Appendix 4E

For the year ended 30 June 2016

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

Results for announcement to the market

[All comparisons to year ended 30 June 2015]

	up / down	% movement		$'000
Revenues from ordinary activities	up	9%	to	23,039
Net profit after tax from ordinary activities (including significant items)	up	53%	to	3,010
Underlying net profit after tax (excluding significant items)	up	56%	to	3,821

Dividend information

	amount per share (cents)	franked amount per share (cents)	Franking Level
Interim 2016 dividend per share (paid 27 March 2016)	120.0	120.0	100%
Final 2016 dividend per share (to be paid 23 September 2016)	180.0	180.0	100%

Final dividend dates	
Record date	**9 September 2016**
Payment date	**23 September 2016**

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

	30 June 2016	30 June 2015
Net tangible assets per security	**$12.30**	**$9.80**

Additional Appendix 4E disclosure requirements can be found in the notes to the 2016 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 Entities

ABN 47 003 188 930

Consolidated Financial Report for the year ended 30 June 2016

Australian Ethical Investment Limited and its Controlled Entities

ABN 47 003 188 930

Consolidated Financial Report - 30 June 2016

Contents

Directors' report

The directors present their report together with the consolidated financial statements of the Group comprising Australian Ethical Investment Limited (the Company) and its subsidiaries for the year ended 30 June 2016 and the auditor's report thereon.

1. Directors

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

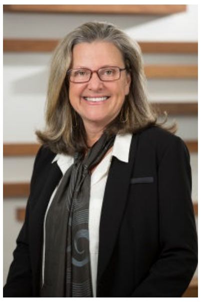
The Australian Ethical Board

Steve Gibbs

Non-Executive Director since 2012 and Chair since 2013
BEcon, MBA
Steve chairs the People, Remuneration and Nominations Committee, is a member of the AEI and AES Audit, Compliance and Risk Committees and is now the Chair of Australian Ethical Superannuation Pty Limited (AES) and the Australian Ethical Foundation Ltd. Steve has a long history of involvement in the investment and superannuation industries, particularly focused on ethical and responsible investing.

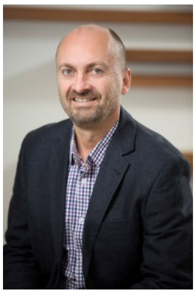
Kate Greenhill

Non-Executive Director since 2013
BEc, FCA, GAICD
Kate is chair of the Audit, Compliance and Risk Committee and a member of the People, Remuneration and Nominations Committee. Kate is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd. Kate has extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK, and has over 20 years' experience in providing assurance and advisory services to clients in the financial services industry.



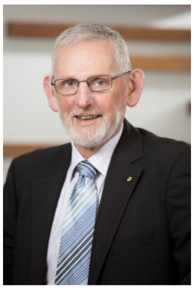
Mara Bun

Non-Executive Director since 2013
BA
Mara is a member of the People, Remuneration and Nominations Committee and the Audit, Compliance and Risk Committee and is a Director of Australian Ethical Superannuation Pty Limited and the Australian Ethical Foundation Ltd. Mara brings more than 20 years of business and community experience to Australian Ethical.



Phil Vernon

CEO since 2009 and Managing Director since 2010
BEc, MCom, MBA, FCPA, FAICD
Phil is a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Pty Limited. He has over 30 years' experience in financial services covering funds management, superannuation, corporate governance and industry regulation.



Tony Cole

Non-Executive Director since 2013
AO, BEc
Tony is a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd. Tony is also member of the People, Remuneration and Nominations Committee and the AEI and AES Audit, Compliance and Risk Committees. Tony has an extensive background in investment and public service.

2. Company secretary

Tom May BA, LLB, MBA, FGIA 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.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are.

Director	Board		People, remuneration and nominations		Audit, compliance and risk	
	Eligible	Attend	Eligible	Attend	Eligible	Attend
Stephen Gibbs	10	10	6	6	7	7
Mara Bun	10	10	6	6	7	7
Tony Cole	10	10	6	6	7	7
Kate Greenhill	10	10	6	6	7	7
Phil Vernon	10	10	-	-	6	6
Ruth Medd	-	-	-	-	4	4
Les Coleman	-	-	-	-	1	1

4. Principal activities

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

5. Operating and financial review

The consolidated profit for the year to 30 June 2016 is $3.010m (2015: $1.970m). A review of operations for the Group is set out in the Shareholder Newsletter on pages 10 to 14.

6. 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 year 2016				
Final 2015	120	1,313,052	Franked	30 September 2015
Interim 2016	120	1,313,052	Franked	24 March 2016
Total	240	2,626,104		
Declared after end of year				
Final 2016	180	2,008,535	Franked	23 September 2016[1]

[1] Planned payment date

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

7. Events subsequent to reporting date

6,832 shares were issued on 31 August 2016 to the Employee Share Trust for employee long term incentives. This amount comprises of 10,663 shares for FY 2016-17 tranche less 3,831 shares forfeited from prior years.

On 31 August 2016 14,812 LTI employee share rights (AEFAE) were issued to employees following vesting of shares on 30 June 2016.

Other than the matters discussed above, the Director's believe there has not been any transaction or event of a material and unusual nature between the end of the financial year and the date of this report.

8. Likely developments

The Group's business strategy is discussed in the Shareholder Newsletter.

9. Environmental regulation

The Company acts as a responsible entity for the Australian Ethical Property Trust and the Australian Ethical Balanced Trust, both of which owned direct property assets during the year. 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 and engages professional property managers to manage the properties.

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

The Company has determined that it is not required 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 last property in the Australian Ethical Property Trust was sold on 24 July 2015. Since that time the Trust has invested in units of unlisted property trusts that meet the investment criteria.
One of the two properties held in the Australian Ethical Balanced Fund was sold on 18 May 2016. The properties in this fund are not required to have a minimum of Green star rating.

10. Shares issued during the year and prior to the issue of the report

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

Date	Number of shares Issued	Reason
Balance 30 June 2015	1,053,817	
31 August 2015	11,899	Conversion of STI performance rights (AEFAG)
31 August 2015	16,834	Conversion of LTI performance rights (AEFAC)
31 August 2015	11,659	Issued to the Employee Share Trust as long term incentives
Balance 30 June 2016	1,094,209	
31 August 2016	6,832	Issued to the Employee Share Trust as long term incentives
31 August 2016	14,812	Conversion of LTI performance rights (AEFAE)
Balance 31 August 2016	1,115,853	

No further shares have been issued or are planned from the date of this report. No amounts are unpaid on any of the shares.

11. Indemnification of Directors' and Officers

Indemnification

The Company and its controlled entity indemnify the current Directors and officers of the Company and the controlled entity 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 Group, 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 Company has paid premiums to insure each of the directors and officers of the Company against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of directors and officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Details of the amount of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

12. 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 21.

Remuneration Report 2016

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for 2016.

The 2016 financial year has been an extraordinary one in terms of growth for the company. The foundations that we have laid over the past few years including the strengthening of our investment team, making our fees more competitive and improving our marketing have taken our funds under management beyond $1.5bn and delivered a significant increase in dividends and share price for shareholders.

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

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

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee

About this Report

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

Our Remuneration Policy and Structure

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

General principles

The principles underpinning our remuneration framework are:

- pay people fairly for the work that they do
- build long term ownership in the Company
- be motivating for employees
- align reward with contribution to the 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.

Remuneration Framework Summary

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

Remuneration Framework

Short Term Incentive

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

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

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

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

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

Long Term Incentive Scheme

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

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

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

The Deferred Share scheme operates as follows:

	Deferred share scheme
Description	Shares are issued or bought on market at the commencement of the 3 year performance period and held on trust. At the end of the period, subject to performance hurdles being met, shares transfer into the name of the employee.
Performance hurdles	50% will vest if the employee remains with the Company after 3 years. 50% will vest on the following basis: ▪ If EPS growth[1] is less than 5% pa, on average, zero will vest. ▪ If EPS growth is greater than 10% pa, on average, 100% will vest. ▪ If EPS growth is between 5% and 10% pa, on average, a pro rata amount will vest.
Dividends	Dividends paid on unvested shares; which: ▪ provides real value that employees lose if they leave the Company. ▪ provides a direct real interest in the six monthly dividend performance of the Company and hence alignment with shareholders' interests
Voting	Employees can vote on unvested shares
Expense to company	Cost of shares is fixed at time of issue and expensed over a three year period
Tax impact on company	Fully deductible in year of issue
Tax impact on employees	Tax crystallises only on exit from the employee share trust and therefore the payment of tax is more in the control of the employee

[1] Growth in EPS is defined as compound average annual growth in the Company's earnings per share comprising basic earnings per share (after tax). The Board may adjust EPS for items that do not reflect management and employee performance and day-to-day business operations and activities.

Actual Remuneration

Total remuneration paid and alignment with Company performance

Short term incentives (STI) rewards for KMPs are based on a range of key performance measures. Depending on the role these include a portion linked to current year profit, for the investment team a portion 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. STI rewards are provided for in the year they relate to and paid in the following year following the performance review process.

Other elements of remuneration are aimed at building longer term value. Long term incentives (LTI) is subject to average Earnings per Share Growth ("EPS") performance hurdles over the three year vesting period[2] and continued employment over the period. If these are not met the shares are held in trust and reduce the amount that is required to be funded in future years.

The following table shows how fixed remuneration, STI and LTI outcomes compared to the Company's financial results over the past five years. STI outcomes and company results are not expected to be perfectly correlated as the Company's STI performance assessment involves a broader consideration of the Company's progress in generating future value for shareholders (eg: non-financial performance and financial results relative to the targets set by the Board).

Five Year Performance	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016	Notes
Fixed Remuneration	**6,544,510**	**5,902,946**	**5,611,929**	**5,699,239**	**5,777,241**	1.
Directors fees*	**177,993**	**217,305**	**280,381**	**293,175**	**360,525**	
Bonus and rights expense						
STI constitutional bonus (old scheme)	*85,846*	*66,926*	*65,000*	-	-	2.
STI cash payable	*94,131*	*277,753*	*220,018*	*1,141,982*	*833,571*	3.
STI rights expense (old scheme)	-	*164,857*	*473,191*	*479,943*	-	4.
LTI rights expense (old scheme)	*231,478*	*70,696*	*436,139*	*928,557*	*848,985*	5.
LTI shares issued (new scheme)	-	-	-	*175,852*	*320,559*	6.
Rights under/over accrual	-	*(56,098)*	*21,226*	*64,355*	*18,893*	7.
Bonus under/over accrual	-	*(13,250)*	*7,508*	*228,152*	*(42,075)*	7.
Total Bonus and Rights Expense	**411,455**	**510,884**	**1,223,082**	**3,018,841**	**1,979,933**	
Other Employment Cost	**(348,450)**	**29,739**	**32,309**	**39,392**	**96,393**	
Total remuneration	**6,785,509**	**6,660,875**	**7,147,703**	**9,050,647**	**8,214,091**	
Net Profit After Tax ($'000)	402	1,063	2,543	1,970	3,010	
Underlying Profit After Tax ($'000)[3]	860	1,675	3,111	2,454	3,821	
Return on Equity (3 year average)	11.1%	12.1%	18.1%	23.4%	27.4%	
Earnings per share	40.10	104.84	248.51	190.00	281.97	
Earnings per share growth (3 year average)	-9.9%	54.1%	53.3%	89.3%	36.1%	
Share price at end of period ($)	17.50	19.50	35.45	58.80	81.11	
Dividends (c per share)	60	85	200	200	300	
Total shareholder return (TSR)	(5%)	16%	92%	72%	42%	
Average FTE	41.5	34.3	28.6	30.7	30.1	

*Directors fees includes both AEI Ltd and AES Pty Ltd directors. Renumeration of AES Pty Ltd is not included in the director pool approved at the AGM in October 2014

[2] From FY15 EPS growth replaced 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.
[3] Refer to shareholders newsletter on page 11 for reconciling table.

Notes:

1. Fixed remuneration has decreased and stabilised over time as the business has become more efficient operating with fewer people. Average salaries have increased as the Company has progressively moved people to market equivalent remuneration.
2. In 2015 the "Constitutional Bonus" paid to staff not in the STI scheme was discontinued as the STI scheme was rolled out to all employees.

3 a. The STI cash component increased significantly in 2015 due to:
    i. The inclusion of all employees in the Scheme
    ii. The move to pay STI as 100% cash rather than 50% cash and 50% performance rights. The cash payable under the new scheme includes 100% of the FY15 year STI expense compared to only 50% under the old scheme.
  b. The STI cash component for 2016 includes the accrual for expected bonuses in respect of meeting performance hurdles in the 2016 financial year which will be paid in the 2017 financial year. These performance hurdles included investment performance, flows and profit targets.
4. The final STI rights vested on 30 June 2015.
5. This is the final year for which there will be an item for LTI rights expense under the old scheme as the scheme rolls off to be replaced by the new scheme. In 2016 the amount has remained high despite it being in respect of only one year's worth of amortisation due to:
    a. The increased share price. Performance rights are amortised based on the prevailing share price at the end of the period
    b. Increased likelihood of meeting hurdles due to the increased RoE.

   This item will reduce to zero in the financial year ended 30 June 2017 as the new scheme (Note 6) increases.
6. For 2016 this is two years amortisation of the first issue of shares and one year's amortisation of the second issue of shares under the new share scheme. This will increase over time as further issues are made. Once the shares have been purchased any future share price changes do not impact expenses for the Company.
7. Over/under accruals are due to needing to finalise accounts prior to finalisation of performance assessments and are accrued based on "target".

Non-financial outcomes

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

Measure	2016 performance
Growth	Total net flows of $319m, a 78% increase on the previous year. Superannuation members increased by 24% over the year.
Investment performance	Regular top quartile investment performance in a number of funds.
Culture	Employee engagement score considered to be in "Best Employer" range. Risk & compliance measures included in all employee objectives.

Management Team Remuneration

The following tables show the fixed remuneration, maximum STI and LTI for each KMP as a proportion of total remuneration. Actual amounts received are shown under the Statutory Reporting tables.

	Position	Fixed Remuneration (%)	Maximum Short-term incentive (%)	Maximum Long Term incentive (%)
Managing Director & CEO				
P Vernon	Managing Director & CEO	56%	28%	16%
Current Management				
D Barton	CFO	77%	15%	8%
A Kirk	Head of Business Development & Client Relations	71%	21%	8%
D Macri	CIO	50%	33%	17%
T May	General Counsel & Company Secretary	77%	15%	8%
S Palmer	Head of Ethics	77%	15%	8%

Contract terms

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

	Term	Notice period
Managing Director	3 years concluding on 31 March 2019.	52 weeks before the Contract expiry date, the Company may terminate the Managing Director's employment by giving 52 weeks' notice in writing. In the event the Contract has less than 52 weeks to run before the expiry date, the Company may terminate the Managing Director's employment by giving notice to the expiry date.
Management team	No fixed term	12 weeks

Non-Executive Directors Remuneration

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

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

The following table sets out the agreed remuneration for Non-Executive Directors by position:

Director	Chair	NED	Committee Chair	Committee member	Total**
Australian Ethical Investment Limited – Group					
Stephen Gibbs	30,000	60,000	-	16,000	106,000
Tony Cole		60,000	-	16,000	76,000
Kate Greenhill		60,000	12,000	16,000	88,000
Mara Bun		60,000	-	16,000	76,000
Total Group	**30,000**	**240,000**	**12,000**	**64,000**	**346,000**

* All Directors above are also Directors of Australian Ethical Superannuation Pty Ltd and members of the Australian Ethical Superannuation Pty Ltd Audit, Compliance and Risk Committee.
** This table shows the Non-Executive Director remuneration for a full year, for actual remuneration received see below.

Statutory reporting

Management team remuneration

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

		Short Term Benefits		Post Employment Benefits	Equity			Long Term Benefits
Name	**Year**	**Salary, Fees and Leave ($)**	**Cash Bonus ($)**	**Superannuation ($)**	**Settled Share-based payments ($)**	**Total ($)**	**Performance Based Proportion ($)**	**Long Service Leave ($)**
Managing Director & CEO								
P Vernon	2016	355,753	139,342	19,307	258,661	773,063	51.5%	11,871
	2015	337,458	76,162	18,782	103,904	536,306	33.6%	10,842
Current Management								
D Barton	2016	247,193	37,183	19,252	33,281	336,909	20.9%	5,732
	2015	238,513	21,282	18,782	-	278,577	7.6%	5,915
A Kirk	2016	232,324	55,247	19,233	114,836	421,640	40.3%	5,719
	2015	212,000	30,502	18,782	11,344	272,628	15.3%	5,778
D Macri	2016	298,144	132,033	19,307	186,043	635,527	50.0%	10,084
	2015	280,124	67,179	18,782	100,574	466,659	35.9%	12,086
T May	2016	201,678	29,679	19,308	82,849	340,364	33.1%	6,952
	2015	193,356	17,696	18,782	21,376	251,210	15.6%	5,631
S Palmer	2016	178,449	26,451	19,465	8,761	233,126	15.1%	3,970
	2015	164,307	5,605	16,142	-	186,054	3.0%	4,167
Departed Management								
P Smith	2016	-	-	-	-	-	-	-
	2015	83,488	-	7,469	12,053	103,010	11.7%	-
Total	2016	1,513,541	419,935	115,872	684,432	2,733,780	40.4%	44,328
	2015	1,509,246	218,426	117,521	249,251	2,094,443	22.3%	44,419

For details on the performance criteria for each tranche of performance rights and deferred shares refer to Note 11 of the Notes to the Consolidated Financial Statements.

Notes in relation to the Management team remuneration:

1. The short term incentive bonus is for performance during the prior financial year using agreed KPI's. The amount was finally determined in September 2015 after performance reviews were completed and approved by the PRNC.
2. The value of share based payment is based on the market value of shares on the day they vest.

Non-Executive Directors remuneration

		Short Term Benefits		Post Employment Benefits	Equity			Long Term Benefits
Name	**Year**	**Salary, Fees and Leave ($)**	**Cash Bonus ($)**	**Superannuation ($)**	**Settled Share-based payments ($)**	**Total ($)**	**Performance Based Proportion ($)**	**Long Service Leave ($)**
Non-Executive Director's – Australian Ethical Investment Ltd - Group								
S Gibbs	2016	93,413	-	8,874	-	102,288	-	-
	2015	80,897	-	7,647	-	88,544	-	-
T Cole	2016	63,444	-	6,027	-	69,471	-	-
	2015	39,531	-	3,737	-	43,268	-	-
K Greenhill	2016	78,253	-	7,434	-	85,687	-	-
	2015	55,600	-	5,256	-	60,856	-	-
M Bun	2016	62,198	-	5,909	-	68,107	-	-
	2015	33,018	-	3,121	-	36,139	-	-
Departed Directors								
R Medd*	2016	21,084	-	2,003	-	23,087	-	-
	2015	35,531	-	3,359	-	38,890	-	-
L Coleman*	2016	10,854	-	1,031	-	11,885	-	-
	2015	23,278	-	2,200	-	25,479	-	-
Total	2016	329,246	-	31,278	-	360,525	-	-
	2015	267,856	-	25,319	-	293,175	-	-

* R Medd and L Coleman were directors of AES Pty Ltd

Non-Executive Directors remuneration includes directors of the subsidiary company which are not included in the directors pool approved at the AGM in October 2014.

Unvested performance rights, unvested shares and ordinary shares

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

Name	Rights/Shares Class	Balance at beginning of year	No. granted	No. forfeited/ Expired/ Sold	No. vested & exercised	Balance at the end of year
Managing Director & CEO						
P Vernon	AEFAC	2,432	-	-	(2,432)	-
	AEFAG	1,967	-	-	(1,947)	-
	AEFAE	4,037	-	-	-	4,037
	Deferred Shares	2,412	1,913	-	-	4,325
	AEF Ordinary shares	5,013	-	-	4,399	9,412
	2016 Total	**15,861**	**1,913**	**-**	**-**	**17,774**
	2015 Total	12,218	4,379	(736)	-	15,861
Current Management						
D Barton						
	AEFAG	566	-	-	(566)	-
	Deferred Shares	604	479	-	-	1,083
	AEF Ordinary shares	-	-	-	566	566
	2016 Total	**1,170**	**479**	**-**	**-**	**1,649**
	2015 Total	-	1,170	-	-	1,170
A Kirk	AEFAC	1,142	-	-	(1,142)	-
	AEFAG	811	-	-	(811)	-
	AEFAE	856	-	-	-	856
	Deferred Shares	537	426	-	-	963
	AEF Ordinary shares	28	-	(1,900)	1,953	81
	2016 Total	**3,374**	**426**	**(1,900)**	**-**	**1,900**
	2015 Total	2,346	1,348	(320)	-	3,374
D Macri	AEFAC	1,379	-	-	(1,379)	-
	AEFAG	1,785	-	-	(1,785)	-
	AEFAE	3,223	-	-	-	3,223
	Deferred Shares	2,313	1,834	-	-	4,147
	AEF Ordinary shares	-	-	(2,263)	3,164	901
	2016 Total	**8,700**	**1,834**	**(2,263)**	**-**	**8,271**
	2015 Total	9,767	4,483	(5,550)	-	8,700
T May	AEFAC	939	-	-	(939)	-
	AEFAG	470	-	-	(470)	-
	AEFAE	720	-	-	-	720
	Deferred Shares	501	398	-	-	899
	AEF Ordinary shares	-	-	(1,409)	1,409	-
	2016 Total	**2,630**	**398**	**(1,409)**	**-**	**1,619**
	2015 Total	2,641	971	(982)	-	2,630
S Palmer	AEFAG	149	-	-	(149)	-
	Deferred Shares	382	341	-	-	723
	AEF Ordinary shares	-	-	-	149	149
	2016 Total	**531**	**341**	**-**	**-**	**872**
	2015 Total	-	531	-	-	531

Name	Rights/Shares Class	Balance at beginning of year	No. granted	No. forfeited/ Expired/ Sold	No. vested & exercised	Balance at date of departure
Management who have departed during the prior financial year						
P Smith	AEFAC	-	-	-	-	-
	AEFAE	-	-	-	-	-
	AEFAF	-	-	-	-	-
	AEF Ordinary shares	629	-	-	-	629
	2016 Total	**629**	**-**	**-**	**-**	**629**
	2015 Total	2,303	-	(1,674)	-	629

For details on the performance criteria for each tranche of performance rights and deferred shares refer to Note 11 of the Notes to the Consolidated Financial Statements.

Future vesting schedule

Type	Issue year	Fair Value	Vesting date	Number
Rights*	FY 2011 - 12	$1,201,401	31/08/2016	14,812
Deferred Shares	FY 2013 - 14	$1,005,277	31/08/2017	12,394
Deferred Shares	FY 2014 - 15	$840,137	31/08/2018	10,358
Deferred Shares**	FY 2015 - 16	$864,876	31/08/2019	10,663
Total		$3,911,691		48,227

* On 31 August 2016 14,812 LTI employee share rights (AEFAE) were issued to employees following vesting of shares on 30 June 2016.

** 6,832 shares were issued on 31 August 2016 to the Employee Share Trust for employee long term incentives. This amount comprises of 10,663 shares for FY 2016-17 tranche less 3,831 shares forfeited from prior years.

Governance

The Role of the People, Remuneration and Nominations Committee

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

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

The PRNC members for the 2015/16 financial year were:

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

The PRNC met six times during the year.

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.

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 2015/16 is shown in Statutory Reporting table and relates to the previous financial year of 2014/15. This flows from a formula linking the bonus to year on year profit changes and reflects an increase in the results for that previous financial year.

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

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

Hedging Policy

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

Trading Restrictions and Windows

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

Outcomes of votes at Annual General Meetings

At the 2015 AGM, the Remuneration Report received 29.2% of the vote against it out of 52.6% of shareholders that voted on the report. This result constituted a 'first strike'.

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

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

Phil Vernon
Managing Director & Chief Executive Officer
Dated: 31 August 2016

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 2016 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

Tanya Gilerman
Partner

Sydney
31 August 2016

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 statements of financial position as at 30 June 2016, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 23 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities 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 1(a)(i), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements 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 entity'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 entity'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 Company's and the Group's financial position and of their 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 Australian Ethical Investment Limited is in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2016 and of their 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 1(a)(i).

Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 20 of the directors' report for the year ended 30 June 2016. 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 2016, complies with Section 300A of the *Corporations Act 2001.*

KPMG

KPMG

T. Gilerman

Tanya Gilerman
Partner

Sydney
31 August 2016

		Consolidated entity		Parent entity	
		2016	2015	**2016**	2015
	Notes	**$'000**	$'000	**$'000**	$'000
Revenue from continuing operations	2	**23,039**	21,171	**19,656**	18,240
Expenses					
External services	3	**(1,821)**	(1,714)	**(1,598)**	(1,330)
Employee benefits expense	10	**(8,214)**	(9,051)	**(8,077)**	(8,956)
Occupancy costs	3	**(365)**	(406)	**(365)**	(406)
Marketing and communication costs	3	**(1,382)**	(762)	**(1,364)**	(748)
Fund related expenses	3	**(3,322)**	(2,916)	**(1,004)**	(952)
Other expenses	3	**(2,448)**	(1,627)	**(1,454)**	(1,514)
Depreciation and amortisation expense	3	**(182)**	(186)	**(182)**	(186)
Gain/(loss) of disposal of assets		**7**	(74)	**7**	(74)
Community grants expense	3	**(395)**	(373)	**(395)**	(373)
Impairment of property, plant and equipment	7	**(181)**	(484)	**(181)**	(484)
Total expenses		**(18,303)**	(17,593)	**(14,613)**	(15,023)
Profit before tax		**4,736**	3,578	**5,043**	3,217
Tax expense	4(b)	**(1,726)**	(1,608)	**(1,011)**	(605)
Net profit for the year		**3,010**	1,970	**4,032**	2,612
Total comprehensive income for the year		**3,010**	1,970	**4,032**	2,612

		2016	2015
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Group:			
Basic earnings per share	21(a)	**281.97**	190.00
Diluted earnings per share	21(b)	**271.80**	180.69

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

	Notes	**Consolidated entity At 30 June 2016 $'000**	Consolidated entity At 30 June 2015 $'000	**Parent entity At 30 June 2016 $'000**	Parent entity At 30 June 2015 $'000
ASSETS					
Current assets					
Cash and cash equivalents	5	**14,072**	12,227	**12,349**	8,566
Trade and other receivables	6	**495**	1,780	**149**	1,757
Other current assets		**368**	323	**313**	272
Total current assets		**14,935**	14,330	**12,811**	10,595
Non-current assets					
Property, plant and equipment	7	**1,823**	2,068	**1,823**	2,068
Capitalised website development costs		**-**	57	**-**	57
Deferred tax assets	4(d)	**914**	772	**641**	742
Investment in subsidiary	17	**-**	-	**316**	316
Total non-current assets		**2,737**	2,897	**2,780**	3,183
Total assets		**17,672**	17,227	**15,591**	13,778
LIABILITIES					
Current liabilities					
Trade and other payables	8	**2,014**	3,191	**1,632**	1,930
Current tax liabilities		**605**	1,177	**412**	617
Provisions	9	**900**	-	**-**	-
Employee benefits	10	**1,169**	1,435	**1,169**	1,435
Total current liabilities		**4,688**	5,803	**3,213**	3,982
Non-current liabilities					
Trade and other payables	8	**69**	142	**69**	142
Employee benefits	10	**99**	130	**99**	130
Total non-current liabilities		**168**	272	**168**	272
Total liabilities		**4,856**	6,075	**3,381**	4,254
Net assets		**12,816**	11,152	**12,210**	9,524
EQUITY					
Issued capital	14	**8,693**	7,004	**8,693**	7,004
Reserves	15	**1,929**	2,338	**1,929**	2,338
Retained earnings		**2,194**	1,810	**1,588**	182
Total equity		**12,816**	11,152	**12,210**	9,524

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes.

Consolidated entity	Notes	**Issued capital $'000**	**Asset revaluation reserve $'000**	**Share-based payments reserves $'000**	**Retained earnings $'000**	**Total $'000**
Balance at 1 July 2014		6,432	(4)	1,122	1,933	9,483
Net profit for the year		-	-	-	1,970	1,970
Other comprehensive loss for the year		-	4	-	(4)	-
Total comprehensive income for the year		**-**	**4**	**-**	**1,966**	**1,970**
Transactions with owners in their capacity as owners:						
Shares issued due to rights vesting during the year	14, 15	572	-	(572)	-	-
Dividends provided for or paid	16	-	-	-	(2,089)	(2,089)
Employee share scheme - Rights	15	-	-	1,472	-	1,472
Employee share plan - Deferred shares	15	-	-	316	-	316
		572	-	1,216	(2,089)	(301)
Balance at 30 June 2015		**7,004**	**-**	**2,338**	**1,810**	**11,152**
Balance at 1 July 2015		7,004	-	2,338	1,810	11,152
Net profit for the year		-	-	-	3,010	3,010
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**3,010**	**3,010**
Transactions with owners in their capacity as owners:						
Shares issued due to rights vesting during the year	14, 15	1,689	-	(1,689)	-	-
Dividends provided for or paid	16	-	-	-	(2,626)	(2,626)
Employee share scheme - Rights	15	-	-	868	-	868
Employee share plan - Deferred shares	15	-	-	412	-	412
		1,689	-	(409)	(2,626)	(1,346)
Balance at 30 June 2016		**8,693**	**-**	**1,929**	**2,194**	**12,816**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Australian Ethical Investment Limited and its Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2016
(continued)

Parent entity	Notes	**Issued capital $'000**	**Asset revaluation reserve $'000**	**Share-based payments reserves $'000**	**Retained earnings $'000**	**Total $'000**
Balance at 1 July 2014		6,432	(4)	1,122	(337)	7,213
Net profit for the year		-	-	-	2,612	2,612
Other comprehensive loss for the year		-	4	-	(4)	-
Total comprehensive income for the year		**-**	**4**	**-**	**2,608**	**2,612**
Transactions with owners in their capacity as owners:						
Shares issued due to rights vesting during the year	14, 15	572	-	(572)	-	-
Dividends provided for or paid	16	-	-	-	(2,089)	(2,089)
Employee share scheme - Rights	15	-	-	1,472	-	1,472
Employee share plan - Deferred shares	15	-	-	316	-	316
		572	-	1,216	(2,089)	(301)
Balance at 30 June 2015		**7,004**	**-**	**2,338**	**182**	**9,524**
Balance at 1 July 2015		7,004	-	2,338	182	9,524
Net profit for the year		-	-	-	4,032	4,032
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**4,032**	**4,032**
Transactions with owners in their capacity as owners:						
Shares issued due to rights vesting during the year	14, 15	1,689	-	(1,689)	-	-
Dividends provided for or paid	16	-	-	-	(2,626)	(2,626)
Employee share scheme - Rights	15	-	-	868	-	868
Employee share plan - Deferred shares	15	-	-	412	-	412
		1,689	-	(409)	(2,626)	(1,346)
Balance at 30 June 2016		**8,693**	**-**	**1,929**	**1,588**	**12,210**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Australian Ethical Investment Limited and its Controlled Entities
Consolidated Statements of Cash Flows
For the year ended 30 June 2016

	Notes	Consolidated entity 2016 $'000	Consolidated entity 2015 $'000	Parent entity 2016 $'000	Parent entity 2015 $'000
Cash flows from operating activities					
Receipts from customers		**23,981**	36,273	**18,402**	31,028
Payments to suppliers and employees		**(16,946)**	(28,399)	**(13,400)**	(25,940)
Interest received		**216**	205	**172**	133
Income taxes paid		**(2,348)**	(1,426)	**(1,022)**	(746)
Community grants paid		**(481)**	(200)	**(481)**	(200)
Net cash inflow from operating activities	12	**4,422**	6,453	**3,671**	4,275
Cash flows from investing activities					
Payments for property, plant and equipment	7	**(58)**	(67)	**(58)**	(67)
Proceeds from sale of property, plant and equipment		**-**	5	**-**	5
Proceeds from sale of investments		**-**	1	**-**	1
Payments for website development costs		**-**	(26)	**-**	(26)
Dividends received from subsidiary		**-**	-	**2,689**	2,988
Net cash (outflow)/inflow from investing activities		**(58)**	(87)	**2,631**	2,901
Cash flows from financing activities					
Dividends paid to the Company's shareholders		**(2,519)**	(2,089)	**(2,519)**	(2,089)
Net cash (outflow) from financing activities		**(2,519)**	(2,089)	**(2,519)**	(2,089)
Net increase in cash and cash equivalents		**1,845**	4,277	**3,783**	5,087
Cash and cash equivalents at the beginning of the year		**12,227**	7,950	**8,566**	3,479
Cash and cash equivalents at the end of year	5	**14,072**	12,227	**12,349**	8,566

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes.

Contents of the Notes to the Financial Statements

1 About this report

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

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

The consolidated financial report was authorised for issue by the directors on 31 August 2016.

(a) Basis of preparation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set throughout the report. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

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

(i) Compliance with IFRS

The consolidated financial statements of the Australian Ethical Investment Limited and its Controlled Entities and the separate financial statements of Australian Ethical Investment Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the accruals basis and are based on historical cost convention, as modified by the revaluation of available-for-sale financial assets and property, plant and equipment.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group. The Group’s assessment of the impact of these new standards and interpretations is set out below.

Accounting Standard	Requirement	Impact on Financial Statements
AASB 9 *Financial Instruments* and consequential amendments	AASB 9 addresses the classification, measurement and derecognition of financial assets, financial liabilities, and hedging. This standard becomes mandatory for the June 2019 financial year, and will be applied prospectively.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.
AASB 15 *Revenue from Contracts with Customers*	AASB 15 provides a new five step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The standard become mandatory for the June 2019 financial year and will be applied retrospectively.	The potential effect of this standard is yet to be determined.

1 About this report (continued)

(a) Basis of preparation (continued)

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(b) Rounding of amounts

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

(c) Comparatives

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

(d) Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

The areas involving significant estimates or judgements are:

- Assessment of impairment of property, plant and equipment - Note 7
- Recognition and measurement of share based payments - Note 11
- Recoverability of deferred tax assets - Note 4
- Measurement of the amount of the provision for remediation - Note 9

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(e) Segment information

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group comprises of one main operating segment being Funds Management.

How numbers are calculated

This section provides additional information about those individual line items in the consolidated financial statements that the Directors consider most relevant in the context of the operations of the Group, including:

(a) accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction
(b) analysis and sub-totals
(c) information about estimates and judgements made in relation to particular items.

2 Revenue

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
From continuing operations				
Management and performance fees (net of rebates)	**16,069**	13,642	**16,674**	15,096
Member and withdrawal fees	**2,018**	1,675	**-**	-
Administration fees	**4,615**	5,609	**-**	-
Interest income	**246**	205	**202**	133
Other income	**91**	40	**91**	23
Dividends	**-**	-	**2,689**	2,988
	23,039	21,171	**19,656**	18,240

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

(i) Fee revenue

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

(ii) Dividends

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

(iii) Interest income

Interest income is recognised using the effective interest method.

3 Expenses

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
External services				
Ethical research	**134**	164	**134**	164
Audit	**543**	594	**420**	320
Consultants	**325**	379	**237**	293
Legal services	**118**	126	**115**	109
Other	**701**	451	**692**	444
	1,821	1,714	**1,598**	1,330
Depreciation and amortisation expense				
Depreciation	**126**	134	**126**	134
Amortisation	**56**	52	**56**	52
	182	186	**182**	186

3 Expenses (continued)

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Occupancy costs				
Rent	**242**	268	**242**	268
Rates and taxes	**63**	60	**63**	60
Electricity and gas	**28**	30	**28**	30
Other occupancy costs	**32**	48	**32**	48
	365	406	**365**	406
Marketing and communication costs				
Printing and stationery	**224**	159	**206**	145
Marketing	**1,158**	603	**1,158**	603
	1,382	762	**1,364**	748
Fund related expenses				
Administration and custody	**2,901**	2,447	**681**	591
Licence fees	**323**	315	**319**	258
APRA levy	**91**	88	**-**	-
Other fund related expenses	**7**	66	**4**	103
	3,322	2,916	**1,004**	952
Other expenses				
Insurance	**117**	115	**49**	48
IT	**1,027**	1,021	**1,014**	1,011
Travel	**205**	247	**203**	239
Subscriptions and listing	**87**	74	**87**	74
Remediation expense (Note 9)	**900**	-	**-**	-
Other	**112**	170	**101**	142
	2,448	1,627	**1,454**	1,514

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:

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

Provision for community grants expense amounting to $395,314 has been made in the current year (2015: $373,481).

4 Income taxes

(a) Income tax expense through profit or loss

	Consolidated entity		Parent entity	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Current tax expense	**1,865**	2,028	**907**	1,008
Under/(over) provision in prior year	**3**	(44)	**3**	(44)
Deferred tax (benefit)/expense	**(142)**	(376)	**101**	(359)
	1,726	1,608	**1,011**	605

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated entity		Parent entity	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Profit from continuing operations before income tax benefit	**4,736**	3,578	**5,043**	3,217
Tax at the Australian tax rate of 30.0% (2015 - 30.0%)	**1,421**	1,073	**1,513**	965
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible rights based provisions	**260**	442	**260**	442
Non-deductible impairment of property, plant and equipment	**54**	145	**54**	145
Other non-taxable items	**(12)**	(8)	**(12)**	(7)
Non-taxable intercompany dividend from AES	**-**	-	**(807)**	(896)
Under/(over) provision in prior year	**3**	(44)	**3**	(44)
Income tax expense	**1,726**	1,608	**1,011**	605

The applicable weighted average effective tax rates are as follows:

	36%	45%	20%	19%

(c) Amounts recognised directly in equity

	Consolidated entity		Parent entity	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Deferred tax: Employee share plan 2014/2015	**82**	139	**82**	139
Deferred tax: Employee share plan 2015/2016	**150**	-	**150**	-
	232	139	**232**	139

4 Income taxes (continued)

(d) Deferred tax assets

	Consolidated entity At		Parent entity At	
	30 June 2016 $'000	30 June 2015 $'000	**30 June 2016 $'000**	30 June 2015 $'000
The balance comprises temporary differences attributable to:				
Other employee benefits	**250**	342	**250**	342
Audit fees	**45**	66	**42**	36
Community grants	**119**	144	**119**	144
Provision for remediation	**270**	-	**-**	-
Provision for employee leave	**230**	220	**230**	220
Total deferred tax assets	**914**	772	**641**	742

	Consolidated entity		Parent entity	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Movements:				
Opening balance	**772**	396	**742**	383
Charged/credited:				
- to profit or loss	**142**	376	**(101)**	359
Closing balance	**914**	772	**641**	742

Recognition and measurement

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

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

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

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

Australian Ethical Investment Limited and its wholly owned entities 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 Australian Taxation Office for group tax liabilities.

5 Cash and cash equivalents

	Consolidated entity At 30 June 2016 $'000	Consolidated entity At 30 June 2015 $'000	Parent entity At 30 June 2016 $'000	Parent entity At 30 June 2015 $'000
Current assets				
Cash at bank	**128**	20	**123**	15
Deposits at call	**8,844**	12,207	**7,226**	8,551
Term deposits	**5,100**	-	**5,000**	-
	14,072	12,227	**12,349**	8,566

Recognition and measurement

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

6 Trade and other receivables

	Consolidated entity At 30 June 2016 $'000	Consolidated entity At 30 June 2015 $'000	Parent entity At 30 June 2016 $'000	Parent entity At 30 June 2015 $'000
Trade receivables	**495**	1,780	**149**	1,757

Information relating to transactions with related parties is set out in Note 18.

Recognition and measurement

Trade and other receivables are recognised initially at fair value, which approximates their carrying value. Subsequent measurement is recorded at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

There are currently no past due receivables as at 30 June 2016 (2015: nil).

7 Property, plant and equipment

Consolidated entity and Parent entity	**Land $'000**	**Buildings $'000**	**Leasehold improvements $'000**	**Plant and equipment $'000**	**Total $'000**
Year ended 30 June 2015					
Opening net book amount	-	-	334	125	459
Additions	-	-	8	59	67
Reclassification of assets classified as held for sale and other disposals	230	1,728	280	-	2,238
Depreciation charge	-	(25)	(39)	(70)	(134)
Impairment loss	-	(464)	(20)	-	(484)
Write off	-	-	-	(78)	(78)
Closing net book amount	230	1,239	563	36	2,068
At 30 June 2015					
Cost	230	1,785	1,117	374	3,506
Accumulated depreciation	-	(546)	(554)	(338)	(1,438)
Net book amount	230	1,239	563	36	2,068

Consolidated entity and Parent entity	**Land $'000**	**Buildings $'000**	**Leasehold improvements $'000**	**Plant and equipment $'000**	**Total $'000**
Year ended 30 June 2016					
Opening net book amount	230	1,239	563	36	2,068
Additions	-	-	26	32	58
Depreciation charge	-	(48)	(71)	(7)	(126)
Impairment loss	-	(128)	(53)	-	(181)
Write off	-	-	-	4	4
Closing net book amount	230	1,063	465	65	1,823
At 30 June 2016					
Cost	230	1,657	1,090	409	3,386
Accumulated depreciation	-	(594)	(625)	(344)	(1,563)
Net book amount	230	1,063	465	65	1,823

Recognition and measurement

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

7 Property, plant and equipment (continued)

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

Depreciation methods and useful lives

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, at the end of each reporting period.

Impairment

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.

8 Trade and other payables

	Consolidated entity At					
	30 June 2016			30 June 2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade payables	**440**	**-**	**440**	1,171	-	1,171
Unearned income	**80**	**69**	**149**	60	142	202
Community grants payable	**395**	**-**	**395**	481	-	481
Accrued expenses	**1,099**	**-**	**1,099**	1,479	-	1,479
	2,014	**69**	**2,083**	3,191	142	3,333

8 Trade and other payables (continued)

	Parent entity At					
	30 June 2016			30 June 2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade payables	**425**	**-**	**425**	313	-	313
Unearned income	**80**	**69**	**149**	60	142	202
Community grants payable	**395**	**-**	**395**	481	-	481
Accrued expenses	**732**	**-**	**732**	1,076	-	1,076
	1,632	**69**	**1,701**	1,930	142	2,072

Recognition and measurement

Trade and other payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

9 Provisions

	Consolidated entity At		Parent entity At	
	30 June 2016 $'000	30 June 2015 $'000	**30 June 2016 $'000**	30 June 2015 $'000
Provision for remediation	**900**	-	**-**	-

At year end, the Group became aware of errors in the calculation of unit prices for the Australian Ethical Retail Superannuation Fund in respect of prior and current years. The errors are currently being investigated and further work is required to determine the cause of and responsibility for the errors and the precise impact on members, and to develop a rectification plan. The Group is committed to ensuring that members are not materially disadvantaged as a result of these errors. The Group intends the investigation and any rectification to be finalised in FY17. Based on investigative work completed to date, an amount of $900,000 has been provided for in these financial statements. This provision is the best estimate of the impact on members and has been calculated based on the current project findings using assumptions around member cash inflows and outflows in order to return member balances to the correct value had the errors not occurred. The final amount could change once the investigation and any corrective actions are completed.

10 Employee benefits

The balance in employee benefits is as follows:

	Consolidated entity and Parent entity At					
	30 June 2016			30 June 2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee bonus payable	**833**	**-**	**833**	1,142	-	1,142
Employee benefits provisions - long service leave	**336**	**99**	**435**	293	130	423
	1,169	**99**	**1,268**	1,435	130	1,565

During the year, the Consolidated entity and Parent entity incurred the following employee benefits expense:

	Consolidated entity		Parent entity	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Employee benefits expense				
Employee remuneration	**5,777**	5,699	**5,777**	5,699
Directors fees	**361**	293	**224**	198
Bonus and rights amortisation	**1,980**	3,019	**1,980**	3,019
Other employment costs	**96**	40	**96**	40
	8,214	9,051	**8,077**	8,956

Recognition and measurement

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

Short-term obligations

Liabilities for wages and salaries and annual leave that are expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the Consolidated Statements of Financial Position and include 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.

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.

Other long-term employee benefit obligations

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.

10 Employee benefits (continued)

Share-based payments

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 conditions are expected to be met and the prevailing share price. The objective is that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date.

Further details on employee benefits expense are included in the Remuneration Report.

Employee share trust

Long term incentives for employees are held as shares in an employee share trust with various vesting conditions.

11 Share-based payments

The following share-based payment arrangements existed as at 30 June 2016.

(a) Performance rights (equity-settled)

Under the Company's employee share incentive scheme (ESIS) that existed until August 2014, participants were 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 with these rights holding no voting or dividend rights.

Performance rights summary

Rights Class	Performance Period	Grant date	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
AEFAC	FY 2013-15	30/06/2013	30/06/2015	23,357	(6,523)	(16,834)	-	-
AEFAE	FY 2014-16	30/06/2014	30/06/2016	17,955	(3,143)	(14,812)	-	-
AEFAG	FY 2015	30/06/2015	30/06/2015	11,899	-	(11,899)	-	-

(i) Fair value of rights granted

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 Statements of Comprehensive Income is $868,000 (2015: $1,472,000) relating to rights issued under the ESIS.

(b) Deferred shares

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

Included under employee benefits expense in the Consolidated Statements of Comprehensive Income is $320,000 (2015: $176,000) relating to the performance shares granted.

Deferred shares are held in an Employee Share Trust until vesting conditions are met.

11 Share-based payments (continued)

(b) Deferred shares (continued)

Performance shares summary

Performance Period	Grant date	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
FY 2014-15	31/08/2014	31/08/2017	14,924	(2,530)	-	-	12,394
FY 2015-16	31/08/2015	31/08/2018	12,190	(1,832)	-	-	10,358
FY 2016-17 *	31/08/2016	31/08/2019	10,663	-	-	-	10,663

***** This tranche of performance shares was issued to the Employee Share Trust on 31 August 2016.

(i) Fair value of deferred shares issued

The fair value of the shares issued to the Employee Share Trust (10,663) was $864,876 based on the 30 June 2016 price.

On 31 August 2016, the following deferred shares were issued to the Employee Share Trust.

Number to be Granted	Attributes
10,663	i) employment must continue until July 2019 ii) the number of shares that will be issued to an employee is fixed at the grant date iii) 50% of the shares are subject to the following hurdle: (a) if the compound earnings per share ('EPS') growth over 3 years is less than 5%, no shares will vest (b) if the compound EPS growth over 3 years is greater than 10%, 100% will vest (c) if the compound EPS growth over 3 years is greater than 5% and less than 10%, then pro rata amount will vest on a straight line basis (d) the compound average growth rate on earnings per share is determined as the average EPS over six month periods calculated using audited half-year financial statements iv) the performance period is the financial years 2016/17, 2017/18 and 2018/19.

12 Cash flow information

Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Profit for the year	**3,010**	1,970	**4,032**	2,612
Adjustments to operating profit:				
Depreciation and amortisation	**182**	186	**182**	186
(Gain)/loss on disposal and write-off of property, plant & equipment	**(7)**	85	**(7)**	85
Non-cash employee benefits expense - share-based payments	**1,188**	1,649	**1,188**	1,648
Impairment loss	**181**	484	**181**	484
Recognition of unearned income	**(53)**	(61)	**(53)**	(61)
Dividends received from subsidiary classified as investing activity	**-**	-	**(2,689)**	(2,988)
Change in operating assets and liabilities:				
Decrease in trade and other receivables	**1,285**	966	**1,608**	1,418
(Increase)/decrease in other current assets	**(45)**	39	**(41)**	53
(Increase)/decrease in deferred tax assets	**(142)**	(376)	**101**	(360)
(Decrease)/increase in trade and other payables	**(1,303)**	-	**(424)**	25
Increase in provisions	**900**	-	**-**	-
(Decrease)/increase in current tax liabilities	**(477)**	558	**(110)**	220
Decrease in deferred tax liabilities	**-**	(1)	**-**	(1)
(Decrease)/increase in employee benefits	**(297)**	954	**(297)**	954
Net cash inflow from operating activities	**4,422**	6,453	**3,671**	4,275

Capital

This section of the notes discusses the Group's capital structure and dividends paid to shareholders.

13 Capital management

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

(i) Regulatory capital requirements

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

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

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

(ii) Dividend policy

Part of the capital management of the Group 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 Group had no long term debt arrangements.

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

14 Issued capital

Issues of ordinary shares by Parent entity

Date	No. Issued	Price	Amount $'000	Comment
Opening balance 1/07/2014	1,023,147		6,432	
31/08/2014	10,694	$ 35.45	380	Vesting of AEFAF Rights
31/08/2014	1,257	$ 46.00	58	Vesting of AEFAF Rights
31/08/2014	3,795	$ 35.45	134	Vesting of AEFAA Rights
31/08/2014	14,924	-	-	Issue of deferred shares to the Employee Share Trust [1]
Closing balance 30/06/2015	1,053,817		7,004	
Opening balance 1/07/2015	1,053,817		7,004	
31/08/2015	11,899	$ 58.80	699	Vesting of AEFAG Rights
31/08/2015	16,834	$ 58.80	990	Vesting of AEFAC Rights
31/08/2015	11,659	-	-	Issue of deferred shares to the Employee Share Trust [1]
Closing balance 30/06/2016	1,094,209		8,693	

[1] Shares issued to the Employee Share Plan Trust are considered to be Treasury shares as the Trust is defined as an agent of the Company. No value is attributed to these shares.

Ordinary shares are classified as equity. The Company does not have authorised capital or par value in respect of its shares.

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

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

15 Share-based payments reserves

	Consolidated entity		Parent entity	
	2016 **$'000**	2015 $'000	**2016** **$'000**	2015 $'000
Share-based payments reserve				
Opening balance	**2,022**	1,122	**2,022**	1,122
Employee share plan expense	**868**	1,472	**868**	1,472
Issue of shares held by entity to employees	**(1,689)**	(572)	**(1,689)**	(572)
	1,201	2,022	**1,201**	2,022
Employee share plan reserve				
Opening balance	**316**	-	**316**	-
Employee share plan - Deferred	**412**	316	**412**	316
	728	316	**728**	316
	1,929	2,338	**1,929**	2,338

Share-based payments reserve
This reserve relates to rights granted by the Group to its employees under its previous share-based payment arrangements. 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 11.

Employee share plan reserve
This reserve relates to shares granted by the Group to its employees under its current share-based payment arrangement. Further information about the new share-based payments to employees is set out in Note 11.

16 Dividends

(a) Dividends declared/paid during the financial year

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

	Cents per share	Total Amount	Date of Payment	% Franked
30 June 2016				
Ordinary shares - 2015 final	120	$1,313,052	30/09/2015	100
Ordinary shares - 2016 interim	120	$1,313,052	24/03/2016	100
Total dividends paid		$2,626,104		
30 June 2015				
Ordinary shares - 2015 interim	80	$843,054	27/03/2015	100
Ordinary shares - 2014 final	120	$1,246,676	03/10/2014	100
Total dividends paid		$2,089,730		

16 Dividends (continued)

(b) Dividends declared after the end of the reporting period

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
In addition to the above dividends, since year end the Directors have declared a final dividend of 180 cents per fully paid ordinary share (2015: 120 cents), fully franked based on tax paid at 30%. The aggregate amount of the declared dividend expected to be paid on 23 September 2016 out of profits for the year ended at 30 June 2016, but not recognised as a liability at year end, is	**2,009**	1,313	**2,009**	1,313

Recognition

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

17 Investments in 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	Cost of investment
Australian Ethical Superannuation Pty Limited (AES)	Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Australia	100%	$316,000
Australian Ethical Investment Limited Employee Share Plan Trust (AESSPT)	Employee deferred share plan trust	Australia	100%	$1

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured 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 the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Employee Share Trust

For reporting purposes the Australian Ethical Investment Limited Employee Share Plan Trust has been treated as a branch of the Company. The assets and liabilities of the Trust are accounted for as assets and liabilities of the Company on the basis that the Trust is merely acting as an agent of the Company.

18 Related party transactions

(a) Key management personnel compensation

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$	$	**$**	$
Short-term employee benefits	**2,262,722**	1,994,192	**2,138,224**	1,910,221
Post-employment benefits	**147,151**	142,840	**135,324**	134,863
Long-term benefits	**44,328**	44,420	**44,328**	44,420
Share-based payments	**684,432**	249,251	**684,432**	249,251
	3,138,633	2,430,703	**3,002,308**	2,338,755

18 Related party transactions (continued)

(a) Key management personnel (continued)

Information regarding key management personnel's remuneration and shares held in Australian Ethical Investments Limited as required by Corporations Regulations 2M.3.03 is provided in the Remuneration Report on pages 6 to 20 of this Annual Report.

(b) Transactions with related parties

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

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

Name
Australian Ethical Australian Shares Fund
Australian Ethical Diversified Shares Fund
Australian Ethical Cash Fund
Australian Ethical Fixed Interest Fund
Australian Ethical International Shares Fund
Australian Ethical Advocacy Fund
Australian Ethical Property Trust
Australian Ethical Emerging Companies Fund
Australian Ethical Balanced Fund

The following transactions occurred with related parties:

	Consolidated entity		**Parent entity**	
	2016	2015	**2016**	2015
	$	$	**$**	$
AETs				
AEI provides investment services to the AETs as identified above in accordance with the trust deed	**7,616,711**	21,625,739	**7,616,711**	21,625,739
AERSF				
AES provides investment services/ (rebate of investment services) to AERSF	**(70,008)**	(14,491,963)	**-**	-
AES provides Administration/Trustee services to AERSF	**12,888,710**	11,959,605	**-**	-
AES provides Member Administration services to AERSF	**2,018,014**	1,675,403	**-**	-
AES				
Service fee paid to AEI	**-**	-	**9,006,256**	7,954,852
Dividends paid to AEI	**-**	-	**2,688,557**	2,988,213
Director fees paid by AEI	**-**	-	**136,323**	92,836
Transactions between AES and its parent entity AEI under the tax consolidation and related tax sharing agreement referred to in Note 4	**-**	-	**714,907**	1,004,218

18 Related party transactions (continued)

(b) Transactions with related parties (continued)

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$	$	**$**	$
AEFL *				
Community grants paid by AEI to AEFL	**480,542**	-	**480,542**	-

* Australian Ethical Foundation Limited (AEFL) was created in July 2015 as a vehicle to distribute the community grants the Company makes each year. This will provide greater flexibility in the types of support the Company would be able to provide recipients and in the future will provide an opportunity to invite the shareholders and clients to contribute to AEFL and participate in the support of many worthwhile recipients.

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

(c) Outstanding balances

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

	Consolidated entity At		Parent entity At	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
	$	$	**$**	$
Investment held in AES	**-**	-	**316,000**	316,000
Amounts receivable from the AETs	**53,140**	1,056,974	**53,140**	1,056,974
Amounts receivable from AERSF	**396,572**	720,066	**-**	-
Amounts payable to AERSF	**(1,675)**	(853,049)	**-**	-
Amounts receivable from AES	**-**	-	**50,201**	697,408
Amounts payable to AEFL	**(395,314)**	-	**(395,314)**	-

19 Financial risk management

The Group's activities expose it to a variety of financial risks, including market risk arising from Funds under Management, credit risk and liquidity risk. The Board of the Company has in place a risk management framework to mitigate these risks.

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

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

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

(a) Market risk

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

Exposure
The Group’s revenue is significantly dependent on Funds Under Management (‘FUM’) which is influenced by equity market movements. Management calculates that a 10% movement in FUM changes annualised revenue by approximately $1,718,000 (2015: $1,606,000).

(b) Credit risk

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

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

19 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial commitments or will incur significant debt to meet those commitments.

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.

Maturities of financial liabilities

The tables below analyse the Group's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities at year end date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Trade and other payables

At 30 June 2016	**Less than 6 months $'000**	**6-12 months $'000**
Consolidated entity	**2,332**	**331**
Parent entity	**1,949**	**331**

At 30 June 2015	**Less than 6 months $'000**	**6 - 12 months $'000**
Consolidated entity	3,964	309
Parent entity	2,703	309

20 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, KPMG Australia and its related practices:

	Consolidated entity		**Parent entity**	
	2016 $	2015 $	**2016 $**	2015 $
Audit services for the consolidated entity and subsidiaries				
Audit and review of consolidated and subsidiary financial statements	**57,710**	32,710	**37,450**	27,450
Audit services in accordance with regulatory requirements	**42,480**	40,480	**38,050**	36,250
Audit and review of Assurance Services in relation to Sustainability Report	**19,500**	-	**19,500**	-
	119,690	73,190	**95,000**	63,700

20 Remuneration of auditors (continued)

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$	$	**$**	$
*Audit services for non-consolidated trusts and superannuation fund **				
Audit and review of managed funds for which the Company acts as Responsible Entity	**137,400**	109,290	**137,400**	109,290
Audit and review of superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity	**26,160**	21,160	**-**	-
Audit services in accordance with regulatory requirements	**48,330**	46,030	**-**	-
	211,890	176,480	**137,400**	109,290
Total remuneration for audit services	**331,580**	249,670	**232,400**	172,990
Non-audit services				
Tax advice	**41,850**	37,074	**34,900**	31,233
Other accounting advice	**63,775**	56,819	**41,775**	56,819
Total remuneration for non-audit services	**105,625**	93,893	**76,675**	88,052
Total remuneration of KPMG Australia	**437,205**	343,563	**309,075**	261,042

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

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

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor, and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

21 Earnings per share

(a) Basic earnings per share

	2016 Cents	2015 Cents
From continuing operations attributable to the ordinary equity holders of the Company	**281.97**	190.00

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares of $3,010,000 (2015: $1,970,000)
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

	2016 Cents	2015 Cents
From continuing operations attributable to the ordinary equity holders of the Company	**271.80**	180.69

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 interest and other financing costs associated with dilutive potential ordinary shares (nil in 2016 and 2015), and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(c) Weighted average number of shares used as denominator

	2016 Number	2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,067,549**	1,036,821
Adjustments for calculation of diluted earnings per share:		
Weighted average number of rights outstanding	**39,929**	53,418
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,107,478**	1,090,239

22 Commitments and contingencies

(a) Operating leases

Operating leases relate to leases of office premises for a term of 7 years. The Group does not have an option to purchase the premises at the expiry of the lease period.

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Non-cancellable operating lease commitments				
Within one year	**483**	232	**483**	232
Later than one year but not later than five years	**2,134**	431	**2,134**	431
	2,617	663	**2,617**	663

Lease income from operating leases where the Group is a lessor is recognised in income 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. The respective leased assets are included in the Consolidated Statements of Financial Position based on their nature.

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.

Effective from 1 July 2016, the Company had taken a new long-term operating lease for its Sydney office for a period of 7 years including additional office space.

	Consolidated entity		Parent entity	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Payments recognised as an expense				
Minimum lease payments recognised as an expense	**224**	234	**224**	234
	224	234	**224**	234
Liabilities recognised in respect of non-cancellable operating leases				
Lease incentives				
Current	**80**	60	**80**	60
Non-current	**69**	142	**69**	142
	149	202	**149**	202

(b) Guarantees

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

(c) Other commitments

The Group has no other commitments and contingent assets and liabilities as at 30 June 2016.

23 Events occurring after the reporting period

The Group's fees are primarily based on its funds under management which in turn is impacted by changes in equity markets.

6,832 shares were issued on 31 August 2016 to the Employee Share Trust for employee long term incentives. This amount comprises of 10,663 shares for FY 2016-17 less 3,831 shares forfeited from prior years.

On 31 August 2016, 14,812 LTI employee share rights (AEFAE) were issued to employees following vesting of shares on 30 June 2016.

Other than as outlined in this report, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' declaration

1 In the opinion of the directors of Australian Ethical Investment Limited and its Controlled Entities:

(a) the consolidated financial statements and notes that are set out on pages 24 to 59 and the Remuneration report in sections to 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 2016 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 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2016.

3 The directors draw attention to Note 1(a)(i) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Phil Vernon
Managing Director and Chief Executive Officer

Sydney
31 August 2016