehold Improvements	Plant and Equipment	Total
Consolidated and Parent	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2015	230	1,239	563	36	2,068
Additions	-	-	26	32	58
Impairment of assets	-	(128)	(53)	-	(181)
Write off of assets	-	-	-	4	4
Depreciation expense	-	(48)	(71)	(7)	(126)
Balance at 30 June 2016	230	1,063	465	65	1,823
Additions	-	-	2,072	75	2,147
Classified as held for sale (Note 15)	(230)	(1,063)	(134)	-	(1,427)
Disposals	-	-	(197)	-	(197)
Write off of assets	-	-	-	(2)	(2)
Depreciation expense	-	-	(258)	(26)	(284)
Balance at 30 June 2017	-	-	1,948	112	2,060

Recognition and measurement
Leasehold land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Note that in the current year, the land and buildings were initially reclassified as Investment property and then reclassified again as Investment property held for sale and the assets are presented separately on the face of the statement of financial position, in current assets.

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually to ensure that it is not in in excess of the recoverable amount from these assets. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

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

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

Buildings	40 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years

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

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

NOTE 18. NON-CURRENT ASSETS - TERM DEPOSIT

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Long term deposit	504	-	504	-

The long term deposit is held with National Australia Bank for a term of 6 months as security for a bank guarantee over the Company's Sydney Office property lease.

NOTE 19. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	Restated $'000	$'000	$'000
Trade payables	380	440	313	425
Accrued expenses	1,687	768	1,032	401
Unamortised lease incentive	170	80	170	80
Community grant payable	320	220	379	395
	2,557	1,508	1,894	1,301

Refer to note 28 for further information on financial instruments.

Recognition and measurement

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

NOTE 20. CURRENT LIABILITIES - EMPLOYEE BENEFITS

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	Restated $'000	$'000	$'000
Annual leave	340	331	340	331
Long service leave	394	336	394	336
Employee benefits	993	833	993	833
	1,727	1,500	1,727	1,500

Recognition and measurement

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

Short-term employee benefits

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

NOTE 21. CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Provision for remediation costs	207	900	26	-

Recognition and measurement

At 30 June 2016, the Group became aware of errors in the calculation of unit prices for the Australian Ethical Retail Superannuation Fund in respect of 30 June 2016 and prior years. In the year ended 30 June 2016, a provision of $900,000 was raised on the investigative work performed at the time.

During the year ended 30 June 2017, the errors were investigated and an additional provision was raised to fully compensate members and in respect of consultant costs incurred to perform the investigative work. The additional expenses incurred during the period are $794,833 for member remediation and $1,160,000 for consultant costs. Throughout the remediation process, the Group remained committed to ensuring that members are not materially disadvantaged as a result of the errors.

The remediation work has been completed and the remainder of the provision relates to project related costs to be paid.

Movements in provisions

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

	Provision for Remediation
Consolidated – 2017	$'000
Carrying amount at the start of the year	900
Additional provisions recognised	2,205
Amounts used	(2,648)
Unused amounts reversed	(250)
Carrying amount at the end of the year	207

	Provision for Remediation
Parent – 2017	$'000
Carrying amount at the start of the year	-
Additional provisions recognised	1,894
Amounts used	(1,868)
Carrying amount at the end of the year	26

NOTE 22. NON-CURRENT LIABILITIES - PAYABLES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Unamortised lease incentive	547	69	547	69

Refer to note 28 for further information on financial instruments.

NOTE 23. NON-CURRENT LIABILITIES - EMPLOYEE BENEFITS

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Long service leave	104	99	104	99

Recognition and measurement

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

NOTE 24. NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Lease make-good	228	-	228	-

Recognition and measurement

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

NOTE 25. EQUITY - ISSUED CAPITAL

	Consolidated and Parent			
	2017	2016	2017	2016
	Number of Shares	Number of Shares	$'000	$'000
Ordinary shares - fully paid	1,115,854	1,094,209	9,923	8,693

Movements in ordinary share capital

Details	Date	Shares	Issue Price	$'000
Balance	1 July 2015	1,053,817		7,004
Vesting of AEFAG Rights	31 August 2015	11,899	$58.80	699
Vesting of AEFAC Rights	31 August 2015	16,834	$58.80	990
Issue of deferred shares to the Employee Share Trust	31 August 2015	11,659		-
Balance	30 June 2016	1,094,209		8,693
Issue of deferred shares to the Employee Share Trust	1 September 2016	6,240		-
Vesting of AEFAE Rights	8 September 2016	14,812	$81.11	1,202
Issue of deferred shares to the Employee Share Trust	14 October 2016	593	$47.43	28
Balance	30 June 2016	1,115,854		9,923

NOTE 25. EQUITY - ISSUED CAPITAL (CONTINUED)

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

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

Recognition and measurement
Ordinary shares are classified as equity.

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

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

The capital risk management policy remains unchanged during the year.

(i) Regulatory capital requirements

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

- prepare 12-month cash-flow projections which must be approved at least quarterly by Directors, and reviewed annually by auditors;

- hold at all times minimum Net Tangible Assets (NTA) the greater of:
    - (a) $150,000;
    - (b) 0.5% of the average value of scheme property (capped at $5m); or
    - (c) 10% of the average responsible entity revenue (uncapped).

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

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

(ii) Dividend policy

Dividends paid to shareholders are typically in the range of 80-100% of the Group's net profit after tax attributable to 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 Group had no long term debt arrangements.

NOTE 26. EQUITY – RESERVES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Share-based payments reserve	-	1,201	-	1,201
Employee share plan reserve	1,012	728	1,012	728
	1,012	1,929	1,012	1,929

Share-based payments reserve

This reserve relates to rights granted by the Group to its employees under its previous share-based payment arrangements. This plan has ceased and the final vesting of any rights under this award was granted on 8 September 2016.

Employee share plan reserve

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

Further information about share-based payments to employees is set out in Note 38.

Movements in reserves

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

	Shared-based Payments Reserve	Employee Share Plan Reserve	Total
Consolidated and Parent	**$'000**	**$'000**	**$'000**
Balance at 1 July 2015	2,022	316	2,338
Employee share plan expense	868	-	868
Issue of shares held by entity to employee	(1,689)	-	(1,689)
Employee share plan – deferred	-	412	412
Balance at 30 June 2016	1,201	728	1,929
Issue of shares held by entity to employee	(1,201)	(28)	(1,229)
Employee share plan – deferred	-	312	312
Balance at 30 June 2017	-	1,012	1,012

NOTE 27. EQUITY - DIVIDENDS

Dividends

Dividends declared and/or paid fully franked at 30% tax rate in respect of the corresponding financial year.

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 180 cents (2015: 120 cents) per ordinary share	2,009	1,313
Interim dividend for the year ended 30 June 2017 of 50 cents (2016: 120 cents) per ordinary share	558	1,313
	2,567	2,626

Since year end, the Directors have declared a final dividend of 210 cents per fully paid ordinary share (2016: 180 cents), fully franked based on tax paid at 30%. The aggregate amount of the declared dividend expected to be paid on 22 September 2017 out of profits for the year ended at 30 June 2017, but not recognised as a liability at year end is $2,350,013 (2016: $2,009,000).

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

Franking credits

	2017 $'000	2016 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	4,185	3,366

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Accounting policy for dividends

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

NOTE 28. FINANCIAL INSTRUMENTS

Financial risk management objectives and framework

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

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

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

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

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

Market risk

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

Exposure

The Group's revenue is significantly dependent on Funds Under Management (FUM) which is influenced by equity market movements. Management calculates that a 10% movement in FUM changes annualised revenue by approximately $2,141,000 (2016: $1,718,000).

Credit risk

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

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

Liquidity risk

Vigilant liquidity risk management requires the consolidated group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. In addition, a twelve month 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.

Remaining contractual maturities

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

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives					
Non-interest bearing					
Trade payables	3,691	-	-	-	3,691
Total non-derivatives	3,691	-	-	-	3,691

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2016 restated	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives					
Non-interest bearing					
Trade payables	2,594	-	-	-	2,594
Income tax payable	605	-	-	-	605
Total non-derivatives	3,199	-	-	-	3,199

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Parent - 2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives					
Non-interest bearing					
Trade payables	3,025	-	-	-	3,025
Total non-derivatives	3,025	-	-	-	3,025

NOTE 28. FINANCIAL INSTRUMENTS (CONTINUED)

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Parent - 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives					
Non-interest bearing					
Trade payables	2,387	-	-	-	2,387
Income tax payable	411	-	-	-	411
Total non-derivatives	2,798	-	-	-	2,798

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

NOTE 29. FAIR VALUE MEASUREMENT

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

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

NOTE 30. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Short-term employee benefits	2,649,684	2,110,600	2,530,259	1,982,408
Post-employment benefits	264,060	147,150	252,714	134,972
Long-term benefits	77,731	44,328	77,731	44,328
Share-based payments	104,440	674,974	104,440	674,974
	3,095,915	2,977,052	2,965,144	2,836,682

Comparatives have been represented to be consistent with the current year approach of measuring key management personnel employee benefits, as prescribed under the relevant accounting standards.

Information regarding key management personnel's remuneration and shares held in Australian Ethical Investment Limited as required by Corporations Regulations 2M.3.03 is provided in the Remuneration Report.

NOTE 31. REMUNERATION OF AUDITORS

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

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Audit services for the consolidated group and subsidiaries - KPMG				
Audit or review of the financial statements	151,710	57,710	111,450	37,450
Audit services in accordance with regulatory requirements	44,950	42,480	44,950	38,050
Assurance services in relation to Sustainability Report	19,500	19,500	19,500	19,500
	216,160	119,690	175,900	95,000
*Audit services for the non-consolidated trusts and super funds – KPMG**				
Audit and review of managed funds for which the Company acts as Responsible Entity	137,400	137,400	137,400	137,400
Audit and review of superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity	26,160	26,160	-	-
Assurance services in accordance with regulatory requirements	62,760	48,330	-	-
	226,320	211,890	137,400	137,400
Non-audit services - KPMG				
Tax advice	150,087	41,850	121,637	34,900
Other accounting advice	106,023	63,775	106,023	41,775
	256,110	105,625	227,660	76,675
Total fees paid to KPMG	698,590	437,205	540,960	309,075

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

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

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and

- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they do not involve reviewing or auditing the auditor’s own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

NOTE 32. COMMITMENTS

Operating lease commitments relate to the lease of office premises. The Group entered a new long-term operating lease for its Sydney office for a period of 7 years including additional office space on 1 July 2016. Lease incentives were received and are recognised as a liability in the Statement of Financial Position. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Lease incentives were received and 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.

The Group has provided a bank guarantee of $504,000 over the rental of building premises at 130 Pitt Street.

The Group does not have an option to purchase the premises at the expiry of the lease period.

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Lease commitments - operating				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	503	483	503	483
One to five years	2,175	2,134	2,175	2,134
More than five years	588	-	588	-
	3,266	2,617	3,266	2,617
Liabilities recognised in respect of non-cancellable operating leases				
Lease incentives:				
Current	162	80	162	80
Non-current	547	69	547	69
	709	149	709	149

NOTE 33. RELATED PARTY TRANSACTIONS

Parent entity
Australian Ethical Investment Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 34.

Directors' remuneration
Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the Directors' report.

NOTE 33. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related parties

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

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

- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Income Fund (formerly Australian Ethical Cash Fund)
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Property Trust
- Australian Ethical Emerging Companies Fund
- Australian Ethical Balanced Fund

Transaction with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	2017	2016	2017	2016
	$	$	$	$
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	-	-	3,800,000	3,803,470
Investment management fees	-	-	7,337,121	5,202,786
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	-	-	1,056,928	714,907
Dividends from the subsidiary	-	-	1,378,114	2,688,557
Director fee reimbursement from subsidiary	-	-	133,308	136,323
Receipts from the Australian Ethical Trusts:				
Provision of investments services to the AETs as identified above in accordance with the trust deed	9,288,631	7,616,711	9,288,631	7,616,711
Receipts from Australian Ethical Retail Superannuation Fund:				
Provision of investment management/ administration services to AERSF	16,073,237	12,888,710	-	-
Provision of member administration services to AERSF	2,662,247	2,018,014	-	-
Investment management fee rebate given to AERSF	(192,055)	(70,008)	-	-
Payments to Australian Ethical Foundation Ltd:				
Community grants paid to The Foundation	-	-	395,314	480,542

NOTE 33. RELATED PARTY TRANSACTIONS (CONTINUED)

Receivable from and payable to related parties

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

	Consolidated		Parent	
	2017	2016	2017	2016
	$	$	$	$
Current receivables:				
Amounts receivable from the AETs	431,977	53,140	431,977	53,140
Amounts receivable from AES	-	-	1,306,140	50,201
Amounts receivable from AERSF	286,423	396,572	-	-
Current payables:				
Amounts payable to AERSF	(1,855)	(1,675)	-	-
Amounts payable to The Foundation	(379,141)	(395,314)	(379,141)	(395,314)
Amounts payable to AES	-	-	(6,492)	-

Terms and conditions

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

NOTE 34. INTERESTS IN SUBSIDIARIES

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

		Ownership interest	
Name	Principal place of business / Country of incorporation	2017	2016
		%	%
Australian Ethical Superannuation Pty Limited (AES) - Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%
Australian Ethical Foundation Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100%	100%

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

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

NOTE 35. EVENTS AFTER THE REPORTING PERIOD

3,200 shares will be issued on 7 September 2017 to the Employee Share Trust for employee long term incentives. This amount comprises 12,416 shares for financial year 2017-2018 less 9,216 shares forfeited from prior years.

Apart from the dividend declared as disclosed in Note 27, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated group's operations, the results of those operations, or the consolidated group's state of affairs in future financial years.

NOTE 36. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM/(USED IN) OPERATING ACTIVITIES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	Restated $'000	$'000	$'000
Profit after income tax for the year	2,924	3,186	1,833	4,032
Adjustments for:				
Depreciation and amortisation	284	182	284	182
(Gain)/loss on disposal of property, plant and equipment	210	(7)	210	(7)
Non-cash employee benefits expense - share-based payments	200	1,188	200	1,188
Impairment loss	(228)	181	(228)	181
Unamortised lease incentive	568	(53)	568	(53)
Dividend received from subsidiary	-	-	(1,378)	(2,689)
Change in operating assets and liabilities:				
Decrease/(increase) in trade and other receivables	(470)	1,286	(1,638)	1,608
Decrease/(increase) in deferred tax assets	12	(142)	(169)	101
Decrease/(increase) in other current assets	18	(45)	6	(41)
Increase/(decrease) in trade and other payables	906	(1,228)	449	(424)
Increase/(decrease) in employee benefits	232	(297)	232	(297)
Increase/(decrease) in other provisions	(465)	900	254	-
Decrease in current tax liability	(908)	(477)	(721)	(110)
Net cash from/(used in) operating activities	3,283	4,674	(98)	3,671

NOTE 37. EARNINGS PER SHARE

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit after income tax attributable to the owners of Australian Ethical Investment Limited	2,924	3,186

	Cents	Cents
Basic earnings per share	269.98	298.50
Diluted earnings per share	262.25	287.74

	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,082,877	1,067,549
Adjustments for calculation of diluted earnings per share:		
Rights over ordinary shares	26,583	39,929
Deferred shares	5,306	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,114,766	1,107,478

Recognition and measurement

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

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

NOTE 38. SHARE-BASED PAYMENTS

The following share-based payment arrangements existed as at 30 June 2017.

(a) Performance rights (equity-settled)

During the year, all outstanding performance rights to ordinary shares vested and there were no new issuances of performance rights. Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is nil (2016: $868,000) relating to rights issued under this program.

(b) Deferred shares

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

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is $200,000 (2016: $320,000) relating to the performance shares granted.

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

2017						
Grant date	**Vesting date**	**Balance at the start of the year**	**Granted**	**Vested**	**Forfeited**	**Balance at the end of the year**
31/08/2014	31/08/2017	12,394	-	(388)	(6,861)	5,145
31/08/2015	31/08/2018	10,358	-	(173)	(1,625)	8,560
31/08/2016	31/08/2019	-	10,663	(31)	(2,054)	8,578
03/01/2017	31/08/2019	-	1,321	-	-	1,321
		22,752	11,984	(592)	(10,540)	23,604

Recognition and measurement
Equity-settled share-based compensation benefits are provided to employees.

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

The grant-date fair value of equity-settled transactions are recognised as an employee expense with a corresponding increase in equity over the vesting period that 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 conditions are expected to be met and the prevailing share price. The objective is that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date.

NOTE 39. CONTINGENT LIABILITIES

A claim for specified damages was lodged by a subsidiary of the Company during the financial year against the Company relating to the unit pricing matter disclosed in Note 21. No further information is disclosed as the disclosure of such information may prejudice the Company's position in the claim.

NOTE 40. RESULTS OF THE FOUNDATION

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

As at and for the year ended 30 June 2017, the impact of The Foundation before intercompany eliminations is noted below:

	2017 $'000	2016 $'000
Statement of comprehensive income		
Revenue from parent entity	379	876
Interest income	5	1
Community grants expense	(380)	(450)
Surplus for the period	4	427

	2017 $'000	2016 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	372	252
Receivables from parent entity	379	395
Liabilities:		
Payables	(320)	(220)
Net assets	431	427
Equity		
Current year surplus	4	427
Retained earnings	427	-
Total equity	431	427

DIRECTOR'S DECLARATION

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Company's and Consolidated Group's financial position as at 30 June 2017 and of their performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Company and the Consolidated Group will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Phil Vernon
Managing Director and Chief Executive Officer
30 August 2017

This is the original version of the audit report over the financial statements signed by the directors on 30 August 2017. Page references should be read as follows to reflect the correct references now that the financial statements have been presented in the context of the annual report in its entirety:

- The audited Remuneration Report is set out on pages 50 to 65, as opposed to pages 7 to 22 as outlined below.

Independent Auditor's Report

To the shareholders of Australian Ethical Investment Limited

Report on the audits of the Financial Reports

Opinions

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

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

- giving a true and fair view of the ***Group***'s and of the ***Company***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2017
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinions

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

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

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

Key Audit Matters

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

- Remediation Expense
- Management and Performance Fees (net of rebates)
- Investment Property held for sale

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

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

Remediation Expense – Group ($1.955m) and Company ($1.894m)

Refer to Note 21 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audits
Remediation Expense is a key audit matter due to the following: • The unit pricing error identified in the prior year gave rise to the need to remediate members of the Australian Ethical Retail Superannuation Fund (the Superannuation Fund). At prior year end, the investigation was not yet completed, thus raising our concern for further risk of error and therefore remediation continuing into the current year. • Identification of one other previously unknown unit pricing error as the investigation progressed in the current year, increasing our risk assessment, focus and testing of the remediation amount, including the completeness of the remediation amount. • Significant audit effort was necessary to assess the remediation expense amount. The Group engaged an independent actuarial expert to assist in the investigation of the unit pricing errors and estimate the amount necessary to remediate members of the Superannuation Fund. • The model used to calculate the unit pricing remediation amount was complex and detailed. This necessitated the involvement of our own independent actuarial specialist and experienced team members' time.	Working with our actuarial specialist, our procedures included: • Considered the competence, scope and objectivity of the Group's independent actuarial expert's work as well as understand the assumptions and methods used in the remediation model. • Assessed the logic of the model and methodology employed by the Group's independent actuarial expert against industry practice and regulatory guidance where available. • Assessed the controls and processes the Group's independent actuarial expert employed in determining a complete list of unit pricing errors and the accuracy of the data used in the model calculations. • Corroborated source data used in the model against data obtained from the administrator of the Superannuation Fund. • For a sample of members, assessed the integrity of the calculation of the remediation amount, including the accuracy of the underlying calculation formulas.

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Management and performance fees (net of rebates) – Group ($20.921m) and Company ($20.482m)	
Refer to Note 5 to the Group Financial Report and Company Financial Report	
The key audit matter	**How the matter was addressed in our audits**
Management and performance fees (net of rebates) were a key audit matter due to the unique fee arrangements in place for each fund which necessitated considerable audit effort. This was the Group and Company's key revenue generating activity constituting 74% and 92% of total revenue, respectively.	Our procedures included: • We read and understood the unique management and performance fee arrangements in the Product Disclosure Statements ("PDS") of each of the funds. • We performed a recalculation of a sample of the fees using the fee percentages and average funds under management, obtained from each of the Product Disclosure Statements and underlying fund financial records respectively. We compared the independently calculated fee revenue calculations to those of the Group and Company and investigated significant differences. • We checked the average funds under management to the external service providers' reports.

Investment Property held for sale – Group ($1.610m) and Company ($1.610m)	
Refer to Note 15 to the Group Financial Report and Company Financial Report	
The key audit matter	**How the matter was addressed in our audits**

The valuation of the property classified as held for sale was a key audit matter due to the quantum of the balance and the assumptions applied when estimating the fair value of the property which included estimated capitalisation rates which are used for present value adjustments. This necessitated increased audit effort to assess these assumptions and the methodology employed. The Company engaged an external independent valuer to provide an independent valuation of the property. They used the Capitalisation of Net Income approach and the Direct Comparison Approach from which an adopted value is provided. The Company and Group then assessed the valuation and based on their knowledge of the property and location, estimated an overall value for the property.	Our procedures included:
	• Considered the competence, scope and objectivity of the independent valuer.
	• We obtained the independent valuer's report and assessed the valuation methodologies and key assumptions used based on our knowledge of the property, its location and the industry as a whole. This included:
	  • Assessing the valuation methodologies for consistency with accounting standards and industry practice
	  • Comparing key inputs such as rental income and rental duration against signed rental agreements
	  • Comparing estimated capitalisation rates to similar properties as determined by

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	the external independent valuer. • Assessing the expected rental income following expiry of the current leases based on our knowledge of the property and the rental market in the area. • Assessing the comparability of the properties determined by the external independent valuer, by comparing the property size, location and rental income to our knowledge of the property.

Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

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Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 7 to 22 of the Directors' report for the year ended 30 June 2017.

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

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Tanya Gilerman
Partner

Sydney
30 August 2017

SHAREHOLDER INFORMATION AS AT 1 SEPTEMBER 2017

Security	Number of holders	Number of issue	Voting rights
Fully paid ordinary shares	1,437	1,115,854	One vote per share

Shareholder	Balance	%
Select Managed Funds Pty Ltd	196,472	17.61
Mr J A Thier	51,367	4.60
Ms C LE Couteur	49,336	4.42
Pacific Custodians Pty Ltd	32,823	2.94
Mr H Pender	32,077	2.87
Mr E Y W & Mrs P B Y Tse	31,000	2.78
Mrs J M Boag	28,503	2.55
Mr T R Lee	26,376	2.36
Mrs A M & Mr B A McGregor	22,447	2.01
National Nominees Limited	22,172	1.99
HB Sarjeant & Assoc Pty Ltd	20,140	1.80
Mr A S Cook	18,176	1.63
Garrett Smythe Ltd	17,499	1.57
Ms D Thier	15,297	1.37
Mr P A Vernon	13,449	1.21
Dr J I Ajani	11,256	1.01
Mr A C Gracey	10,049	0.90
Mr M & Mrs A Beuchat	9,667	0.87
Nurturing Evolutionary Development Pty Ltd	9,600	0.86
BNP Paribas Noms Pty Ltd	8,995	0.81
Total	**626,701**	**56.16**
Balance of register	**489,153**	**43.84**
Grand total	**1,115,854**	**100.00**

DISTRIBUTION OF HOLDINGS OF FULLY PAID SHARES

Range	No. of holders	Securities	%
1 to 1,000	1,313	247,759	22.20%
1,001 to 5,000	97	197,075	17.66%
5,001 to 10,000	10	72,581	6.50%
10,001 to 100,000	16	401,967	36.02%
100,001 and Over	1	196,472	17.61%
Total	**1,437**	**1,115,854**	**100.00%**

On Friday, 1 September 2017:

- AEF ordinary shares closed at $114.53; accordingly, 5 or more shares constitute a marketable parcel; and
- the Company had 10 shareholders whose holding is not a marketable parcel, these 10 shareholders owned a total of 18 shares.

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Independent Limited Assurance Report to the Directors of Australian Ethical Investment Limited

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the Selected Sustainability Information, which has been prepared by Australian Ethical Investment Limited in accordance with management's reporting criteria for the period 1 July 2016 to 30 June 2017.

Information subject to assurance

The Selected Sustainability Information subject to this limited assurance engagement is restricted to the following quantitative and qualitative information as presented in the Annual and Sustainability Report 2017 ("the *Report*").

Quantitative and qualitative information	Included in the following section of the Report
We are fossil-fuel free	"True to the label" on page 7
The description of the 'approach to ethical investing'	"Our approach to ethical investing" on pages 12-13
Proportion of assets subject to positive and negative environmental or social screening	"Our approach to ethical investing" on pages 12-13
Share portfolio carbon footprint in tonnes of carbon dioxide per $mil and relative to the benchmark	"Our carbon footprint" on page 21

Criteria used as the basis of reporting

The applicable criteria used as the basis of reporting is the reporting criteria developed by Australian Ethical Investment Limited *("the criteria")*.

Basis for conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Selected Sustainability Information, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Summary of procedures performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant Australian Ethical Investment Limited personnel to understand the internal controls, governance structure and reporting process of the Selected Sustainability Information;
- reviews of relevant documentation;

- analytical procedures over the Selected Sustainability Information;
- walkthroughs of the Selected Sustainability Information to source documentation;
- evaluating the appropriateness of the criteria with respect to the Selected Sustainability Information; and
- Reviewed the Annual & Sustainability Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard defines limited assurance and material misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of the Selected Sustainability Information.

Use of this Assurance Report

This report has been prepared for the Directors of Australian Ethical Investment Limited for the purpose of providing an assurance conclusion on the Selected Sustainability Information and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Australian Ethical Investment Limited, or for any other purpose than that for which it was prepared.

Directors' responsibility

The Directors are responsible for:

- determining that the criteria is appropriate to meet their needs and the needs of intended users;
- preparing and presenting the Selected Sustainability Information in accordance with the criteria;
- establishing internal controls that enable the preparation and presentation of the [information subject to assurance] that is free from material misstatement, whether due to fraud or error; and
- maintaining integrity of the website.

Our responsibility

Our responsibility is to perform a limited assurance engagement in relation to the Selected Sustainability Information for the period 1 July 2016 to 30 June 2017, and to issue an assurance report that includes our conclusion.

Our independence and quality control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

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Chi Mun Woo
Partner

Sydney

14 September 2017

Company directory

AEI GROUP

Responsible Entity
Australian Ethical Investment Limited
ACN 003 188 930; AFSL Number 229949

Registrable Superannuation Entity
Australian Ethical Superannuation Pty Limited
ACN 079 259 733; RSEL Number L0001441

Australian Ethical Foundation Limited
ACN 607 166 503

OFFICES

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Fax +61 2 9287 0303
Email registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

SECURITY EXCHANGE LISTING

Australian Ethical Investment Limited is listed on the Australian Securities Exchange
ASX Code: AEF

DIRECTORS

Steve Gibbs (Chair and Non-Executive Director)
Mara Bun (Non-Executive Director)
Tony Cole (Non-Executive Director) until 30 June 2017
Kate Greenhill (Non-Executive Director)
Phillip Vernon (Managing Director and Chief Executive Officer)

COMPANY SECRETARY

Tom May

BANKER AND CUSTODIAN

National Australia Bank Limited
Level 3, 255 George Street
Sydney NSW 2000

ADMINISTRATOR

For superannuation
Link Super Pty Ltd
Locked Bag 5125
Parramatta NSW 2124

For managed funds
Boardroom Pty Ltd
GPO Box 3993
Sydney NSW 2001

AUDITORS AND TAXATION

KPMG Australia
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Sydney NSW 2000

MEDIA ENQUIRIES

Honner
Suzanne Dwyer
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