australianethical *ASX Announcement*

Appendix 4E

For the year ended 30 June 2014

Australian Ethical Investment Limited and Controlled Entity
ABN 47 003 188 930

Results for announcement to the market

[All comparisons to year ended 30 June 2013]

	up / down	% movement		$ A
Revenues from ordinary activities	up	21%	to	19,889,186
Net profit after tax from ordinary activities (including significant items)	up	139%	to	2,542,526
Underlying net profit after tax (excluding significant items)	up	86%	to	3,111,195

Dividend information

	amount per share (cents)	franked amount per share (cents)	tax rate for franking credit
Interim 2014 dividend per share (paid 28 March 2014)	80.0	80.0	30%
Final 2014 dividend per share (to be paid 3 October 2014)	120.0	120.0	30%

Final dividend dates	
Record date	**16 September 2014**
Payment date	**3 October 2014**

The Dividend Reinvestment Plan (DRP) will not operate in respect of this dividend.

	30 June 2014	30 June 2013
Net tangible assets per security	**$8.80**	**$6.72**

Additional Appendix 4E disclosure requirements can be found in the notes to the 2014 Australian Ethical Limited consolidated financial statements attached.

This report is based on the consolidated financial statements which have been audited by KPMG.

Australian Ethical Investment Limited and its Controlled Entity
ABN 47 003 188 930

Consolidated Financial Report
for the year ended 30 June 2014

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Web www.australianethical.com.au **Post** GPO Box 8 Sydney NSW 2001
Australian Ethical Investment Ltd **ABN** 47 003 188 930 **AFSL** 229949

Directors' Report

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

Directors

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

Stephen Gibbs, Chair and Non-Executive Director
Mara Bun, Non-Executive Director
Tony Cole, Non-Executive Director
Kate Greenhill, Non-Executive Director
Phil Vernon, Chief Executive Officer and Managing Director
André Morony, Non-Executive Director – resigned 20 November 2013
Stephen Newnham, Executive Director – resigned 26 July 2013

Director's Particulars

Stephen Gibbs

Chair and Non-Executive Director

BEc, MBA

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

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

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

Mara Bun

Non-Executive Director

BA

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

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

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

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

Tony Cole

Non-Executive Director

AO, BEc

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

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

Prior to joining Mercer, Tony held several senior positions in the Commonwealth Public Service, including Secretary to the Treasury, Secretary of the Department of Health and Social Security, Deputy Secretary to the Department of the Prime Minister and Cabinet and Chair of the Industry Commission (now the Productivity Commission). Tony served as an

Alternative Director of the World Bank and was Treasurer Paul Keating's principal economic adviser and head of office in the early years of the Hawke-Keating government.

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

Kate Greenhill

Non-Executive Director

BEc FCA GAICD

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

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

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

Phil Vernon

Chief Executive Officer and Managing Director

BEc, MCom, MBA, FCPA, FAICD

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

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

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

Directors Who Resigned During the Period

André Morony

Non-Executive Director

BEc (Hons), MEc

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

André resigned as a Director on 20 November 2013.

Stephen Newnham

Executive Director

BA, LLB, DFP

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

Stephen resigned as a Director on 26 July 2013.

Company secretary

Tom May

BA, LLB, MBA

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

Subsidiary Board directors and Board committee members

Ruth Medd

Chair and Non-Executive Director, Australian Ethical Superannuation Pty Limited

BSc, Dip Comp Science, CPA, MAICD

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

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

Les Coleman

Non-Executive Director, Australian Ethical Superannuation Pty Limited

B.Eng.(Hons), B.Sc.(Hons), M.Ec., PhD

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

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

Principal activities

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

Changes in the state of affairs

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

Review of Operations

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

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

Funds Under Management and Revenue

- Funds under management increased by $179.6m, $88.1m due to market movements in addition to net inflows of $91.5m. Funds under management as at 30 June 2014 was $887.2m which is the highest for the Company since inception.
- Net inflows of $91.5m are made up of positive inflows of $77.6m (up from $18.0m last year) into our superannuation fund in addition to net inflows of $14.0m into our managed funds ($16.7m net outflow last year). Inflows into our managed funds have improved markedly reflective of improved investor sentiment and strong performance across all funds.
- Revenues increased by $3.5m representing an increase of 21% over the previous year. The main reasons for the revenue increase were the growth in equity markets and strong net inflows during the year which increased our funds under management.
- This was the first full year with our new fee structures across all products. The fee changes we have made in the last few years have had a significant impact on inflows and reducing outflows.
- Following a detailed review of product fees on the 30 June 2014 we reduced the fees on some of our products whilst increasing fees on others. The most significant change was a reduction of the administration fee charged in our superannuation product from 1.43% to 0.83%. The potential impact of the change in fees during the 2014/15 will be to reduce revenue margins and therefore revenue however lower fees will make our Superannuation product more competitive which will assist with future growth. The table below shows the change in revenue margins for each product and overall. Revenue margins have been calculated as annualised revenue divided by funds under management based on actual funds under management at 30 June 2014.

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

Expenses

- Operating expenses[1] increased by $0.50m, an increase of 3.6% over the previous year.

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

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

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

Community Grants

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

Underlying Profit

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

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

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

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

Statement of Financial Position (as at 30 June 2014)

Assets

- Total assets have increased by $3.96m to $14.24m during the financial year ended 30 June 2014.
- Cash balances increased by $4.05m to $7.94m primarily as a result of increased revenue from our funds as funds under management have grown. As a condition of the Company's Australian Financial Services (AFS) Licence the Company is required to maintain minimum Net Tangible Asset levels along with a significant cash balance. At all times during the financial year and as at 30 June 2014 the Company has met the conditions of its AFS Licence.
- Trade and other receivables increased marginally by $0.27 million to $2.75 million. These receivables primarily represent the accrual of fees on our products for the previous month.
- Due to a weakening commercial property market in Canberra the Company owned property in Bruce, ACT was independently re-valued resulting in an impairment charge of $0.282 million. This impairment charge is a non-cash charge to profit. The company has an active sales campaign underway with 16 parties introduced to the property over the past 12 months.
- The majority of the shares held by the Company to support the advocacy activities were sold during the year resulting in a realised loss of $6,965. An impairment charge of $116,811 was posted to profit and loss in 2012/13. The Company has changed its approach to its Advocacy activities and in the future will not be purchasing shares on its balance sheet to obtain voting blocks in target companies.

Liabilities

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

Equity

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

Dividends

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

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

[2] Planned payment date

Investment Performance

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

Fund	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Balanced	2nd	3rd	4th	1st	2nd
Smaller companies	2nd	1st	3rd	1st	1st
Smaller companies - Wholesale	2nd	-	-	-	-

Larger companies	1st	1st	1st	1st	1st
Larger companies – Wholesale	1st	-	-	-	-
Advocacy	1st	1st	-	-	-
Advocacy – Wholesale	1st	-	-	-	-
International equities	1st	4th	4th	3rd	-
Cash	2nd	1st	1st	1st	1st

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

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

Events subsequent to reporting date

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

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

Outlook - Likely developments and business strategies

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

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

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

Environmental Regulation

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

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

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

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

Auditor's Independence Declaration

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

Indemnification of Directors' and officers

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

Insurance

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

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

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

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

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

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

Director's meetings

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

Australian Ethical Investment Limited

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

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

Australian Ethical Superannuation Pty Limited

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

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

Directors' relevant interests in securities of the Company

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

Only Directors with interests are shown in the table above.

Directors' holdings in registered schemes made available by the Company

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

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

Rights as at the date of this report

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

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

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

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

Shares issued upon the exercise of share rights

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

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

Remuneration Report 2014

Dear Shareholder,

I am pleased to present our Remuneration Report for 2014.

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

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

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

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

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

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee

Contents

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. This has been audited as required by section 308(3C) of the *Corporations Act* 2001. Terms used throughout the report are defined in the section "Key Terms Used in this Report".

Governance structure

The Role of the People, Remuneration and Nominations Committee

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

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

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

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

The PRNC met five times during the year.

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

Use of Remuneration Consultants

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

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

Managing Director and KMP Performance

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

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

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

Remuneration Policy and Structure

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

General principles

The principles underpinning our remuneration framework are:

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

The remuneration philosophy is also consistent with the principles of the Company's Constitution and Charter. In particular:

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

Outcomes of votes at Annual General Meetings

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

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

Remuneration Structure in 2013/14

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

<table>
<tr><th>Remuneration element</th><th>How paid</th></tr>
<tr><td colspan="2">Fixed Remuneration</td></tr>
<tr><td>Each employee's remuneration is assessed against market data based on their position and the skills and experience they bring to the role.</td><td>Comprises:
• Cash
• Superannuation
• Packaged employee benefits and associated fringe benefits tax (FBT)</td></tr>
<tr><td colspan="2">Employee Bonus Plan</td></tr>
<tr><td>Available to all employees excluding employees who have access to the Short Term Incentive (STI) Program and Non-executive Directors.
Total pool determined with reference to Company's performance and allocated based on relative remuneration and adjusted to reflect the individual's performance.</td><td>• Cash</td></tr>
<tr><td>Short Term Incentive</td><td></td></tr>
<tr><td>Management team & certain other employees
Bonus awarded based on Company profits and performance against set objectives. For the Managing Director objectives include company performance, key strategic outcomes and risk management. For sales and marketing employees objectives include performance against new business and net inflow targets.</td><td>• Cash (50%)
• Performance Rights (50%)</td></tr>
<tr><td>Investment team
Bonus awarded based on Company profits and performance against investment benchmarks. Performance rights linked to the performance of the investment portfolio that their work is most directly related to.</td><td>• Cash (50%)
• Performance Rights (50%)</td></tr>
<tr><td colspan="2">Long Term Incentive</td></tr>
<tr><td>Total pool is determined and allocated to all employees based on relative remuneration. Certain employees have additional amounts allocated based on market assessments.
Rights vest as shares in 3 years and are subject to company performance hurdles as follows:
• If Return on Equity "RoE" is less than 15%, no shares are issued
• If RoE is greater than 15% but less than 20%, half the rights will vest
• If RoE is greater than 20%, 100% of the rights vest
• RoE determined as average over each 6 months over the 3 years</td><td>• Performance Rights</td></tr>
</table>

Employee Share Incentive Schemes

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

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

Overall constraint

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

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

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

It does not include:

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

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

Non-executive Directors

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

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

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

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

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

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

* inclusive of superannuation

Remuneration Structure in 2014/15

Review of Remuneration structure

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

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

Deferred shares

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

Performance hurdles

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

The hurdles are:

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

Constraint

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

Other Matters

Employment Contracts

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

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

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

Hedging Policy

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

Key Terms Used in this Report

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

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

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

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

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

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

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

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

Remuneration outcomes

Linkage between Company Performance and Remuneration

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

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

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

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

Outstanding Performance Rights

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

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

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

Key Management Personnel

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

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

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

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

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

Table 1: Remuneration Elements of KMP

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

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

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

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

Table 2A: Rights held by KMP

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

Table 2B: Shares held by KMP

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

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

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

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

Table 3: Remuneration of KMP's by components

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

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

KMP Loans

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

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

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

Phil Vernon

Managing Director & Chief Executive Officer

Dated: 29 August 2014

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

To: the directors of Australian Ethical Investment Limited

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

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

T. Gilerman

Tanya Gilerman
Partner

Sydney

29 August 2014

KPMG

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

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

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

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

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

Report on the remuneration report

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

Auditor's opinion

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

KPMG

KPMG

T. Gilerman

Tanya Gilerman
Partner

Sydney

29 August 2014

Consolidated statement of financial position
as at 30 June 2014

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

The accompanying notes form part of these Consolidated Financial Statements.

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

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

The accompanying notes form part of these Consolidated Financial Statements.

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

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

The accompanying notes form part of these Consolidated Financial Statements.

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

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

The accompanying notes form part of these Consolidated Financial Statements.

1. Reporting Entity

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

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

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

2. Statement of significant accounting policies

a) Statement of compliance

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

b) Basis of preparation

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

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

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

c) Business combinations

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group.

They are deconsolidated from the date that control ceases.

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

d) Income tax

i. Current income tax expense

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

ii. Deferred tax asset

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

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

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

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

iii. Tax group

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

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

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

e) Property, plant and equipment

i. Recognition and measurement

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

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

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

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

ii. Subsequent costs

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

iii. Impairment of tangible assets

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

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

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

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

iv. Depreciation

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

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

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

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

v. Intangible assets

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

f) Cash and cash equivalents

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

g) Financial instruments

i. Recognition

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

ii. Available-for-sale financial assets

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

iii. Loans and receivables

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

iv. Fair value

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

v. Effective interest method

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

vi. Impairment

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

h) Other financial liabilities

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

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

i) Employee Benefits

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

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

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

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

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

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

ii. Long service leave

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

iii. Share-based payment transactions

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

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

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

iv. Employee bonus

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

j) Community grants expense

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

(i) paid or provisioned for payment to current employees, or other persons performing work for the Group, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted.
(ii) gifted or provisioned for gifting an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the above mentioned bonus and amount gifted been deducted.

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

k) Provisions

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

l) Revenue and income recognition

i. Revenue from the provision of services

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

ii. Investment income

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

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

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

iii. Proceeds from sale of investments

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

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

m) Goods and services tax (GST)

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

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

All revenue is stated net of the amount of GST.

n) Earnings per share

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

i. Basic earnings per share

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

ii. Diluted earnings per share

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

o) Leases

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

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

p) Segment reporting

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

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

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

q) Comparative figures

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

r) Critical accounting estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis.

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

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

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

s) Application of new and revised accounting standards

Standards and interpretations affecting amounts reported in the current period

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

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

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

i. Subsidiaries

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

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

ii. Disclosure of interests in other entities

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

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

iii. Fair value measurement

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

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

iv. Employee benefits

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

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

v. Segment information

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

vi. Key Management Personnel disclosures

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

vii. Comparative figures

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

viii. Summary of quantitative impact

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

Standards and interpretations in issue not yet adopted

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

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

3. Auditors' remuneration

Remuneration of the auditors for:

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

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

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

4. Revenue

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

5. Expenses

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

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

Restatement of 30 June 2013 Comparatives

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

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

6. Income tax expense

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

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

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

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

7. Dividends

a) Dividends paid

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

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

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

b) Subsequent Events

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

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

8. Earnings per share

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

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

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

9. Cash and cash equivalents

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

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

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

10. Trade and other receivables

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

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

11. Financial assets

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

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

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

12. Other current assets

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

13. Property, plant and equipment

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

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

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

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

14. Intangible assets

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

15. Tax assets

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

16. Trade and other payables

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

17. Tax liabilities

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

18. Provisions

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

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

19. Contributed equity

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

a) Movements in Share Capital

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

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

b) Rights

(i) For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan, including details of rights issued, exercised and lapsed during the financial year and the rights outstanding at year-end, refer to Note 27 Share-based payments.
(ii) For information related to rights issued to key management personnel during the financial year refer to the remuneration report contained within the Directors' report.

c) Ordinary shares

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

d) Capital management

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

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

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

20. Reserves, net of tax

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

a) Nature and purpose of reserves

i. Asset revaluation reserve

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

ii. Share-based payment reserve

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

21. Retained earnings

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

22. Assets classified as held for sale

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

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

23. Commitments and contingencies

a) Leasing arrangements

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

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

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

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

b) Guarantees

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

c) Other commitments

The Group has no other commitments.

24. Cash flow information

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

25. Related party transactions

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

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

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

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

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

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

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

Outstanding balances are unsecured and are repayable in cash.

26. Key management personnel compensation

a) Key management personnel

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

Parent entity directors

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

Departed Parent entity directors

Name	Position
André Morony	Director, non-executive
Stephen Newnham	Director, Business Development, executive

Other key management personnel

Name	Position
David Barton	Chief Financial Officer
Adam Kirk	General Manager, Business Development
David Macri	Chief Investment Officer
Tom May	General Counsel & Company Secretary
Stuart Palmer	Head of Ethics & Corporate Advocacy
Paul Smith	General Manager, Strategy & Communications

b) Key management personnel compensation

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

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

27. Share based payments

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

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

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

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

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

a) Performance rights reconciliation

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

b) Performance rights summary

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

c) Fair value - Rights

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

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

28. Financial risk management

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

- Market Risk
- Credit risk
- Liquidity risk

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

a) Risk management framework

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

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

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

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

b) Market risk

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

i. Currency risk

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

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

ii. Interest rate risk

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

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

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

iii. Market risks arising from Funds Under Management

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

iv. Equity price risk

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

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

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

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

c) Credit Risk

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

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

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

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

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

d) Liquidity risk

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

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

	2014	2013
	$	$
Less than 6 months	**3,134,375**	1,564,843
6 months to 1 year	**275,061**	291,807
Total	**3,409,436**	1,856,650

e) Capital management

i. Capital requirements

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

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

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

ii. External requirements

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

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

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

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

29. Fair value measurements

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

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

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

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

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

30. Parent entity information

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

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

31. Subsidiaries

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

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

32. Events subsequent to reporting date

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

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

Directors' Declaration

1. In the opinion of the directors of Australian Ethical Investment Limited (the "Company"):

    a. The consolidated financial statements and notes that are set on pages 36 to 71 and the remuneration report on page 15 to 33 in the Directors' report, are in accordance with the Corporations Act 2001, Including:

        (i) Giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
        (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001; and

    b. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the company and the group entities identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive office and chief financial officer for the financial year ended 30 June 2014.

4. The Directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

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Phil Vernon
Managing Director & Chief Executive Officer

Dated at Sydney this 29th day of August 2014.