australianethical

ASX Announcement

Appendix 4E

For the year ended 30 June 2020

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 2019)

	$'000	up / down	% movement
Revenues from ordinary activities	**49,902**	**up**	**22%**
Net profit after tax	**9,457**	**up**	**43%**
Deduct net profit after tax attributable to The Foundation	0		
Net profit attributable to shareholders	**9,457**	**up**	**46%**
Deduct gain on sale of investment property held for sale	(178)		
Underlying net profit after tax	9,279	up	42%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Interim 2020 dividend per share (paid 19 March 2020)	2.5	2.5	100%
Final 2020 dividend per share (to be paid 16 September 2020)	2.5	2.5	100%
Special 2020 dividend per share (to be paid 16 September 2020)	1.0	1.0	100%

Final & Special dividend dates	
Ex-dividend date	**1 September 2020**
Record date	**2 September 2020**
Payment date	**16 September 2020**

The Company's Dividend Reinvestment (DRP) will not operate with respect to the final dividend.

	30 June 2020	30 June 2019
Net tangible assets per security	**$0.16**	**$0.13**
Net asset value per security	**$0.19**	**$0.15**

This information should be read in conjunction with the 2020 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4E disclosure requirements can be found in the Directors' Report and the Annual Financial report for the year ended 30 June 2020.

This report is based on the consolidated 2020 financial statements of Australian Ethical Investment Limited which have been audited by KPMG. The Independent Auditor's Report by KPMG is included in the Annual Financial Report for the period ended 30 June 2020.

Australian Ethical Investment Limited and its Controlled Entities

ABN 47 003 188 930

Annual Report - 30 June 2020

Australian Ethical Investment Limited and its Controlled Entities
Directors' report
30 June 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Australian Ethical Investment Limited (referred to hereafter as the 'Company' or 'Parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

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 Investment Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. He is Chair of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Steve has extensive experience at both an executive and non-executive level in the investment and superannuation industries, including being a former CEO of the Australian Institute of Superannuation Trustees, a former CEO of what is now Commonwealth Superannuation Corporation and a non-executive director of Hastings Funds Management and Westpac Funds Management. Steve has been recognised for his commitment to, and expertise in, ethical and responsible investing.

Mara Bûn
Non-Executive Director since 2013
BA (Political Economy), GAICD
Mara is a member of the People, Remuneration and Nominations Committee, the Investment Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. Mara is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited.

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar to Australian Ethical. She is also Chair of the Board of the Gold Coast Waterways Authority and a Non-Executive Director of Enova Community Energy, a Byron Bay based social enterprise. Mara consults to research, business and government agencies. Currently she leads Strategy and Development pathways for Food Agility CRC, a 10-year research program enabling digital solutions across Australian food value chains. Mara is President of the Australian Conservation Foundation.

Kate Greenhill
Non-Executive Director since 2013
BEc, FCA, GAICD
Kate is chair of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees and is a member of the People, Remuneration and Nominations Committee and the Investment Committee. Kate is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited, and a member of the Australian Ethical Superannuation Pty Limited Insurance Benefits Committee.

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 25 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients. Kate is also the Treasurer of a not-for-profit organisation in the education sector.

Michael Monaghan
Non-Executive Director since 2017
BA, FIA, FIAA, FAICD
Michael is Chair of the Investment Committee and a member of the People, Remuneration and Nominations Committee, the Product Disclosure Statement Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Risk & Compliance Committees. He is a director of Australian Ethical Superannuation Pty Limited and the Australian Ethical Foundation Limited.

Michael has more than 30 years' experience in investment, consulting and leadership of financial services organisations both in Australia and internationally. He was Managing Director of State Super Financial Services Australia Limited (StatePlus) from 2011 to 2016 and previously was a partner in the actuarial practice of Deloitte Touche Tohmatsu, the CEO of Intech Investment Consultants and held senior executive positions at Deutsche Bank, IBM and Lend Lease Corporation. Michael is currently Deputy Chair of HammondCare, an aged care provider, a director of Alpha Vista Financial Services Holdings Pty Ltd, a start-up global investment management business leveraging large scale data and computing capabilities and artificial intelligence and Chair of Flag Income Notes No. 3 Pty Limited, an issuer of wholesale fixed income securities.

Julie Orr
Non-Executive Director since 2018
BEc, MCom, MCom(Hons), CA, GAICD, FGIA
Julie is a member of the People, Remuneration and Nominations Committee, the Australian Ethical Investment Limited Audit, Risk & Compliance Committee and the Investment Committee. She is a director of Australian Ethical Foundation Limited. She has over 20 years of experience in executive and board roles including experience with superannuation, investments, financial planning, stockbroking, research, insurance, audit, finance, acquisitions and business integration.

Julie's most recent executive experience was Group General Manager Corporate Development and General Manager Operations for IOOF. She was previously Director Finance India and Asia Pacific for Standard and Poor's; Head of Research for Morningstar; Chief Operating Officer at Intech; and Senior Audit Manager with Ernst & Young. Julie's board experience includes Perennial Value Management, Ord Minnett, Tax Payers Association (NSW) Division and Tax Payers Research foundation.

John McMurdo
Chief Executive Officer and Managing Director, appointed February 2020
MBA, GAICD
John joined the Australian Ethical Board in February 2020 as Chief Executive Officer and Managing Director. He brings more than 30 years' experience in investment management, private client advisory and wealth management across Australia and New Zealand, including 17 years in CEO roles at several leading investment and wealth management businesses.

He also brings significant previous Board and Directorship experience within and outside financial services, including Executive and Non-Executive Directorships with Atrium Investment Management, The Australian Bond Exchange, Fitzpatricks Private Wealth, Yabonza Property Management, Sortify Intellectual Property and Retirement Victoria.

John has an MBA from Henley Business School (UK), is a graduate of the Australian Institute of Company Directors and a member of the Fund Management Board Committee of the Financial Services Council.

Company secretary
Tom May
BA, LLB, MBA, TFASFA, MAICD, FGIA
Tom oversees governance including the company secretarial and legal functions to ensure that the Group meets its regulatory obligations and maintains industry leading governance practices. Tom has 30 years legal experience in Australia, Asia and Europe.

Karen Hughes
BSc (Hons), ACA (ICAEW), GAICD
Karen is responsible for the Risk Management Framework at Australian Ethical. Karen has over 25 years' experience in risk and compliance with previous roles at StatePlus, Tyndall, Jardine Fleming and PwC. Karen has been appointed joint Company Secretary effective 25 August 2020.

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

Review of operations

There's no doubt that FY20 was an unprecedented year for the world. The ongoing COVID-19 pandemic presents extraordinary crisis for humanity and our thoughts are with all those affected, including the essential frontline workers who continue doing their jobs despite the hardships and health risks.

This year in Australia we experienced record temperatures, drought, bushfires, floods, the global COVID-19 pandemic and waves of demand for social change. We saw the increasing severity, scope and societal consequences of natural disasters beginning to reshape Australians' attitudes towards climate change. According to research we commissioned in February 2020, 83% of Australians surveyed believe that climate change is occurring and being contributed to by human activities, and 70% think super funds have a duty to consider environmental, social and ethical factors when investing people's money.[1]

Indeed, as Australians looked for ways to make their money matter in the wake of the summer's devastating bushfires, we saw record inflows for the March quarter of $241 million. We also experienced an uplift in inflows during our 'Save the Amazon' campaign in September and October 2019 when we pledged to save five acres of Amazon rainforest for every new member or referral. The strong response saw more than 750 additional members and the preservation of 3,810 acres of rainforest on their behalf.

Across the financial year, Australian Ethical's customer base grew by 20%. Australian Ethical Super remains one of the fastest growing super funds in the country by both number of members and funds under management[2] while our managed funds investor base grew by 16% over the period.

Profit

The profit for the Group after providing for income tax amounted to $9.5 million, compared with $6.6 million as at 30 June 2019. Underlying profit after tax was $9.3 million, up 42% compared with the prior corresponding period. Revenue increased 22% to $49.9 million, up from $41.0 million in FY19.

This result includes a performance fee of $3.6 million before tax relating to the outperformance of the Emerging Companies Fund.[3]

FUM

Funds under management (FUM) for the full year increased by 19% to $4.05bn, up from $3.42bn reported for the previous period. Our FUM grew strongly in the first half of FY20, rising 13% to $3.87bn at 31 December 2019, following strong net inflows and positive investment performance. This growth peaked at $4.27bn on 20 February 2020, however as COVID-19 impacted global markets, FUM dropped 23% to $3.28bn on 23 March 2020. We estimate 25% of this decrease related to negative fund performance during this period, which was partially offset by continued net inflows. In addition, we experienced $0.04bn in outflows from April to June 2020 following the Federal Government's changes to early release of superannuation conditions.

Since 23 March, FUM has recovered 24% to finish the full year at $4.05bn. We estimate 20% of this recovery is related to positive investment performance and the balance to continuing positive net inflows.

1. Australian Ethical Brand Research, Pollinate February 2020
2. KPMG 2020 Super Insights Report – published May 2020 using statistics published by APRA and ATO as at 30 June 2019
3. Benchmark is the S&P/ASX Small Industrials

FUM (continued)

These net inflows helped bolster our liquidity and minimise any impact of the changes to early release of super and managed fund redemptions, which were also helped by the strategic asset allocation of our funds. The below chart demonstrates the market downturn and subsequent recovery in FUM.

Investment performance

Despite the economic damage wrought by the COVID-19 pandemic, our funds have delivered excellent relative investment performance across most of our managed funds and superannuation investment options for investors and members.

For our managed funds investors, over the 12 months ending 30 June 2020, the Australian Shares Fund (retail) returned 2% (outperforming its benchmark by 9.8%)[4] and the Emerging Companies Fund (retail) returned 13.2% (outperforming its benchmark by 20.6%)[3].

For members of Australian Ethical Super, the Balanced option (MySuper) ranked second and third against it peers[5] over the 12 months ending 30 June 2020, delivering a 2.4% return. It was also one of only 15 balanced super options to finish the year in positive territory.

Our Australian Shares super option was ranked second for the 1-year period to 30 June 2020, and first over 5, 7 and 10 years.[6]

Performance recognition

Our unique combination of ethics and performance was also recognised by awards and ratings in the period including:

- Financial Standard 2020 Australian Equities High Performance Award for the Australian Shares Fund
- Financial Standard 2020 ESG Australian Equities Award for the Australian Shares Fund
- SuperRatings Infinity Award 2020 for the best sustainable super fund
- Finder 2020 Green Superannuation Fund of the Year
- SuperRatings Gold for MySuper, MyChoice Super and Pension

These external endorsements were accompanied by increasing local and international media coverage during the year, as journalists seek our views on issues including climate, investment performance and ethics.

4. Benchmark is the S&P/ASX 300 Accum
5. 3rd in SuperRatings SR50 Balanced Index options over 12 months to end June 2020 and 2nd in Chant West Top 10 Performing Growth Funds (1 year to June 2020). Performance is quoted gross of member fees; Absolute 1 year performance is 2.3%
6. SuperRatings SR50 Australian Shares Index

Company growth

Australian Ethical's continued trajectory of sustainable growth was again recognised by the market. Having joined the All Ordinaries Index for the first time in March 2019, we experienced a long period of strong share price performance and increasing liquidity in the stock, enabling us to enter the ASX 300 Index by June 2020. Our shareholder numbers also increased by 171% over the period.

Sharing our success

COVID-19 is a global test of companies' resilience and there are many that are overwhelmed by the profound challenges it has created.

Indeed, as we reflect on the economic hardships it has inflicted, we are especially mindful of how we share the benefits of our growth with all our stakeholders. We are focused on ensuring there is an equitable balance when sharing the success of a growing company between shareholders and customers.

In December 2019 we reduced the investment fee for the Defensive, Advocacy and International Shares options[7] in our super fund and in April 2020 we reduced the administration fee that applies to all our superannuation and pension products[8].

Over the past five years we have consistently reduced the fees across our managed funds and super options, an important step in our journey of making ethical investing as affordable and accessible as possible, and improving outcomes for all our current and future customers.

As a purpose-driven organisation, we know we occupy a unique place in the financial services landscape which depends in large part on the special relationship we have with our investors and members. This is why we are always focused on enhancing the customer experience, so we can continue to deliver on the trust they have placed in us to deliver the results they want for themselves and the planet. We were delighted with strong Net Promoter Scores of +58 for our managed fund investors[9] and +63 for our super members[9]. This, together with some of the lowest super outflows in the industry[10], demonstrates that our customers are satisfied with our products and services, with many of them taking to social media to advocate on our behalf.

Since the year 2000 we have shared our success with the community though donations made directly to community charities or via the Australian Ethical Foundation. In FY20 our strong performance enabled a record donation of $1.3 million to the Foundation. The Foundation maximises the impact of grassroots charities, community organisations and other charitable initiatives through the annual Community Grants program, multi-year grants, and other targeted strategic donations and impact investments. In FY20 we made targeted donations of aid bushfire recovery and also matched employees' donations made to bushfire relief charities. Furthermore, we have been able to allocate additional funds to COVID-19 response activities by charities.

Of course, such success is only possible thanks to the talent, commitment and passion of everyone at Australian Ethical who deserve a special mention for continuing to deliver for all our stakeholders despite the challenges created by the crisis.

7. Investment fees were reduced on Defensive, International Shares and Advocacy superannuation options, and Defensive and International Shares pension options
8. The percentage-based super administration fee was reduced on all super and pension options from 0.41% to 0.29% on 1 April 2020
9. Australian Ethical Brand Research, Pollinate February 2020
10. KPMG 2020 Super Insights Report – published May 2020 and using statistics published by APRA and ATO as at 30 June 2019

Culture is everything

Underpinning our strong performance are our employees. Each and every one is aligned with our purpose of investing for a better world.

Our June 2020 employee engagement survey delivered an engagement score of 86% (the Australian top 25% employers benchmark is 70%)[11] - an extraordinary score achieved at the height of COVID-19 when employees were working remotely. This reinforced the findings of a pulse survey conducted in May which returned a 98% positive score on employees' confidence in our response to COVID-19.

We continue to be a leader in diversity and inclusion. Having achieved gender parity at Board level in early 2018, we met and exceeded our gender targets at senior management level with the appointments of our new Chief Customer Officer and the new position of Chief Strategy & Innovation Officer. We believe these appointments underline our focus on attracting market-leading capability while maintaining our fundamental commitment to doing it the right way, that is embracing diversity and inclusion at every level.

Our response to COVID-19

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

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

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

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

- Super administration fee reduction
- Upgrade of cybersecurity controls
- Activation of our business continuity plan
- Launch of COVID-19 microsite
- Management of early release payments
- Launch of Australian Shares SMA strategy
- Launch of the new data warehouse
- Outstanding investment performance, including generating a significant performance fee from our Emerging Companies Fund

The mental health of all our employees has been a key focus during the period, with the business testing creative ways for employees to remain connected. Examples include monthly group themed catch-ups, charitable and sustainability initiatives and a strict adherence to our regular weekly whole-of-business meetings. A survey was conducted during this time to measure the success of the transition to remote work and the impacts of the COVID-19 pandemic on employees. The results were a testament to our success with employees providing overwhelmingly positive feedback on the support provided by the senior management, crisis management and people and culture teams.

As the world takes cautious steps towards a new normal, our employees are continuing to work remotely with the option to come into the office on a voluntary basis while maintaining strict social distancing in our open plan floor space. Additional measures have been put in place to safeguard employees' safety including hand sanitiser, more regular cleaning and clearly communicated revised building guidelines.

11. Culture Amp Survey, June 2020

Our response to COVID-19 (continued)

Many of our employees have adopted a balanced approach, blending remote and office working arrangements. We have long advocated a flexible approach to working, encouraging employees to maintain a healthy work life balance and giving them the freedom to work round their different obligations and responsibilities outside of their job. We believe this approach enabled us to respond so effectively to government work from home directives with minimal impact.

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

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

Climate change

The principal direct impact of global warming on Australian Ethical’s business is its effect on our investment portfolios. The prospects and value of the businesses we invest in are exposed to risks and opportunities flowing from the many effects of climate change.

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

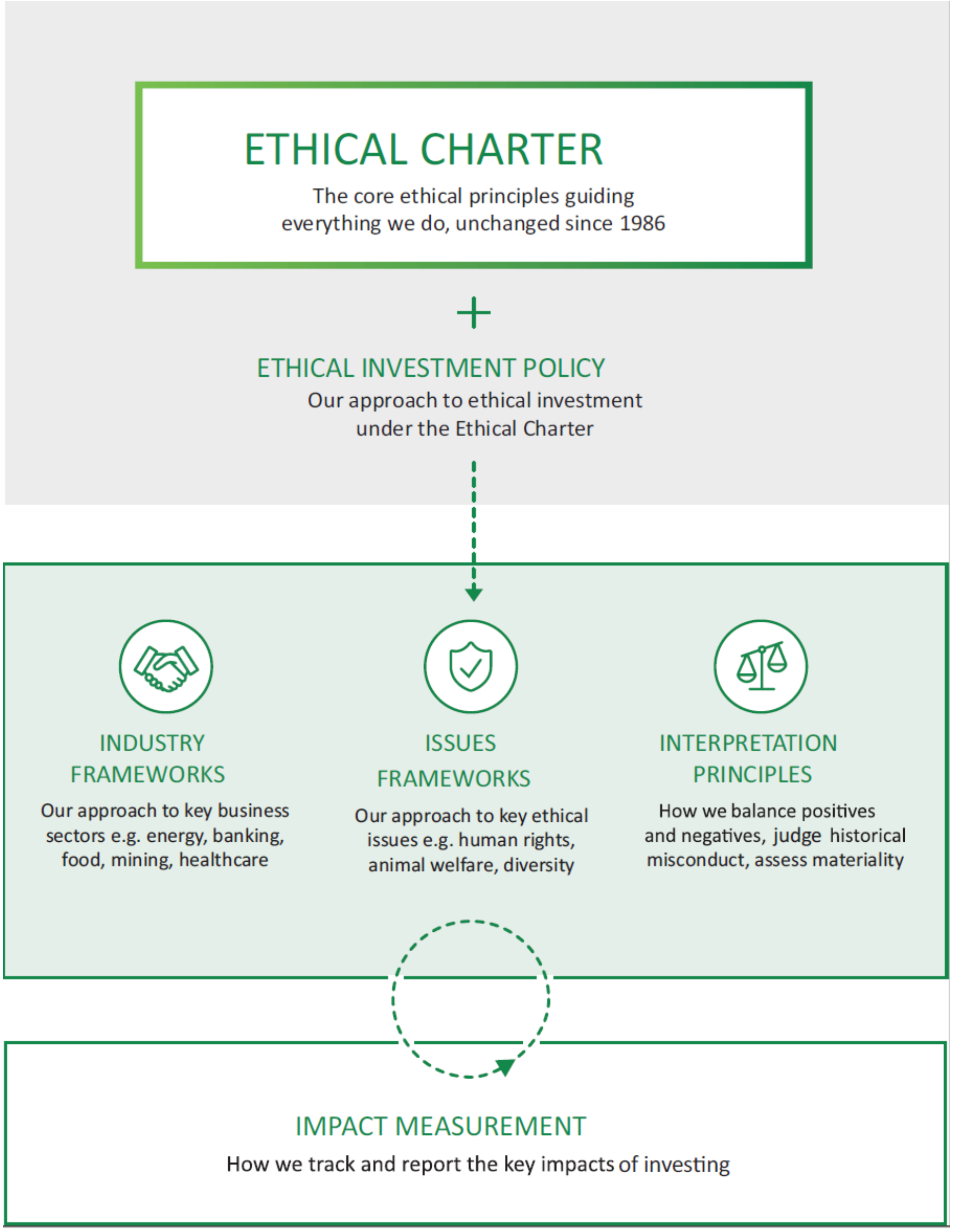
Government climate policy action and inaction can radically alter the prospects of companies’ products and technologies. A price on carbon and higher clean air standards will favour renewables over fossil fuels. Tougher emissions restrictions on new vehicles will help hybrid and electric over conventional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

Consumer climate action also affects business values when consumption choices favour businesses helping to reduce greenhouse gas emissions and shun big contributors to global warming.

Climate risk management

We identify, assess and manage material climate-related investment risks through our ethical investment process. All investments are screened according to the 23 principles of our Ethical Charter which is embedded in our constitution. Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5 degrees. These companies are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all investment portfolios.

Climate risk management (continued)



Our ethics research team monitors existing and emerging climate-related risks using diverse information sources. The team monitors developments in:

- scientific understanding of the rate and impacts of global warming
- domestic and international climate policy and regulation
- technological innovation in climate mitigation and adaptation.

Our ethical screening and engagement approach focuses on the need to reduce emissions to limit dangerous climate change, but also recognises it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

Investment portfolio management

Our assessment of investment opportunity and risk is informed by our ethical assessment of the climate impacts of companies and industry sectors and the way their products and services are produced, supplied, consumed and disposed of. This feeds into our buy, sell and portfolio management decisions. For example, company prospects and valuations in the energy sector are affected by our assessment of the future regulatory environment for the sector.

Influencing companies

We encourage better measurement and reporting of direct and indirect greenhouse gas emissions; emissions reduction target setting; and analysis of the resilience of the company's business strategy to different climate scenarios. We aim to reduce companies' contribution to global warming as well as reducing climate-related harm to their business prospects. Through engagement we also build our own understanding of climate-related risk.

We exercise our influence through private engagement, voting at company meetings, public praise or criticism, shareholder resolutions and divestment.

Targets

In 2014 we set a target for our investments of net zero emissions by 2050, which is aligned with reduction needed to achieve a 1.5°C warming limit. In 2015 we committed to define a trajectory for emissions reduction aligned with the Paris Agreement, to be verified by the Science Based Targets initiative (SBTi), and this year we contributed to the SBTi work on a science-based methodology for investor portfolios. Once finalised we will apply that methodology to assess nearer term 1.5°C aligned targets for our investments, including an earlier net zero target.

Climate measurement, transparency, accountability

We measure and report annually on our climate performance, including the emissions intensity of our share investments (carbon footprinting), our operational carbon footprint, the extent of our investment in renewables, and the alignment of share investments in the electricity generators with the changes needed to limit warming in accordance with the Paris Climate Agreement. This helps us test the effectiveness of the application of our Ethical Charter to manage climate risk and opportunity, as well as our progress towards our net zero emissions target for our investments.

The carbon intensity of our share investments (tonnes CO2e per $ revenue) reduced again this year and is now just 25% of the share market benchmark (i.e. 75% lower than the market). We continue to invest heavily in renewables, with our share investments in renewable energy capacity over 5 times the level of the global share market. This year we have also expanded the measurement of our operational emissions, to include more upstream and downstream emissions.

Outlook

Our business model, our investment philosophy and our commitment to our purpose have enabled Australian Ethical to rise to the challenges posed by COVID-19. Looking forward, we will continue to prioritise the safety and well-being of our employees and deliver financial security with positive impact for all our stakeholders, as well as our three pillars of people, planet and animals.

While our people, operations and infrastructure have adapted and responded well to the COVID-19 crisis, like all fund managers we are highly leveraged to the markets at a time when economic uncertainty remains high, interest rates low and COVID-19 still unbeaten. FY21 will be a difficult year as market volatility continues and our revenue growth is partly suppressed by the full year impact of the super fee reductions we executed for the benefit of future and current members. We are also aware that any performance fee generated by the Emerging Companies Fund is not guaranteed year-on-year.

Despite this, we are in a strong position heading into FY21 with no debt, strong cashflows and positive net inflow momentum. We are focused on investing in the long-term growth of our business and realising the potential of our ethical investing portfolio construction.

We will continue to invest in brand awareness and our intermediated channels, along with business capability and product development. We also plan additional enhancements to our operating platform in FY21 to improve customer experience and will continue to invest in our digital strength and innovation.

We will further leverage our first mover advantage, digital strength, investment performance and ethical authenticity to remain the natural home for Australians seeking to align their investments with the change they want to see in the world.

Financial performance - management analysis

	2020 $'000	2019 $'000	% Increase
Net Profit after tax (NPAT)	9,457	6,614	43%
Less: Net profit after tax attributable to The Foundation*	-	(149)	
Net profit after tax attributable to shareholders	9,457	6,465	46%
Adjustments:			
Impairment of investment property held for sale	-	75	
Gain on disposal of investment property held for sale	(178)	-	
Underlying profit after tax (UPAT)	9,279	6,540	42%
Basic EPS on NPAT (cents per share)	8.62	6.05	
Basic EPS on NPAT attributable to shareholders (cents per share)	8.62	5.92	
Diluted EPS on NPAT attributable to shareholders (cents per share)	8.42	5.77	
Basic EPS on UPAT attributable to shareholders (cents per share)	8.46	5.99	
Diluted EPS on UPAT attributable to shareholders (cents per share)	8.26	5.84	

* refer to Note 44 for additional details in relation to The Foundation's financial results.

Dividends

Dividends paid during the financial year were as follows:

	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 3.00 cents (2018: 2.35 cents) per ordinary share - fully franked	3,362	2,634
Interim dividend for the year ended 30 June 2020 of 2.50 cents (2019: 2.00 cents) per ordinary share - fully franked	2,810	2,242
	6,172	4,876

Since year end the Directors have declared a final dividend of 2.50 cents per fully paid ordinary share (2019: 3.00 cents) and special performance fee dividend of 1.00 cents per fully paid ordinary share (2019: nil). All dividends are fully franked based on tax paid at 27.5%. The aggregate amount of the declared dividend expected to be paid on 16 September 2020 out of profits for the year ended 30 June 2020, but not recognised as a liability at year end, is $3,934,000 (2019: $3,363,000).

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:

Details	Date	Shares	Issue price	$'000
Balance	1 July 2019	112,093,000		10,634
Vesting of deferred shares in the Employee Share Trust (747,300 shares)	1 September 2019	-	$0.68	511
Vesting of deferred shares in the Employee Share Trust (4,050 shares)	23 September 2019	-	$0.89	4
Vesting of deferred shares in the Employee Share Trust (1,875 shares)	23 September 2019	-	$1.32	2
Vesting of deferred shares in the Employee Share Trust (46,500 shares)	1 December 2019	-	$0.86	40
Issue of deferred shares to the Employee Share Trust	26 February 2020	294,138		-
Balance	30 June 2020	112,387,138		11,191

No amounts are unpaid on any of the shares.

Significant changes in the state of affairs
Other than the COVID-19 impacts described earlier in this report, there has been no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year
Subsequent to year end, Marion Enander has been appointed Chief Strategy and Innovation Officer, a new role within the management team effective 13 July 2020. Maria Loyez has been appointed Chief Customer Officer effective 20 July 2020. Karen Hughes has been appointed joint Company Secretary effective 25 August 2020.

Apart from the dividend declared as disclosed in Note 32 and the above appointments, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years. Management have considered the impact of the ongoing COVID-19 pandemic in Australia and assessed there are no changes required to the financial statements subsequent to the end of the financial year.

Likely developments and expected results of operations
Additional information about the Group's business is available to shareholders on our website.

Environmental regulation
The Company held a direct investment in one commercial property in Canberra which was sold during the year. To the best of the directors' knowledge, the relevant environmental regulations under Commonwealth and State legislation have been complied with.

Meetings of Directors
The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		People, Remuneration and Nominations Committee		Audit, Compliance and Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	14	14	7	7	6	6
Kate Greenhill	14	14	7	7	6	6
Mara Bun	14	13	7	7	6	6
Michael Monaghan	14	14	7	7	6	6
Julie Orr	14	14	7	7	6	6
Phil Vernon	2	2	-	-	-	-
John McMurdo	6	6	-	-	-	-

	Product Disclosure Statement Committee		Investment Committee	
	Eligible	Attended	Eligible	Attended
Steve Gibbs	1	1	6	6
Kate Greenhill	-	-	6	6
Mara Bun	-	-	6	6
Michael Monaghan	1	1	6	6
Julie Orr	-	-	6	6
Phil Vernon	-	-	1	-
John McMurdo	-	-	-	-

Indemnity and insurance of officers
The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

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

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

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

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

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 36 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in Note 36 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

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

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

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

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

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

On behalf of the Directors

John McMurdo
Managing Director and Chief Executive Officer

25 August 2020
Sydney

Remuneration Report 2020

Dear Shareholder,

On behalf of the Board I am pleased to present our Remuneration Report for 2020.

The 2020 financial year has been incredibly challenging for Australians as we have experienced drought, bushfires, floods and the recent global COVID-19 pandemic. During this uncertainty, Australian Ethical's business model has proven resilient, as we transitioned to the new work from home environment in March 2020 and were able to continue our focus on growth strategies.

This year we are delighted to have achieved record new member and investor numbers, record net inflows, record profit for the year and excellent relative investment performance across most of our managed funds and superannuation investment options. Our My Super product, the Australian Ethical Super Balanced option was rated second in the Chant West and third in the SuperRatings annual performance tables for FY 2020.

We continued our long history of reducing fees by implementing two fee reductions for our Super members in December 2019 and April 2020, passing on the benefits of increasing scale and making ethical investing more affordable and accessible.

Our strong staff engagement has been maintained throughout the year, a testament to the strength of our business and the commitment of our people.

Our remuneration framework continues to reward our management and employees fairly and provide a direct link between contribution and reward and alignment with the long-term performance of the Company. Our remuneration policy aligns to the philosophy of the Company that sees our people as key stakeholders in the Company's success.

The Annual Report also details a range of additional benefits offered to our employees as part of our ongoing commitment to making Australian Ethical an employer of choice.

We will continue to assess our remuneration framework and practices to ensure they meet regulatory requirements and meet the highest ethical standards. Specifically, our remuneration outcomes will continue to take into account financial and non-financial objectives, as well as risk and our cultural values.

We are committed to ensuring our remuneration arrangements remain fair to all stakeholders and are effective in attracting and retaining people who are motivated and professional.

Steve Gibbs
Chair
People, Remuneration & Nominations Committee

Australian Ethical Investment Limited and its Controlled Entities
Remuneration Report
For the year ended 30 June 2020

1. About this Report

This report deals with the remuneration arrangements that were in place for all employees of Australian Ethical Investment Limited (the 'Company'), and its wholly owned subsidiaries (together referred to as the 'Group') during the financial year ended 30 June 2020. It describes the philosophies behind the remuneration arrangements and incorporates changes to our remuneration structure implemented last year.

This remuneration report specifically focuses on the remuneration of Non-Executive Directors, the Managing Director/Chief Executive Officer (CEO) and members of the Senior Management Team (SMT), collectively referred to as Key Management Personnel ('KMP') and has been subject to independent audit as required by section 308(3C) of the Corporations Act 2001.

2. Our Remuneration Philosophy and Structure

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

Remuneration principles

The principles underpinning our remuneration framework are:

Fairness	• attract and retain talented people • pay people fairly for their work recognising the expertise and value they bring to the Group
Alignment	• build long term ownership in the Group • align reward with contribution to the Group's performance • align shareholder interests and employees • promote the values of the Ethical Charter included within the Constitution and be aligned with the purpose of the Group • incorporate risk management performance measures in all employee scorecards • be motivating for employees
Simplicity	• be simple to administer and to communicate to all stakeholders

The remuneration philosophy is also consistent with the principles of the Australian Ethical Constitution and Charter. It is designed to:

- ensure that the Group facilitates "the development of workers' participation in the ownership and control of their work organisations and places" - Charter element (a)
- not "exploit people through the payment of low wages or the provision of poor working conditions" – Charter element (ix)
- not "discriminate by way of race, religion or sex in employment, marketing, or advertising practices" – Charter element (x)

The remuneration framework is also designed to encompass the Group's values of wisdom, authenticity, action, and empathy which are embedded in our culture and adherence is a gate to incentives.

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

Income Inequality and Ethical Considerations

AEI's hiring practices and process of setting remuneration for all employees centres around the Group's values and culture. We rely on a variety of sources to identify values-aligned candidates, including LinkedIn, agencies, job advertising networks and our existing employees' networks. Intertwined within our hiring practices are our Group's values around remunerating people fairly for the work that they do and our Charter which stipulates that we do not discriminate by way of race, religion or sex in employment nor exploit people through the payment of low wages or poor working conditions.

To ensure we reflect the community around us and therefore benefit from a full range of thinking styles and approaches to work, we strive to achieve diversity with our employees across a number of dimensions including gender, age and ethnicity. We are one of the few Boards on the ASX with 50:50 gender equality and we have a 44% female representation on the Senior Management team (target minimum 40% of each gender). Our overall workforce gender balance sits at 57% females (target 50%).

The Group is aware of scrutiny over senior executive pay, particularly within the Financial Services sector. As a result, we have paid close attention to setting a fair and equitable remuneration rate for our CEO. The ratio of our CEO's total remuneration to the Group's average staff salary (excluding KMPs) is 3 times and the ratio of our CEO's fixed remuneration compared to average adult earnings[1] is 5 times.

[1] Australian Bureau of Statistics, Average Weekly Earnings May 2020

Elements of Remuneration (financial year ended 30 June 2020)

The following framework applied to all employees of Australian Ethical Investment Limited (not including Non-Executive Directors) for the financial year ended 30 June 2020. Employees of Australian Ethical Superannuation Limited are entitled to receive all the below elements of remuneration with the exception of long-term incentives linked to the performance of the Company.

Element	Description	Quantum	Paid as
Fixed Remuneration (FR)	Comprises base salary, superannuation, packaged employee benefits and associated fringe benefits tax.	• Reviewed annually, or on promotion. • Benchmarked against market data[2] for comparable roles based on position, skills and experience brought to the role. • Target remuneration is based around the median of the relevant comparator group for each job role, taking into consideration companies in a similar industry and of a similar size.	Cash

Short Term Incentive (STI)	An annual incentive aimed at rewarding employees for achievement of annual objectives. Applies to all employees who have satisfied the risk and values gate.	• Maximum achievable is a percentage of Fixed Remuneration (ranging from 7% to 100%) depending on the role.
		• Actual outcome is linked to performance and contribution against annual KPIs.
		• Short term incentives are treated as follows in the following circumstances:
		  ○ resignation – usually forfeited, subject to Board discretion;
		  ○ termination for serious misconduct – forfeited;
		  ○ retirement – at discretion of the Board;
		  ○ death or total and permanent disablement – at discretion of the Board; and
		  ○ redundancy – at discretion of the Board.
			Cash

Long Term Incentive (LTI)	Aimed at fostering 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. Applies to all employees who have satisfied the risk and values gate.	• Awarded as percentage of Fixed Remuneration
		• Shares are issued or purchased and held in trust for 3 years.
		• Vest in the name of the employee after 3 years, provided that:
		  ○ employee remains employed; and
		  ○ subject to 3-year compound annual growth in diluted earnings per Share (EPS) as follows:
		    ▪ 0 – 5% - nil vests
		    ▪ 5% - 10% - pro rata up to 100%
		    ▪ > 10% - fully vests.
		  ○ For the September 2017 grant, only 50% of the shares were subject to the 3-year compound annual growth hurdle. For the September 2018 and future grants, 100% of the shares are subject to the hurdle.
		• The Board has discretion to adjust EPS for items that do not reflect management and employee performance and day to day business operations and activities.
		• Employees participate in dividends and have voting rights from the date of grant.
		• On cessation of employment, no unvested shares shall vest unless the Board in its absolute discretion determines otherwise.
			Shares

[2] Benchmarked to data provided by the Financial Institutions Remuneration Group Inc (FIRG). FIRG is a peer group provider of remuneration and benefits data in the financial services industry.

Element	Description	Quantum	Paid as
Other employee benefits	The Group also provides to all employees other benefits.	Benefits include: ▪ an employee assistance program; ▪ volunteer leave (2 days per annum); ▪ self-education/study assistance; ▪ professional association memberships, annual health checks and annual flu vaccinations; ▪ flexible working arrangements; ▪ subsidies of training and education costs; and ▪ parental support including 18 weeks paid leave for primary carers and two weeks for secondary carers and superannuation contributions paid whilst on leave for up to 24 months. To support parents returning to work after taking parental leave, we provide primary carers with one day of paid leave each week for the first 3 months.	-

Our remuneration structure comprises both short and long-term incentives to ensure support for a strong risk culture and shareholder alignment. Our short-term incentives relating to investment performance incorporate 1, 3, 5 and 7 year performance against benchmarks and objectives to ensure incentives aligned to long term customer outcomes.

Performance measures for Short Term Incentives

Performance measures for Short Term Incentives are based on a Balanced Scorecard. Weightings of each element and specific objectives will vary with each individual and are based on their role. Employees have no contractual right to receive an STI award and the Board retains discretion to amend or withdraw the STI at any time. Adherence to the Company's values and risk culture are required to remain eligible for an STI award. The following table provides the 'balanced scorecard' and the performance outcomes for all executive KMP's for the financial year ended 30 June 2020.

Measure	Metric	Why this metric is appropriate	Weighting on STI for KMP	Incentive Award Achievement for FY20
Profit	◦ Net profit after tax attributable to shareholders ◦ Cost to income ratio	Provides alignment to the Group's financial performance	20-40%	Net profit after tax of $9.5m, an increase of 46% which includes a performance fee from Emerging Companies Fund. Medium to High % of target achieved.
Business growth	◦ Net inflows ◦ New funded super members ◦ Measured in absolute terms based on prior year experience and budget with stretch target	Growth and scale will benefit our customers through lower fees and better products and service. It also allows us to deliver greater social and environmental impact.	4-20%	Record net inflows of $0.66bn, an increase of 100% on prior year; Net growth in funded members of 12,611 during the year. Maximum of target achieved.
Customer focus	◦ Net Promoter Score (NPS) surveys	Customer satisfaction with product and service is measured using customer surveys conducted by survey tools and independent industry consultants.	5%	Net Promoter Scores of +58 for managed funds investors and +63 for super members. High % of target achieved.
Investment performance	◦ Super Fund Balanced Option (MySuper) performance against investment objective. Stretch target is objective + 2% over blended 5 and 7 year horizons. ◦ Australian Shares Fund & Emerging Companies Fund performance against market benchmarks. Stretch target is benchmark + 4% over blended 1 and 3 year horizons.	Delivering long term competitive investment returns for our customers is core to our offering.	0-40%	Super Fund Balanced Option (MySuper) against objective over 5 and 7 years – top quartile achieved Super Fund Balanced Option (MySuper) against benchmark (SR50) over 5 years –ranked 13th out of 50 funds Australian Shares performance against benchmark plus stretch percentage over 1 and 3 years – exceeded 1 year stretch target and top quartile against 3 year stretch target Emerging Companies performance against benchmark plus stretch percentage over 1 and 3 years – exceeded 1 and 3 year stretch targets
Strategic initiatives	◦ Delivery of agreed strategic initiatives program as a team. ◦ Specific strategic initiatives by responsible SMT member	Delivering priorities consistent with the long-term strategies of the Group	15-40%	Delivered 10 out of 11 strategic initiatives (refer to Review of Operations in the Directors' Report). Impact is assessed collectively and individually.

Employee engagement	◦ Assessed against employee annual engagement score (as surveyed by Culture Amp) ◦ Assessed against market comparisons ◦ Team development measured by performance on 360 feedback, team engagement scores, unwanted turnover, team upskilling ◦ Adherence to the Company's values is treated as a gate to short term incentive awards	Providing a motivating and inspiring workplace and high employee engagement has been proven to drive better business outcomes for customers and shareholders.	8-30%	Staff engagement score of 86%, exceeding the Australian top quartile employers of 70%. Achieved a positive score of 98% on employees' confidence in leadership and Board's response to COVID-19. Employee engagement- maximum target achieved. Team development high % of target achieved. Adherence to value and development is assessed individually
Risk	◦ Metrics focus on fostering risk management culture and managing strategic and operational risk within Board approved risk appetite. ◦ Adherence to the Company's risk culture is treated as a gate to the entire short term incentive award. ◦ Poor risk action results in reduction to or forfeiture of STI.	It is critical for our senior management to have a high degree of ownership for risk management.	8-30%	Impact is assessed collectively and individually based on the risk management framework of the Company and is reviewed by the Board. High % of target achieved.

In assessing the performance of the business and the management team, the Board acknowledges an excellent set of Group results and a significant number of improvements in how the business is positioned for future success.

The PRN considered the SMT's STI awards in light of the Balanced Scorecard achievements, and each individual's contribution to the results and recommended to the Board each SMT STI award, as reflected in the statutory table. No SMT received reduced salary as a result of COVID-19, however the final STI outcome reflected results impacted where relevant.

Managing Director/CEO (MD/CEO) short term incentive and long term incentive for financial year 2020 (FY20)

The components of the Remuneration payable to the MD/CEO are detailed in section 4 - Contract terms. When the MD/CEO was appointed the Board agreed a pro rata award of STI and LTI for the proportion of the financial year that he was employed. Whether any STI and/or LTI was awarded was solely at the discretion of the Board. Having considered the performance of the MD/CEO and how the company has performed under his leadership since his commencement the Board decided on the STI award as set out in the statutory table (50% of the award determined by the Board is payable in cash and 50% in deferred shares as would be the case for a full years STI under the terms of the MD/CEO's contract). The Board also decided to award a pro-rata LTI which would be added to the first full year LTI and which would therefore not vest until September 2023 and only if the LTI performance hurdle is met.

3. Developments in Remuneration practices

Over the past two years APRA, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, shareholders and media have put the spotlight on remuneration practices at financial service institutions. The main focus has been on the variable incentive assessment criteria driving the wrong behaviour and poor customer outcomes.

In early 2020, the Government announced plans to extend the Banking Executive Accountability Regime ('BEAR') to all APRA regulated entities – forming the Financial Accountability Regime ('FAR'), which will be jointly administered by APRA and ASIC. We recognise the important role that remuneration can play in managing risk and emphasising a positive risk culture.

In line with this, our balanced scorecard combines both financial objectives and non-financial customer outcomes, balancing risk management, and ensuring adherence to our desired cultural values. All employees, including KMPs have objectives underpinned by the company's core values and incentivise ethical behaviour and positive customer outcomes. There are clear criteria determining how performance objectives are met and consequences where they are not met. Each year, the Board reviews the remuneration framework and has had oversight of remuneration arrangements for all employees, setting key performance objectives to influence the work ethic / behaviour of employees and the remuneration outcomes.

In FY20, the Board assessed the recommendations and guidelines from the APRA review of remuneration practices. In FY21, we will be carrying out a more detailed review of our remuneration structure and incentives in light of FAR and APRA's prudential standard on Remuneration (CPS511) to ensure we continue to meet our highest ethical standards. The new regulation is anticipated to commence in the financial year commencing 1 July 2021.

4. Senior Management Team Remuneration Outcomes

Corporate performance

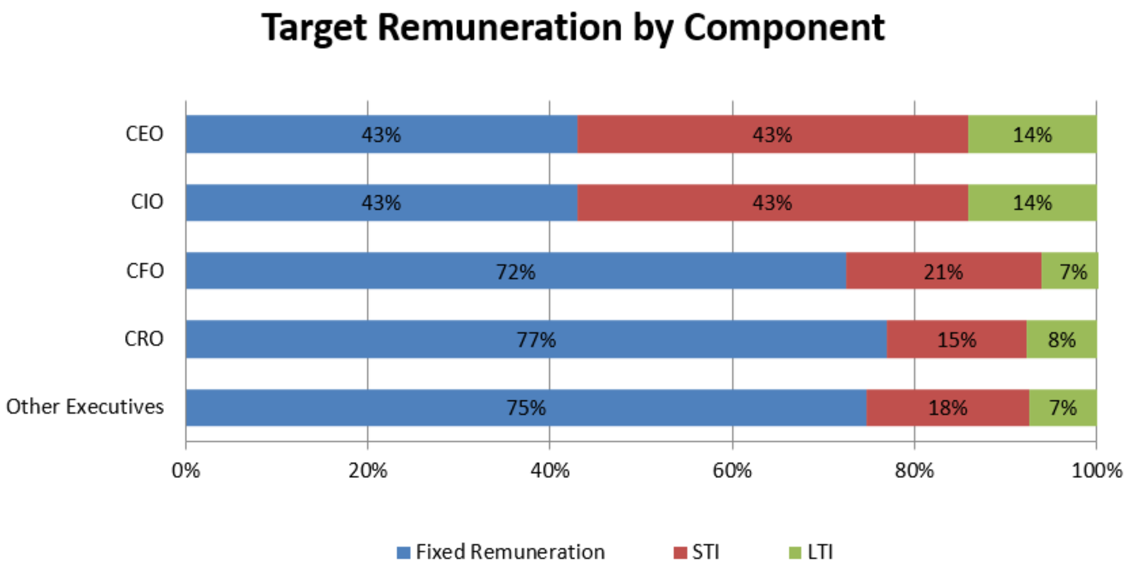
In considering the Company's short and long-term incentive payments, regard is had to the following measures:

	2016	2017	2018	2019	2020
Net Profit After Tax attributable to shareholders ($'000)	3,010	2,920	4,998	6,465	9,454
Underlying Profit After Tax ($'000) [1]	3,821	4,235	4,998	6,540	9,279
Diluted Earnings Per Share (cents per share)	2.88	2.62	4.46	5.84	8.42
Diluted Earnings Per Share growth (3 years)	38.5%	2.8%	35.2%	28.5%	47.3%
Share price at end of period ($, restated for share split)	0.81	0.94	1.35	1.77	6.66
Dividends (cents per share, restated for share split)	3.00	2.60	4.00	5.00	5.00
Special performance fee dividend (cents per share) [2]	-	-	-	-	1.00

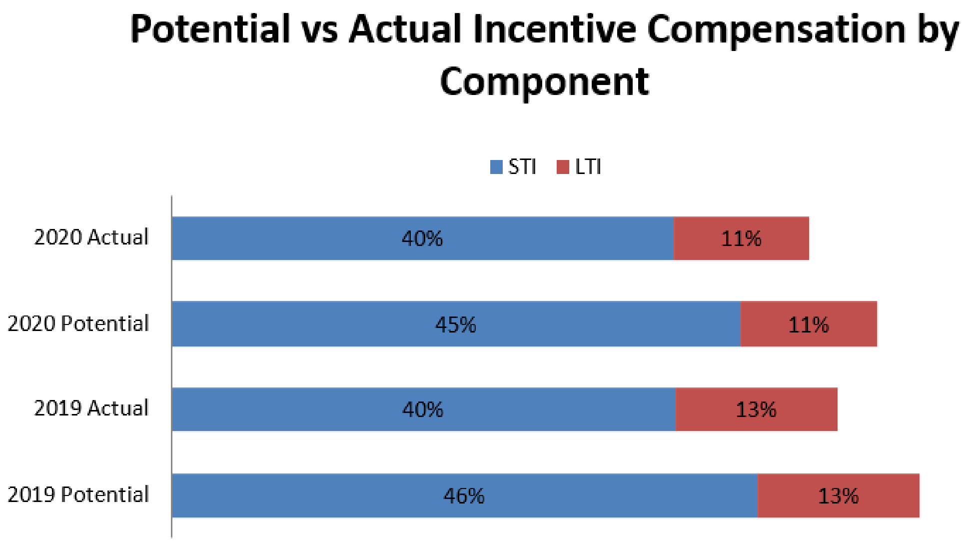
[1] Underlying Profit After Tax is a non-IFRS measure and is not audited
[2] The Special performance fee dividend is linked to the performance fee achieved on the Emerging Companies Fund outperformance in FY20

Weighting of remuneration components

The following are the weightings of the various components of maximum remuneration for CEO and certain SMT members.



The below is the actual incentive compensation received by the senior management team in relation to the maximum incentive compensation they were entitled to. The percentages equate to the ratio of STI and LTI components against fixed salary.



The following two tables set out senior management team remuneration.

- The table 'Senior Management Team Remuneration Outcomes – Statutory Basis' is aligned to the way the Company expenses the remuneration of the senior team under the accounting standards and the Corporations Act.
- The table 'Senior Management Team Remuneration Outcomes – Cash and Vesting Basis' shows amounts received by the senior management team in cash and shares vested during the financial year ended 30 June 2020.

The movement in the Senior Management Team remuneration outcomes (statutory basis) between FY2019 and FY2020 is explained in the following table:

Role	Explanation of movement
Chief Executive Officer (CEO)	The new CEO commenced on 10 February 2020. Amounts disclosed for the Acting CEO reflect the period of time in this role, it having been agreed that the acting CEO would not be entitled to any STI or LTI during the period.
Chief Operations Officer (COO)	The full year cost of the COO has been recognised in current year, whilst the prior year includes only 5 months of costs due to appointment part way through the prior year
Chief Customer Officer (CCO)	The full year cost of the CCO has been recognised in the current year, compared with the prior year which included 2.5 months of unpaid leave. The CCO ceased employment on 30 June 2020 and was paid her notice period as a termination benefit.
Head of People & Culture (HP&C)	Termination benefits have been recognised in the current year for the HP&C following the announcement of a restructuring of the People & Culture department. The People & Culture department will commence reporting through to the Chief Strategy and Innovation Officer upon departure of the HP&C on 9 October 2020.
Other	Increase in some individual salaries in line with industry benchmarking to ensure reward remains competitive and fair.

Senior Management Team Remuneration Outcomes – Statutory Basis

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

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits					
Name	**Title**	**Salary**	**Short Term Incentives [1] $**	**Super-annuation $**	**Termination Benefits $**	**Long Service Leave $**	**Long Term Incentives – Cash $**	**Long Term Incentives – Equity [2] $**	**Total $**	**Performance Related %**	**Performance-based forfeited [3] %**
2020 financial year											
Current management team											
J McMurdo (app 10 Feb 2020) [4]	Managing Director & CEO	153,564	70,597	14,577	-	2,803	-	-	241,541	29.2%	15.0%
K Heng	Chief Operating Officer	296,831	92,000	21,003	-	6,227	-	13,921	429,982	24.6%	4.0%
F Horan (departing 9 Oct 2020) [6]	Head of People & Culture	267,559	50,000	21,003	191,409	5,823	-	24,437	560,231	13.3%	13.3%
K Hughes	Chief Risk Officer	262,331	50,000	21,003	-	5,898	-	27,333	366,565	21.1%	12.3%
D Macri	Chief Investment Officer	347,914	320,000	21,003	-	12,645	-	113,145	814,707	53.2%	13.7%
T May	General Counsel & Company Secretary	281,647	35,000	21,003	-	10,531	-	24,201	372,382	15.9%	36.4%
S Palmer	Head of Ethics Research	287,331	54,000	21,003	-	9,347	-	28,144	399,825	20.5%	12.9%
M Simons	Chief Financial Officer	317,728	92,000	21,003	-	6,981	-	32,754	470,466	26.5%	9.8%
Interim CEO											
S Gibbs (1 Sept 2019 to 9 Feb 2020) [4]	Acting Managing Director & CEO	162,365	-	14,922	-	-	-	-	177,287	0.0%	-
Departed management											
A Lowbridge (dep 30 Jun 2020) [5]	Chief Customer Officer	275,529	50,000	21,003	51,422	5,618	-	52,451	456,023	22.5%	46.2%
P Vernon (dep 31 Aug 2019) [4]	Managing Director & CEO	50,664	-	21,003	-	-	-	-	71,667	0.0%	-
Total 2020		2,703,463	813,597	218,526	242,831	65,873	-	316,386	4,360,676	25.9%	

1. The Short-term Incentive ('STI') expense is the amount accrued for performance during the respective financial year using agreed KPI's. The 2020 amounts were approved by the PRN.
2. The Long-term incentive ('LTI') expense for 2020 includes the relevant 2020 expense impact of each of the 2017-18, 2018-19 and 2019-20 grants under the long-term incentive plan. The cost of shares is fixed at time of grant and expensed over a three-year period using an annual probability assessment of the hurdles being met. The 2017-18 tranche will vest at an individual level in September 2020.
3. The percentage of STI forfeited in the year represents the reduction from the maximum STI the KMP may be eligible to receive due to performance criteria not being fully achieved and/or service period.
4. On 10 February 2020, John McMurdo was appointed CEO, replacing Steve Gibbs as Acting CEO from 1 September 2019 to 9 February 2020 and Phil Vernon who resigned as CEO on 31 August 2019. Amounts disclosed in the above table represents remuneration for the period of time Mr Gibbs was Acting CEO. His remuneration earned during the year in his role as Chairman and non-executive board member are disclosed in section 5. Non-Executive Director Arrangements section of this report.
5. Allyson Lowbridge ceased employment on 30 June 2020. The termination payment includes payout for remaining notice period to 4 September 2020.
6. The role of Head of People & Culture was restructured at 30 June 2020. The Head of People & Culture will be departing on 9 October 2020 and will be paid the termination payment on that date. The termination payment includes contractual redundancy provisions, payout for remaining notice period and other statutory payments including long-service entitlements.

Senior Management Team Remuneration Outcomes – Statutory Basis (continued)

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits					
Name	**Title**	**Salary**	**Short Term Incentives [1] $**	**Super-annuation $**	**Termination Benefits $**	**Long Service Leave $**	**Long Term Incentives – Cash [7] $**	**Long Term Incentives – Equity $**	**Total $**	**Performance Related %**	**Performance-based forfeited [3] %**
2019 financial year											
Management team											
P Vernon	Managing Director & CEO	407,802	355,921	20,531	-	13,531	70,000	35,446	903,231	51.1%	18.6%
K Heng (app 14 Jan 2019)	Chief Operating Officer	133,205	38,766	12,654	-	2,805	-	-	187,430	20.7%	8.9%
F Horan	Head of People & Culture	289,478	55,440	20,531	-	5,345	-	16,263	387,057	18.5%	7.9%
K Hughes	Chief Risk Officer	251,969	51,088	20,531	-	5,639	-	19,258	348,485	20.2%	10.9%
A Lowbridge	Chief Customer Officer	234,546	64,972	20,531	-	5,284	-	20,333	345,666	24.7%	17.5%
D Macri	Chief Investment Officer	338,385	309,563	20,531	-	12,179	-	112,475	793,133	53.2%	14.9%
T May	General Counsel & Company Secretary	234,849	44,106	20,531	-	11,946	-	23,779	335,211	20.3%	13.4%
S Palmer	Head of Ethics Research	277,157	55,350	20,531	-	6,342	-	26,047	385,427	21.1%	10.8%
M Simons	Chief Financial Officer	304,469	94,601	20,531	-	6,688	-	23,121	449,410	26.2%	7.9%
Departed management											
R Plow (dep 24 Oct 2018)	Chief Operating Officer	196,151	-	20,531	-	-	-	-	216,682	0.0%	-
Total 2019		2,668,011	1,069,807	197,433	-	69,759	70,000	276,722	4,351,732	32.6%	

7. In respect of the 2017-18 tranche of the long-term incentive scheme, shareholders voted against the grant of deferred shares to the previous CEO and Managing Director (Mr Phil Vernon) at the AGM of October 2017. In the context of his total remuneration, the Board (meeting without Mr Vernon) decided to provide an alternative long-term incentive payment of $210,000 over three years subject to the same vesting conditions (continuing employment and EPS growth hurdles). This amount was expensed in 2018 and 2019 financial years, shown in the tables under Long Term Incentives – Cash. Upon resignation, $70,000 was forfeited and therefore no 2020 financial year expense.

Senior Management Team Remuneration Outcomes – Cash and Vesting Basis (non-IFRS, audited)

The table below reflects actual benefits received by each KMP during the reporting period including prior year bonus paid in cash in the current year and the value of shares vested under the LTI deferred shares program three years previously.

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits				
Name	**Title**	**Salary [1]**	**Cash Bonus $**	**Super-annuation [1] $**	**Termination Benefits $**	**Long Service Leave $**	**Long Term Incentives – Cash $**	**Long Term Incentives – Equity [2] $**	**Total $**	**Performance Related %**
2020 financial year										
Current management team										
J McMurdo (app 10 Feb 2020)	Managing Director & CEO	153,564	-	14,577	-	2,803	-	-	170,944	0.0%
K Heng	Chief Operating Officer	297,372	39,359	21,003	-	6,227	-	-	363,961	10.8%
F Horan (departing 9 Oct 2020)	Head of People & Culture	269,935	51,579	21,003	-	5,823	-	-	348,340	14.8%
K Hughes	Chief Risk Officer	265,687	49,008	21,003	-	5,898	-	-	341,596	14.3%
D Macri	Chief Investment Officer	366,006	308,520	21,003	-	12,645	-	318,617	1,026,791	61.1%
T May	General Counsel & Company Secretary	284,492	45,604	21,003	-	10,531	-	69,190	430,820	26.6%
S Palmer	Head of Ethics Research	290,683	54,120	21,003	-	9,347	-	62,784	437,937	26.7%
M Simons	Chief Financial Officer	321,753	91,185	21,003	-	6,981	-	-	440,922	20.7%
Interim CEO										
S Gibbs (1 Sept 2019 to 9 Feb 2020)	Acting Managing Director & CEO	162,365	-	14,922	-	-	-	-	177,287	0.0%
Departed management										
A Lowbridge (dep 30 Jun 2020)	Chief Customer Officer	282,311	59,444	21,003	-	5,618	-	99,301	467,677	33.9%
P Vernon (dep 31 Aug 2019)	Managing Director & CEO	50,664	349,831	21,003	-	-	140,000	332,284	893,782	76.3%
Total 2020		2,744,832	1,048,650	218,526	-	65,873	140,000	882,176	5,100,057	

1. Fixed remuneration – includes base salary, payments made to superannuation funds and dividend income on unvested shares.
2. Long term incentives 2020 – the market value of vested shares during the financial year relating to deferred shares granted in September 2016. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was $2.18 (price at grant was $0.68 (converted, post December 2018 share split)).

Senior Management Team Remuneration Outcomes – Cash and Vesting Basis (non-IFRS, audited) (continued)

		Short Term Benefits		Post-Employment Benefits		Long Term Benefits			
Name	**Title**	**Salary [1]**	**Cash Bonus $**	**Super-annuation [1] $**	**Termination Benefits $**	**Long Service Leave $**	**Deferred Shares – Equity Vested [3] $**	**Total $**	**Performance Related %**
2019 financial year									
Management team									
P Vernon	Managing Director & CEO	424,902	332,220	20,531	-	13,531	309,026	1,100,210	58.3%
K Heng (app 14 Jan 2019)	Chief Operating Officer	133,205	-	12,654	-	2,805	-	148,664	0.0%
F Horan	Head of People & Culture	290,220	36,060	20,531	-	5,345	-	352,156	10.2%
K Hughes	Chief Risk Officer	253,870	45,448	20,531	-	5,639	-	325,488	14.0%
A Lowbridge	Chief Customer Officer	238,509	75,780	20,531	-	5,284	-	340,104	22.3%
D Macri	Chief Investment Officer	352,399	265,122	20,531	-	12,179	296,264	946,495	59.3%
T May	General Counsel & Company Secretary	237,792	37,815	20,531	-	11,946	64,293	372,377	27.4%
S Palmer	Head of Ethics Research	280,267	47,345	20,531	-	6,342	55,085	409,570	25.0%
M Simons	Chief Financial Officer	306,752	65,528	20,531	-	6,688	-	399,499	16.4%
Departed management									
R Plow (dep 24 Oct 2018)	Chief Operating Officer	196,151	55,735	20,531	-	-	-	272,417	20.5%
Total 2019		2,714,067	961,053	197,433	-	69,759	724,668	4,666,980	36.1%

3. Long-term incentives 2019 – the market value of vested shares during the financial year relating to deferred shares granted in September 2015. 100% of these shares vested as the performance criteria was fully achieved. The market value on the vesting date was $1.61 (price at grant was $0.54 (converted, post December 2018 share split)).

Unvested and Ordinary Shares

The movement during the reporting period in the number of unvested shares and ordinary shares in the Company, held directly, or beneficially, by each key management person, including their related parties is outlined in the table below.

Name	Grant Date	Vesting Date	Share Price at Grant Date	Balance at 1 July 2019	No. of shares granted	No. of shares forfeited/ expired	No. of shares vested	No. of shares sold	Balance at 30 June 2020
Managing Director & CEO									
J McMurdo									
Ordinary shares				-	-	-	-	-	-
Total				**-**	**-**	**-**	**-**	**-**	**-**
Current management									
K Heng									
Unvested	1-Sep-19	1-Sep-22	2.1500	-	21,653	-	-	-	21,653
Ordinary shares				-	-	-	-	-	-
Total				**-**	**21,653**	**-**	**-**	**-**	**21,653**
F Horan									
Unvested	1-Sep-18	1-Sep-21	1.3175	37,100	-	-	-	-	37,100
Unvested	1-Sep-19	1-Sep-22	2.1500	-	13,419	-	-	-	13,419
Ordinary shares				-	-	-	-	-	-
Total				**37,100**	**13,419**	**-**	**-**	**-**	**50,519**
K Hughes									
Unvested	1-Sep-17	1-Sep-20	0.8873	34,100	-	-	-	-	34,100
Unvested	1-Sep-18	1-Sep-21	1.3175	20,900		-	-	-	20,900
Unvested	1-Sep-19	1-Sep-22	2.1500		13,256				13,256
Ordinary shares				-	-	-	-	-	-
Total				**55,000**	**13,256**	**-**	**-**	**-**	**68,256**
D Macri									
Unvested	1-Sep-16	1-Sep-19	0.6834	149,200	-	-	(149,200)	-	-
Unvested	1-Sep-17	1-Sep-20	0.8873	131,500	-	-	-	-	131,500
Unvested	1-Sep-18	1-Sep-21	1.3175	90,200	-	-	-	-	90,200
Unvested	1-Sep-19	1-Sep-22	2.1500	-	56,898	-	-	-	56,898
Ordinary shares				54,885	-	-	149,200	(128,799)	75,286
Total				**425,785**	**56,898**	**-**	**-**	**(128,799)**	**353,884**
T May									
Unvested	1-Sep-16	1-Sep-19	0.6834	32,400	-	-	(32,400)	-	-
Unvested	1-Sep-17	1-Sep-20	0.8873	26,200	-	-	-	-	26,200
Unvested	1-Sep-18	1-Sep-21	1.3175	19,700	-	-	-	-	19,700
Unvested	1-Sep-19	1-Sep-22	2.1500	-	12,791	-	-	-	12,791
Ordinary shares				-	-	-	32,400	(32,400)	-
Total				**78,300**	**12,791**	**-**	**-**	**(32,400)**	**58,691**
S Palmer									
Unvested	1-Sep-16	1-Sep-19	0.6834	29,400	-	-	(29,400)	-	-
Unvested	1-Sep-17	1-Sep-20	0.8873	31,600	-	-	-	-	31,600
Unvested	1-Sep-18	1-Sep-21	1.3175	22,800	-	-	-	-	22,800
Unvested	1-Sep-19	1-Sep-22	2.1500	-	14,419	-	-	-	14,419
Ordinary shares				-	-	-	29,400	(9,800)	19,600
Total				**83,800**	**14,419**	**-**	**-**	**(9,800)**	**88,419**
M Simons									
Unvested	1-Sep-17	1-Sep-20	0.8873	41,000	-	-	-	-	41,000
Unvested	1-Sep-18	1-Sep-21	1.3175	25,000	-	-	-	-	25,000
Unvested	1-Sep-19	1-Sep-22	2.1500	-	15,814	-	-	-	15,814
Ordinary shares				-	-	-	-	-	-
Departed management									
A Lowbridge [1]									
Unvested	10-Oct-16	1-Dec-19	0.6834	46,500	-	-	(46,500)	-	-
Unvested	1-Sep-17	1-Sep-20	0.8873	33,800	28,500	-	(62,300)	-	-
Unvested	1-Sep-18	1-Sep-21	1.3175	23,500	-	(9,169)	(14,331)	-	-
Unvested	1-Sep-19	1-Sep-22	2.1500	-	14,419	(10,423)	(3,996)	-	-
Ordinary shares				-	-	-	127,127	-	127,127
Total				**103,800**	**42,919**	**(19,592)**	**-**	**-**	**127,127**

1. 28,500 shares were granted to Ms Lowbridge for the period October 2016 to 30 June 2017. These shares were not allocated to Ms Lowbridge until December 2019. On cessation of employment, Ms Lowbridge's shares were vested on a pro-rated basis.

Contract terms

All KMP's have formal contracts of employment and are permanent employees with a 12-week notice period.

The Managing Director & CEO remuneration structure is outlined below:

	Term	Notice period	STI	LTI	Malus Provision
Managing Director	No fixed term	6 months, however, could be terminated without notice due to negligence in carrying out responsibilities, dishonesty, breaching Company policies or criminal activity.	Maximum STI of up to 100% of fixed remuneration based on a balanced scorecard of key performance indicators and Board discretion. Of the amount payable each year, 50% shall be paid in cash and 50% shall be deferred in the form of Company shares vesting as follows – one third one year after grant date, one third two years after grant date and one third three years after grant date.	Maximum LTI of 33% of fixed remuneration subject to the rules and terms of the Employee Share Plan.	The Board has the discretion to reduce or cancel any STI or LTI for: - Fraudulent or dishonest conduct; - Material misstatements or omission in the financial statements; or - Circumstances occur that the Board determines to have resulted in unfair or inappropriate benefit

On 10 February 2020, the Company appointed John McMurdo as Managing Director and Chief Executive Officer replacing Acting CEO Steve Gibbs who had held the position since the resignation of Phil Vernon as Managing Director and CEO on 31 August 2019. Mr Gibbs resumed his position as Chair of the Board, replacing Acting Chairman Michael Monaghan, who remains on the Board of Directors.

Upon completing his 9 years of service, Mr Vernon was paid the STI for the year ended 30 June 2019 in accordance with the balanced scorecard, along with the vesting of the LTI shares granted on 1 September 2016, two-thirds of the cash settled LTI relative to the period of service and company performance for the 3 years ending 30 June 2020. These incentive payments were expensed in the year ended 30 June 2019.

5. Non-Executive Director Arrangements

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 and the Chairman of Australian Ethical Superannuation Ltd (AES) does not receive any additional fees for chairing this Board.

The director fee pool available for payment to NEDs of the Company is approved by shareholders. The maximum annual aggregate pool for directors' remuneration is $675,000, which was approved at the AGM in October 2019. A review of NEDs' remuneration is undertaken annually by the Company Board, taking into account recommendations from the PRN.

All NEDs are directors of Australian Ethical Investment Limited (AEI), Australian Ethical Superannuation Pty Ltd, Australian Ethical Foundation Limited (the Foundation) and members of each Board's Audit, Risk and Compliance Committee ('ARC') and the PRN, with the exception of Ms Orr who sits on the Board of AEI, the

Foundation, and AEI's PRN and ARC only. All NEDs also sit on the Board of AEI's Investment Committee. AEI's Product Disclosure Statements ('PDS') Committee comprises Mr Gibbs and Mr Monaghan, and AES's Insurance Benefits Committee comprises Mr Gibbs and Ms Greenhill.

The following changes occurred between 1 September 2019 and 9 February 2020 while Mr Gibbs was Acting CEO:

- Mr Gibbs stepped down from his role as Chair of the AEI, AES and AEF Boards and Chair of the PRN and was replaced by Mr Monaghan in each of these roles. He also stepped down from his roles as a member of the AEI and AES ARCs. Mr Gibbs resumed his roles as Chair and member of the above Boards and Committees in February 2020 after the CEO role was transitioned to Mr McMurdo. Mr Monaghan also resumed his role as a member of the above Boards and Committees in February 2020.
- Mr Gibbs stepped down from his role as the Chair of the Insurance Benefits Committee and was replaced by Ms Bun. Ms Greenhill joined the Committee as a member in September 2019 and remains a member of the committee. Mr Gibbs resumed his role as Chair and Ms Bun retired from the Committee in February 2020.

The following table sets out the agreed remuneration for Non-Executive Directors by position for a full year, with effect from 1 December 2019. Non-executive directors do not receive performance-related compensation and are not provided with retirement benefits apart from statutory superannuation.

From 1 December 2019	**AEI $**	**AES $**	**AEF $**
Base fees			
Chair	87,241	29,288	-
Other non-executive directors	49,885	29,288	-
Additional fees			
ARC - chair	16,337	16,337	-
ARC - member	9,335	9,335	-
Investment Committee (IC) - chair	15,000	-	-
Investment Committee (IC) - member	10,000	-	-
PDS Committee - chair	2,060	-	-
PDS Committee - member	2,060	-	-
Insurance Benefits Committee (IBC) - chair	-	3,090	-
Insurance Benefits Committee (IBC) - member	-	3,090	-
PRN - chair	-	-	-
PRN - member	-	-	-

The following table sets out the agreed remuneration for Non-Executive Directors by position for a full year, with effect from 1 December 2018.

From 1 December 2018	**AEI $**	**AES $**	**AEF $**
Base fees			
Chair	79,310	26,626	-
Other non-executive directors	45,350	26,626	-
Additional fees			
ARC - chair	15,862	15,862	-
ARC - member	9,064	9,064	-
Investment Committee (IC) - chair	10,000	-	-
Investment Committee (IC) - member	5,000	-	-
PDS Committee - chair	2,000	-	-
PDS Committee - member	2,000	-	-
Insurance Benefits Committee (IBC) - chair	-	3,000	-
Insurance Benefits Committee (IBC) - member	-	3,000	-
PRN - chair	-	-	-
PRN - member	-	-	-

Non-Executive Directors remuneration

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

	Short Term Benefits		**Post-Employment Benefits**		**Long Term Benefits**		
Name	**Salary, Fees and Leave** $	**Cash Bonus** $	**Super-annuation** $	**Termin-ation Benefits** $	**Long Service Leave** $	**Long Term Incentives - Equity** $	**Total** $
2020							
S Gibbs [1]	67,349	-	6,287	-	-	-	73,636
K Greenhill	106,261	-	10,095	-	-	-	116,356
M Bun	96,415	-	9,159	-	-	-	105,574
M Monaghan	114,209	-	10,850	-	-	-	125,059
J Orr [2]	59,472	-	5,650	-	-	-	65,122
Total	**443,706**	**-**	**42,041**	**-**	**-**	**-**	**485,747**
2019							
S Gibbs	117,252	-	11,139	-	-	-	128,391
K Greenhill	96,190	-	9,138	-	-	-	105,328
M Bun	85,522	-	8,125	-	-	-	93,647
M Monaghan	87,653	-	8,327	-	-	-	95,980
J Orr [2]	48,378	-	4,596	-	-	-	52,974
Total	**434,995**	**-**	**41,325**	**-**	**-**	**-**	**476,320**

1. S Gibbs did not receive remuneration as a director during his period of time as Acting Managing Director and CEO. His remuneration during this period appears in the Senior Management Remunerations tables above. Mr Gibbs resumed as Chair on 10 February 2020.
2. J Orr is a director of AEI Limited and a member of AEI's PRN, ARC and Investment committee.

Shares owned by Non- Executive Directors

Name	**Purchase Date**	**Balance at 1 July 2019**	**No. of shares purchased**	**No. of shares sold**	**Balance at 30 June 2020**
Non-Executive Directors					
M Bun AEF Ordinary shares	13-Nov-17	57,000	-	-	57,000
Total		**57,000**	**-**	**-**	**57,000**

6. Governance

The Role of the People, Remuneration and Nominations Committee (PRN)

The role of the PRN 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 PRN 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 PRN members for the financial year ended 30 June 2020 were:
- Steve Gibbs (Chair);
- Mara Bun;
- Kate Greenhill;
- Michael Monaghan; and
- Julie Orr

The PRN met seven times during the year. Attendance at these meetings is set out in the Directors' Report. At the PRN's invitation, the Managing Director and Head of People and Culture attended all meetings except where matters were associated with their own performance evaluation, development and remuneration were to be considered. The PRN considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including remuneration consultants.

Annually, an assessment is made on the eligibility for vesting of deferred shares issued under the Long-Term Incentive Scheme for which all AEI employees participate in.

Malus Provisions

The Board has the discretion to reduce or forfeit awards where:
- the participant has acted fraudulently or dishonestly or is in breach of their obligations to the Company;
- the Company becomes aware of material misstatement or omission in the financial statements of the Company; or
- circumstances occur that the Board determines to have resulted in unfair or inappropriate benefit to the recipient.

CEO and SMT Performance

The CEO is responsible for reviewing the performance of SMT and determining whether their performance requirements were met. In addition, the CEO has oversight of all employees' performance appraisals. Both quantitative and qualitative data is used to determine whether performance criteria are achieved.

An annual assessment of the CEO is completed by the Chairman and is overseen by the Board, with input from the PRN. The review includes measurement of performance against agreed KPI's and Company performance. The PRN also has oversite of SMT performance.

Hedging Policy

SMT 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's shares during "blackout periods". These periods occur between the end of the half year and two days after the release of the half-year results, and between the end of the full year and two days after the release of the full year results.

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

Steve Gibbs
Chair
People, Remuneration & Nominations Committee
25 August 2020

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

To the Directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical Investment Limited for the financial year ended 30 June 2020 there have been:

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

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

KPMG

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
25 August 2020

Australian Ethical Investment Limited and its Controlled Entities
Statements of comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Revenue	5	49,902	40,977	45,394	33,247
Total revenue		49,902	40,977	45,394	33,247
Expenses					
Operating expenses					
Employee benefits	6	(18,191)	(15,431)	(17,893)	(15,280)
Fund related	7	(7,568)	(6,373)	(2,368)	(2,093)
Marketing		(4,169)	(3,798)	(4,169)	(3,796)
External services	8	(1,721)	(1,830)	(1,131)	(1,401)
IT expenses	9	(1,794)	(1,562)	(1,787)	(1,562)
Community grants expense	10	(1,291)	(780)	(1,300)	(937)
Depreciation and amortisation expense	11	(898)	(362)	(898)	(362)
Occupancy	12	(366)	(837)	(366)	(837)
Finance costs	13	(58)	-	(58)	-
Other expenses	14	(959)	(847)	(794)	(719)
Total operating expenses		(37,015)	(31,820)	(30,764)	(26,987)
Non-operating gain/(loss)					
Impairment of property, plant and equipment		-	(75)	-	(75)
Gain on disposal of investment property held for sale		178	-	178	-
Profit before income tax expense		13,065	9,082	14,808	6,185
Income tax expense	15	(3,608)	(2,468)	(2,978)	(489)
Net profit for the year		9,457	6,614	11,830	5,696
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Loss on revaluation of investments		(3)	(2)	-	-
Other comprehensive income for the year, net of tax		(3)	(2)	-	-
Total comprehensive income for the year [3]		9,454	6,612	11,830	5,696
		Cents	**Cents**		
Basic earnings per share	41	8.62	6.05		
Diluted earnings per share	41	8.42	5.90		

[3] Comprehensive income includes the results of The Foundation (refer to Note 44)

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

Australian Ethical Investment Limited and its Controlled Entities
Statements of financial position
As at 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Assets					
Current assets					
Cash and cash equivalents	16	21,427	18,825	18,516	14,400
Trade and other receivables	17	4,771	2,375	6,210	1,875
Right-of-use assets	18	450	-	450	-
Prepayments		1,172	447	1,020	339
		27,820	21,647	26,196	16,614
Investment property held for sale	19	-	1,535	-	1,535
Total current assets		27,820	23,182	26,196	18,149
Non-current assets					
Deferred tax	15	2,134	1,805	2,052	1,737
Property, plant and equipment	20	1,938	1,753	1,938	1,753
Right-of-use assets	18	847	-	847	-
Term deposit	21	504	504	504	504
Other receivables	22	440	-	440	-
Investments in subsidiary	23	-	-	316	316
Financial assets through other comprehensive income	24	133	78	2	2
Total non-current assets		5,996	4,140	6,099	4,312
Total assets		33,816	27,322	32,295	22,461
Liabilities					
Current liabilities					
Trade and other payables	25	6,113	5,052	5,632	3,587
Employee benefits	26	3,849	3,608	3,831	3,608
Income tax	15	852	808	852	808
Lease liabilities	18	529	-	529	-
Total current liabilities		11,343	9,468	10,844	8,003
Non-current liabilities					
Lease liabilities	18	1,112	-	1,112	-
Trade and other payables	27	-	328	-	328
Employee benefits	28	273	272	271	272
Provisions	29	246	240	246	240
Deferred tax	15	25	-	25	-
Total non-current liabilities		1,656	840	1,654	840
Total liabilities		12,999	10,308	12,498	8,843
Net assets		20,817	17,014	19,797	13,618
Equity					
Issued capital	30	11,191	10,634	11,191	10,634
Reserves	31	784	788	791	792
Retained profits		8,842	5,592	7,815	2,192
Total equity		20,817	17,014	19,797	13,618

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

Australian Ethical Investment Limited and its Controlled Entities
Statements of changes in equity
For the year ended 30 June 2020

Consolidated	**Issued capital $'000**	**Employee share plan reserve $'000**	**FVOCI reserve $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2018	10,204	1,253	(2)	3,854	15,309
Profit after income tax expense for the year	-	-	-	6,614	6,614
Other comprehensive income for the year, net of tax	-	-	-	(2)	(2)
Total comprehensive income for the year	-	-	-	6,612	6,612
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(4,876)	(4,876)
Shares vesting during the year	430	(430)	-	-	-
Employee share scheme - deferred shares	-	824	-	-	824
Purchase of shares under employee share plan	-	(855)	-	-	(855)
Revaluation of investments	-	-	(2)	2	-
Balance at 30 June 2019	10,634	792	(4)	5,592	17,014

Consolidated	**Issued capital $'000**	**Employee share plan reserve $'000**	**FVOCI reserve $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2019	10,634	792	(4)	5,592	17,014
Adjustment arising from transition to AASB 16	-	-	-	(35)	(35)
Balance at 1 July 2019 - restated	10,634	792	(4)	5,557	16,979
Profit after income tax expense for the year	-	-	-	9,457	9,457
Other comprehensive income for the year, net of tax	-	-	-	(3)	(3)
Total comprehensive income for the year	-	-	-	9,454	9,454
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(6,172)	(6,172)
Shares vesting during the year	557	(557)	-	-	-
Employee share scheme - deferred shares	-	1,188	-	-	1,188
Purchase of shares under employee share plan	-	(632)	-	-	(632)
Revaluation of investments	-	-	(3)	3	-
Balance at 30 June 2020	11,191	791	(7)	8,842	20,817

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

Australian Ethical Investment Limited and its Controlled Entities
Statements of changes in equity
For the year ended 30 June 2020

Parent	**Issued capital $'000**	**Share-based payment Reserve $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2018	10,204	1,253	1,372	12,829
Profit after income tax expense for the year	-	-	5,696	5,696
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	5,696	5,696
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(4,876)	(4,876)
Shares vesting during the year	430	(430)	-	-
Employee share scheme - deferred shares	-	824	-	824
Purchase of shares under employee share plan	-	(855)	-	(855)
Balance at 30 June 2019	10,634	792	2,192	13,618

Parent	**Issued capital $'000**	**Share-based payment Reserve $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2019	10,634	792	2,192	13,618
Adjustment arising from transition to AASB 16	-	-	(35)	(35)
Balance at 1 July 2019 - restated	10,634	792	2,157	13,583
Profit after income tax expense for the year	-	-	11,830	11,830
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	11,830	11,830
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(6,172)	(6,172)
Shares vesting during the year	557	(557)	-	-
Employee share scheme - deferred shares	-	1,188	-	1,188
Purchase of shares under employee share plan	-	(632)	-	(632)
Balance at 30 June 2020	11,191	791	7,815	19,797

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

Australian Ethical Investment Limited and its Controlled Entities
Statements of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Cash flows from operating activities					
Receipts from customers		47,202	38,918	36,177	27,356
Payments to suppliers and employees		(34,169)	(27,628)	(26,800)	(23,327)
		13,033	11,290	9,377	4,029
Rental income received		118	223	118	223
Interest received		179	279	152	230
Community grants paid		(840)	(620)	(937)	(710)
Income taxes paid		(3,639)	(2,767)	(2,421)	(1,166)
Net cash from operating activities	40	8,851	8,405	6,289	2,606
Cash flows from investing activities					
Net proceeds from sale of investment property held for sale		1,437	-	1,437	-
Payments for property, plant and equipment	20	(764)	(333)	(764)	(333)
Payments for investment in SVA units		(60)	-	-	-
Dividends received from subsidiary		-	-	4,016	4,446
Net cash from/(used in) investing activities		613	(333)	4,689	4,113
Cash flows from financing activities					
Purchase of employees deferred shares		(632)	(855)	(632)	(855)
Dividends paid	32	(6,172)	(4,876)	(6,172)	(4,876)
Interest on lease liabilities		(58)	-	(58)	-
Net cash used in financing activities		(6,862)	(5,731)	(6,862)	(5,731)
Net increase in cash and cash equivalents		2,602	2,341	4,116	988
Cash and cash equivalents at the beginning of the financial year		18,825	16,484	14,400	13,412
Cash and cash equivalents at the end of the financial year	16	21,427	18,825	18,516	14,400

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

Note 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. The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. Australian Ethical Investment Limited is a listed public company limited by shares (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 Group's registered office is at Level 8, 130 Pitt Street, Sydney NSW 2000.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

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

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

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

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

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Ethical Investments Limited ('Company' or 'Parent Entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those 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 de-consolidated from the date that control ceases.

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

New or amended Accounting Standards and Interpretations adopted
The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. These include:
- AASB 16 Leases
- Annual improvements to IFRS 2015-2017 Cycle

The Group had initially adopted AASB 16 Leases from 1 July 2019. Other amendments effective from 1 July 2019 do not have a material effect on the Group's financial statements.

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

AASB 16 Leases
The Group has applied AASB 16 'Leases' from 1 July 2019 under the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for the year ended 30 June 2019 is not restated - i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information.

As a lessee, the Group leases many assets including property and IT cloud and service space and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. Under AASB 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Previously, the Group classified property leases as operating leases under AASB 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at either:
- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Note 2. Significant accounting policies (continued)

The Group used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 17. In particular, the Group:
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value asset (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of the initial application;
- used hindsight when determining the lease term; and
- elected to apply the practical expedient to grandfather the assessment of which contracts are leases. The Group applies AASB 16 only to contracts that were previously identified as leases.

On transition to AASB 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

Impact on transition	**1 July 2019 $'000**
Lease liabilities at 1 July 2019	(2,091)
Right-of-use asset – Pitt St Office lease (opening):	2,091
Adjustments to right-of-use asset:	
Straight lining of rent expense	(98)
Unamortised lease incentives	(438)
Make-good asset	127
Right-of use asset at 1 July 2019	1,682
Net impact on retained earnings including restatement of Deferred Tax Assets on transition	(35)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average applied is 2.8%. Interest on lease liabilities is included in finance costs.

	1 July 2019 $'000
Total commitments at 30 June 2019 as disclosed in the Group’s consolidated financial statements	3,355
Non-lease related commitments	(1,103)
Lease commitments at 30 June 2019	2,252
Discounted using the incremental borrowing rate at 1 July 2019	2,102
Less: exemption for leases of low value assets	(11)
Lease liability at 1 July 2019	2,091

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors. Management have considered the impact from the ongoing COVID-19 pandemic and its impact on the financial statements. The areas considered as being potentially affected were the assumptions within our expected credit loss estimates on trade receivables, and assumptions around the valuation of right-of-use assets and financial assets. Despite the volatility in markets during the year and initial reduction in FUM from the early release of superannuation on net inflows, the business’ recovery from the initial decline in FUM shows there has been growth with positive net inflows and strong investment performance. At this time, management have not adjusted any estimates or valuations as a direct result of the impact from COVID-19.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Income tax & deferred tax assets/liabilities - refer to Note 15
The Group is subject to income taxes in the jurisdictions in which it operates. Estimation is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

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

Estimation of useful lives of assets - refer to Note 20
The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets based on the available information at balance date. The useful lives could change in future periods as a result of technical innovations, planned use and benefits or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Lease term - Note 18
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances. The group has considered its current lease term for the Pitt St office, and does not expect any changes as a result of COVID-19.

Employee benefits provision - refer to Note 26 and Note 28
The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision - refer to Note 29
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Share-based payment transactions - refer to Note 42
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value was determined by using a 90-day VWAP price at the date the shares are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities but will impact profit or loss and equity.

Note 4. Business segments

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.

Note 5. Revenue

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Management fees	33,916	28,719	29,385	23,779
Performance fees	3,640	769	3,640	769
Administration fees (net of Operational Risk Financial Reserve contributions)	8,825	7,301	8,089	3,800
Member fees (net of rebates)	3,230	3,685	-	-
Interest income	161	280	134	230
Rental income	130	223	130	223
Dividends	-	-	4,016	4,446
Revenue	49,902	40,977	45,394	33,247

Recognition and measurement
Management, administration, member fees
Fee revenue is earned from provision of funds management services to customers outside the Group. Fee revenue is measured based on the consideration specified in the eight Managed Funds and Australian Ethical Retail Superannuation Fund (‘AERSF’) Product Disclosure Statements (‘PDS’). The Group recognises revenue as the services are provided. The administration fee charged to the members of AERSF was reduced from 0.41% to 0.29% on 1 April 2020.

The administration fee entitlement in accordance with the AERSF PDS is net of $504k (2019: $644k) paid directly to the Operational Risk Financial Reserve (‘ORFR’) of the superannuation fund.

For the parent entity, administration fees received from the Australian Ethical Superannuation Pty Limited (AES) subsidiary was renegotiated and a new FUM based fee implemented from 1 July 2019. Prior to this, the fee was a fixed fee. This has contributed to the increased revenue for the parent entity.

Performance fees
Performance fees are dependent on fund performance per PDS and recognised when it is highly probable that performance hurdles have been achieved and a reversal is unlikely.

Interest income
Interest revenue is recognised as interest accrues using the effective interest method.

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

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

Note 6. Employee benefits

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Employee remuneration	17,412	14,610	17,259	14,610
Directors fees	484	476	341	325
Other employment costs	295	345	293	345
	18,191	15,431	17,893	15,280

Note 6. Employee benefits (continued)

Recognition and measurement

Employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, on vesting of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and performance conditions at the vesting date.

Note 7. Fund related

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Administration and custody fees	6,275	5,280	1,325	1,199
Licence, ratings and platform fees	918	713	754	567
Regulatory & industry body fees	306	296	220	244
Ethical research	69	84	69	84
	7,568	6,373	2,368	2,094

During the year, the Company outsourced the investment management and general ledger record-keeping to NAB Asset Servicing effective 1 May 2020. This includes the calculation of unit prices for the managed funds, tax calculations for distributions and preparation of monthly accounting reconciliations. The Company also implemented a streamlined managed fund online application process through its registry provider.

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

Recognition and measurement
Expenses are recognised at the fair value of the consideration paid or payable for services rendered.

Note 8. External services

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Internal, external audit and tax services	870	760	674	545
Consultants	362	542	30	373
Legal services	261	265	199	218
Other	228	264	228	264
	1,721	1,831	1,131	1,400

Consultants costs includes advisory services in relation to strategic projects delivered during the year. These initiatives focused on strengthening the operating platform and enhanced customer experiences including a review of our insurance offering to superannuation members.

Note 9. IT expenses

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Front office IT systems	919	932	912	932
Support systems, infrastructure and security	875	630	875	630
	1,794	1,562	1,787	1,562

Support systems, infrastructure and security costs includes costs incurred in relation to IT strategic projects delivered during the year including an uplift of the IT environment and improvements to strengthen our cyber security.

Note 10. Community grants expense

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

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

Community grants amounting to $1,300,000 (2019: $937,000) have been expensed and will be paid to The Foundation. During the year, the Foundation donated to various organisations in support of bushfire relief efforts in January 2020 and COVID-19 relief initiatives. The remaining amount of $1,200,000 has been provided for in the current year to be paid as community and strategic marquee grants (refer to Note 24).

Note 11. Depreciation and amortisation

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Depreciation of property, plant and equipment	395	362	395	362
Amortisation of intangible asset - Platform development	58	-	58	-
Depreciation of right-of-use asset - Sydney office lease	421	-	421	-
Depreciation of right-of-use asset - IT infrastructure	24	-	24	-
	898	362	898	362

Refer to Note 20 for additional information on depreciation and amortisation.

The Group has recognised depreciation in relation to right-of-use assets as a result of the transition to AASB 16. In the prior period, $427,000 of rent expense was recognised in Occupancy costs in relation to the Sydney office lease, and $24,000 of IT expense was recognised in IT expenses in relation to IT infrastructure services.

Note 12. Occupancy

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Occupancy costs in relation to Sydney office	276	699	276	699
Occupancy costs in relation to investment property held for sale	90	138	90	138
	366	837	366	837

Included in occupancy costs is outgoings including cleaning services, utilities and repairs & maintenance costs and in the prior year comparatives, includes rent expense. The lease on the Sydney office is recognised in accordance with AASB 16 from 1 July 2019, and as such rent expense is now captured as depreciation of the right-of-use asset. Refer Note 11 and Note 18.

Note 13. Finance costs

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interest on lease liabilities	58	-	58	-

Finance costs includes interest on lease liabilities recognised under AASB 16.

Note 14. Other expenses

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Insurance	337	250	179	135
Travel	220	255	220	255
Listing fees	128	101	128	101
Printing and subscriptions	127	108	120	96
Other	147	133	147	132
	959	847	794	719

Note 15. Income tax

The applicable weighted average effective tax rate for the consolidated group is 27.6% (2019: 27.2%) and for the parent entity is 20.1% (2019: 7.8%). The effective tax rate for the consolidated group excluding The Foundation is 27.6% (2019: 27.6%).

The parent entity effective tax rate is lower than the consolidated group due to the receipt of fully franked intercompany dividends from its subsidiary, Australian Ethical Superannuation Pty Limited.

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

Note 15. Income tax (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Income tax expense				
Current tax	3,871	2,818	3,232	861
Deferred tax - origination and reversal of temporary differences	(304)	(356)	(290)	(378)
Adjustment recognised for prior periods	(32)	6	(32)	6
Adjustment due to change in income tax rate	108	-	103	-
Deferred tax adjustment on transition to AASB 16*	(35)	-	(35)	-
Aggregate income tax expense	3,608	2,468	2,978	489
Deferred tax included in income tax expense comprises:				
Increase in deferred tax assets	(329)	(356)	(315)	(378)
Increase in deferred tax liabilities	25	-	25	-
Deferred tax - origination and reversal of temporary differences	(304)	(356)	(290)	(378)
Numerical reconciliation of income tax expense and tax at the statutory rate				
Profit before income tax expense	13,065	9,082	14,808	6,185
Tax at the statutory tax rate of 27.5% (2019: 27.5%)	3,593	2,498	4,072	1,701
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Profit in relation to The Foundation not subject to tax	-	(41)	-	-
Non-taxable intercompany dividends from Australian Ethical Superannuation Pty Limited (AES)	-	-	(1,104)	(1,223)
Other non-taxable items	(26)	5	(26)	5
Adjustment due to change in income tax rate	108	-	103	-
Deferred tax adjustment on transition to AASB 16*	(35)	-	(35)	-
	3,640	2,462	3,010	483
Adjustment recognised for prior periods	(32)	6	(32)	6
Income tax expense	3,608	2,468	2,978	489

* On transition to AASB 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition including the net impact on retained earnings and restatement of Deferred Tax Assets is explained in Note 2.

Note 15. Income tax (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Employee benefits	678	698	675	698
Accruals	125	123	87	103
Community grants	338	258	338	258
Provision for employee leave	405	370	402	370
Provision for lease make-good	74	66	74	66
Lease incentives	-	94	100	94
Trade and other payables	414	196	376	148
Lease liabilities	100	-	-	-
Deferred tax asset	2,134	1,805	2,052	1,737
Movements:				
Opening balance	1,805	1,449	1,737	1,359
Credited to profit or loss	329	356	315	378
Closing balance	2,134	1,805	2,052	1,737

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

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Deferred tax liability				
Deferred tax liability comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Property, plant and equipment	25	-	25	-
Deferred tax liability	25	-	25	-
Movements:				
Opening balance	-	-	-	-
Charged to profit or loss	25	-	25	-
Closing balance	25	-	25	-

Note 15. Income tax (continued)

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Provision for income tax				
Provision for income tax	852	808	852	808

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

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

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

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

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. 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. The carry forward values of deferred tax assets and liabilities have been adjusted to reflect anticipated applicable future corporate tax rates.

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

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

Under the tax sharing agreement, Australian Ethical Superannuation Pty Limited agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment Limited pays the Australian Taxation Office for group tax liabilities. The tax liability for the subsidiary entities is recognised through intercompany payable or receivable.

Note 16. Current assets - cash and cash equivalents

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Cash at bank	159	128	153	121
Term deposits	5,300	5,100	5,000	5,000
Deposits at call	15,968	13,597	13,363	9,279
	21,427	18,825	18,516	14,400

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 six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 17. Current assets - trade and other receivables

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade receivables	1,131	1,606	475	1,106
Receivable from subsidiary	-	-	2,095	-
Performance fee receivable	3,640	769	3,640	769
	4,771	2,375	6,210	1,875

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

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

Note 18. Leases

Operating leases relate to leases of office premises, a lease for printing and copying equipment for the office, and a lease over IT hardware and infrastructure.

The group entered a long-term operating lease for its Sydney office for a period of 7 years including additional office space on 1 July 2016. The Group does not have an option to purchase the premises at the expiry of the lease period. A bank guarantee of $504,000 has been provided by the Group to the property owners over the rental of building premises at 130 Pitt Street, Sydney. A right-of-use asset and lease liability has been recognised in the Statement of Financial Position in relation to this lease including the remaining unamortised lease incentive on 1 July 2019.

The current lease of printing and copying equipment for the office began in January 2016 for a period of 5 years. No lease asset or liability has been recognised in the Statement of Financial Position as it is a lease of low value assets under the new leasing standard.

The Group entered into a lease commitment with Harbour IT for the provision of IT hardware, software and support for a period of 2 years on 1 September 2019. A right-of-use asset and lease liability has been recognised in the Statement of Financial Position in relation to this lease arrangement.

Consolidated & Parent	Office building $'000	IT hardware & infrastructure $'000	Total $'000
Right-of-use assets			
Balance at 1 July 2019	1,682	-	1,682
Additions	-	60	60
Depreciation	(421)	(24)	(445)
Balance at 30 June 2020	1,261	36	1,297
Comprising of:			
Current	421	29	450
Non-current	840	7	847
	1,261	36	1,297

Note 18. Leases (continued)

	Office building $'000	IT hardware & infrastructure $'000	Total $'000
Amounts recognised in profit or loss			
2020 - Leases under AASB 16:			
Interest on lease liabilities	57	1	58
Expenses relating to leases of low-value assets and variable lease components	-	406	406
2019 - Operating leases under AASB 17:			
Lease expense	427	-	427

	Office building $'000	IT hardware & infrastructure $'000	Total $'000
Amounts recognised in statement of cash flows			
Total cash outflow for leases	544	25	569

Consolidated & Parent	Office building $'000	IT hardware & infrastructure $'000	Total $'000
Lease liabilities			
Balance at 1 July 2019	2,091	-	2,091
Additions	-	60	60
Payments	(427)	(25)	(452)
Interest on lease liabilities	(57)	(1)	(58)
Balance at 30 June 2020	1,607	34	1,641
Comprising of:			
Current	500	29	529
Non-current	1,107	5	1,112
	1,607	34	1,641

Accounting policy for right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 18. Leases (continued)

Accounting policy for lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 19. Current assets - investment property held for sale

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Investment property held for sale (less cost of disposal)	-	1,535	-	1,535

Recognition and measurement

During the year ended 30 June 2020, Australian Ethical sold all four units within the Canberra Property (Trevor Pearcey House) with one unit subject to a deferred settlement term of 2 years. A non-current receivable has been recognised at its present value net of disposal costs.

Note 20. Non-current assets - property, plant and equipment

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Leasehold improvements - at cost	2,286	2,179	2,286	2,179
Less: Accumulated depreciation	(1,146)	(814)	(1,146)	(814)
	1,140	1,365	1,140	1,365
Plant and equipment - at cost	234	197	234	197
Less: Accumulated depreciation	(121)	(122)	(121)	(122)
	113	75	113	75
Platform development - at cost	743	313	743	313
Less: Accumulated depreciation	(58)	-	(58)	-
	685	313	685	313
	1,938	1,753	1,938	1,753

Note 20. Non-current assets - property, plant and equipment (continued)

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

Consolidated	Leasehold improvements $'000	Plant and equipment $'000	Platform development $'000	Total $'000
Balance at 1 July 2018	1,705	109	-	1,814
Additions	3	17	313	333
Make-good expense	(32)	-	-	(32)
Depreciation expense	(312)	(50)	-	(362)
Balance at 30 June 2019	1,364	76	313	1,753
Additions	234	100	430	764
Reclassified to Right of use assets on transition to AASB 16	(127)	-	-	(127)
Depreciation expense	(331)	(63)	-	(394)
Amortisation expense	-	-	(58)	(58)
Balance at 30 June 2020	1,140	113	685	1,938

During the 2019 financial year, AEI initiated a strategic project to internally develop a new Integrated Customer Experience Platform (Platform) comprising web-based marketing automation, web CMS, data warehouse, and an integrated client relationship management (CRM) system. The project is expected to enrich customer experiences by personalising the website to dynamically deliver relevant, engaging and inspiring content, and improve customer retention and attract new customers. Costs in relation to the development of this platform have been capitalised as an intangible asset and depreciated over its useful life beginning at each stage of completion. The first phase comprising the web-based marketing automation and web CMS was completed in December 2019 and the second phase comprising data warehouse was completed in June 2020.

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

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

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

Leasehold improvements	2-7 years
Plant and equipment	2-7 years
Platform development	5 years

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

Leasehold improvements and plant and equipment are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Note 21. Non-current assets - term deposit

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Long term deposit	504	504	504	504

The long term deposit is held with National Australia Bank on a rolling 6-month term as security for a bank guarantee over the Company's Sydney office property lease. The intention is that the deposit will be held for the term of the lease.

Note 22. Non-current assets – other receivable

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Other receivable	440	-	440	-

The balance relates to the discounted present value of the receivable on settlement of the fourth unit within the Canberra Property (Trevor Pearcey House) sold in June 2020. The property has a 2-year deferred settlement and the value represents the sale price after disposal costs.

Note 23. Non-current assets - investments in subsidiary

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Investment in Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	-	-	316	316

Note 24. Non-current assets - financial assets through other comprehensive income

The Foundation holds an investment in the Social Ventures Australia (SVA)'s Diversified Impact Fund (DIF) unit trust, in line with the Australian Ethical Charter and the Objectives of the Foundation. The investments are funded by cash accumulated in The Foundation with the intention of being utilised for social impact investments.

SVA is a social purpose organisation that works with partners to improve the lives of people in need. They offer funding, investment and advice services to social impact organisations. The Foundation has committed to an overall investment of $200,000 in the SVA DIF, of which $80,000 was paid in the year ended 30 June 2018 and $60,000 was paid during in the year ended 30 June 2020.

The investment is revalued to fair value based on the Net Asset Value (NAV) unit price. The SVA DIF has taken into account the impact of COVID-19 on its underlying investments when determining the fair value. At this stage, the remaining $60,000 commitment is expected to be called in FY21.

The Group also purchased nominal holdings of shares in listed entities that the Group would not normally invest in, in order to advocate change in these companies as a shareholder.

Note 24. Non-current assets - financial assets through other comprehensive income (continued)

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Listed shares in Advocacy program	2	2	2	2
Investment in Social Impact programs	131	76	-	-
	133	78	2	2

Reconciliation
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Opening fair value	78	80	2	2
Additions	60	-	-	-
Revaluation decrements	(3)	(2)	-	-
Closing fair value	133	78	2	2

Refer to Note 34 for further information on fair value measurement.

Recognition and measurement
Financial assets at fair value through other comprehensive income (FVOCI) comprise:
- Unlisted unit trusts acquired by the Group's Foundation; and
- Equity securities acquired by the Group for advocacy purposes, which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considered this classification to be more relevant.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

Note 25. Current liabilities - trade and other payables

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade and other payables	4,882	4,057	2,858	2,435
Payable to subsidiary	-	-	1,474	-
Unamortised lease incentive	-	215	-	215
Community grant payable	1,231	780	1,300	937
	6,113	5,052	5,632	3,587

Refer to Note 33 for further information on financial instruments.

Recognition and measurement
Trade payables and accruals represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of invoice being rendered.

The unamortised lease incentive was derecognised and included in Right-of-use assets – Sydney office lease on transition to AASB 16.

Note 26. Current liabilities - employee benefits

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Annual leave	752	597	744	597
Long service leave	492	476	492	476
Employee benefits	2,605	2,535	2,595	2,535
	3,849	3,608	3,831	3,608

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

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

Note 27. Non-current liabilities - trade and other payables

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Unamortised lease incentive	-	328	-	328

The unamortised lease incentive was derecognised and included in Right-of-use assets – Sydney office lease on transition to AASB 16.

Note 28. Non-current liabilities - employee benefits

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Long service leave	273	272	271	272

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

Note 29. Non-current liabilities - provisions

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Lease make-good	246	240	246	240

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

Note 30. Equity - issued capital

	Consolidated			
	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares - fully paid	112,387,138	112,093,000	11,191	10,634

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2018	1,120,930		10,204
Vesting of deferred shares in the Employee Share Trust (7,967 shares)	1 September 2018	-	$53.98	430
Share split of 1 to 100 shares	21 December 2018	110,972,070	$0.00	-
Balance	30 June 2019	112,093,000		10,634
Vesting of deferred shares in the Employee Share Trust (747,300 shares)	1 September 2019	-	$0.68	511
Vesting of deferred shares in the Employee Share Trust (4,050 shares)	23 September 2019	-	$0.89	4
Vesting of deferred shares in the Employee Share Trust (1,875 shares)	23 September 2019	-	$1.32	2
Vesting of deferred shares in the Employee Share Trust (46,500 shares)	1 December 2019	-	$0.86	40
Issue of deferred shares to the Employee Share Trust	26 February 2020	294,138	$0.00	-
Balance	30 June 2020	112,387,138		11,191

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

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

At the AGM held on 25 October 2018, a share capital split was approved on the basis of 1 share be subdivided into 100 shares. The share split took effect on 21 December 2018.

Note 30. Equity - issued capital (continued)

Recognition and measurement
Ordinary shares are classified as equity.

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

Capital risk management
The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The capital risk management policy remained unchanged during the year.

(i) Regulatory capital requirements

In connection with operating a funds management business in Australia, the Parent entity is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities & Investments Commission (ASIC) requires the Company to:
- prepare 12-month cash-flow projections which must be approved at least quarterly by Directors, and reviewed annually by auditors;
- hold at all times minimum Net Tangible Assets (NTA) the greater of:
 (a) $150,000;
 (b) 0.5% of the average value of scheme property (capped at $5m); or
 (c) 10% of the historical 3-year average responsible entity revenue (uncapped).

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

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

(ii) Dividend policy

Dividends paid to shareholders have typically been in the range of 80-100% of the Group's net profit after tax attributable to shareholders. In certain circumstances, the Board may declare a dividend outside that range. Refer also to Note 10 which discusses the provisioning of staff incentive payments and community grants prior to recommending or declaring a dividend under the Group's constitution.

Note 31. Equity - reserves

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Employee share plan reserve	791	792	791	792
FVOCI reserve	(7)	(4)	-	-
	784	788	791	792

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

Further information about share-based payments to employees is set out in Note 42.

Financial assets at FVOCI reserve
The Group has elected to recognise changes in the fair value of certain investments in equity financial instruments in OCI (refer Note 2). These include listed shares held in the advocacy program and investment in the SVA unit trusts held by The Foundation. These changes are accumulated within the FVOCI reserve within Equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Note 31. Equity - reserves (continued)

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

Consolidated	Employee share plan reserve $'000	Available-for-sale reserve $'000	FVOCI reserve $'000	Total $'000
Balance at 1 July 2018	1,253	(2)	-	1,251
Issue of shares held by entity to employee	(430)	-	-	(430)
Purchase of shares under employee share plan	(855)	-	-	(855)
Employee share plan - deferred	824	-	-	824
Revaluation of investments	-	-	(2)	(2)
Transfer between reserves	-	2	(2)	-
Balance at 30 June 2019	792	-	(4)	788
Issue of shares held by entity to employee	(557)	-	-	(557)
Purchase of shares under employee share plan	(632)	-	-	(632)
Employee share plan - deferred	1,188	-	-	1,188
Revaluation of investments	-	-	(3)	(3)
Balance at 30 June 2020	791	-	(7)	784

Parent	Employee share plan reserve $'000	FVOCI reserve $'000	Total $'000
Balance at 1 July 2018	1,253	-	1,253
Issue of shares held by entity to employee	(430)	-	(430)
Purchase of shares under employee share plan	(855)	-	(855)
Employee share plan - deferred	824	-	824
Balance at 30 June 2019	792	-	792
Issue of shares held by entity to employee	(557)	-	(557)
Purchase of shares under employee share plan	(632)	-	(632)
Employee share plan - deferred	1,188	-	1,188
Balance at 30 June 2020	791	-	791

Note 32. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 3.00 cents (2018: 2.35 cents) per ordinary share - fully franked	3,362	2,634
Interim dividend for the year ended 30 June 2020 of 2.50 cents (2019: 2.00 cents) per ordinary share - fully franked	2,810	2,242
	6,172	4,876

Note 32. Equity - dividends (continued)

Since year end the Directors have declared a final dividend of 2.50 cents per fully paid ordinary share (2019: 3.00 cents) and special performance fee dividend of 1.00 cents per fully paid ordinary share (2019: nil). All dividends are fully franked based on tax paid at 27.5%. The aggregate amount of the declared dividend expected to be paid on 16 September 2020 out of profits for the year ended 30 June 2020, but not recognised as a liability at year end, is $3,934,000 (2019: $3,363,000).

Franking credits

	2020 $'000	2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 27.5%	6,662	5,154

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

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

Note 33. Financial instruments

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

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

The Group recognises that risk is part of doing business and that the ongoing management of risk is critical to its success. The approach to managing risk is articulated in the Risk Management Strategy and the Risk Appetite Statement. The Chief Risk Officer is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Audit, Risk & Compliance Committee (ARC). The Board regularly monitors the overall risk profile of the Group and sets the risk appetite, usually in conjunction with the annual strategy and 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 ARC. One of the main functions of the Committee is to identify emerging risks and determine treatment and monitoring of emerging and current risks. In addition, the Committee is responsible for seeking assurances from management that the systems and policies in place to assist the Group to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained. The Group is complying with its Licences, and that there is a structure, methodology and timetable in place for monitoring material service providers.

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

Market risk

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

Exposure
The Group's revenue is significantly dependent on Funds Under Management (FUM) which is influenced by equity market movements. Management calculates that a 10% movement in FUM changes annualised revenue by approximately $3,173,000 (2019: $3,416,000).

Note 33. Financial instruments (continued)

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

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

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk
Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents).

The consolidated entity manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. In addition, a twelve month rolling forecast of liquid assets, cash flows and balance sheet is reviewed by the Board quarterly to ensure there is sufficient liquidity within the Group.

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

Consolidated - 2020	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	9,469	-	-	-	9,469
Income tax payable	852	-	-	-	852
Total non-derivatives	10,321	-	-	-	10,321

Consolidated - 2019	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	7,967	-	-	-	7,967
Income tax payable	808	-	-	-	808
Total non-derivatives	8,775	-	-	-	8,775

Note 33. Financial instruments (continued)

Parent - 2020	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	7,497	-	-	-	7,497
Income tax payable	852	-	-	-	852
Total non-derivatives	8,349	-	-	-	8,349

Parent - 2019	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	6,502	-	-	-	6,502
Income tax payable	808	-	-	-	808
Total non-derivatives	7,310	-	-	-	7,310

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

Note 34. Fair value measurement

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

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

Note 34. Fair value measurement (continued)

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

The following tables detail the group's assets measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2: Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices). The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, referenced to the current fair value of a substantially similar other instrument or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.
Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes instruments valued using quoted prices in active markets for similar instruments in markets that are considered less than active or other valuation techniques.

Consolidated - 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	132	-	134
Total assets	2	132	-	134

Consolidated - 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	76	-	78
Total assets	2	76	-	78

Parent - 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	-	-	2
Total assets	2	-	-	2

Parent - 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	-	-	2
Total assets	2	-	-	2

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

Note 35. Key management personnel disclosures

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

	Consolidated		Parent	
	2020	2019	2020	2019
	$	$	$	$
Short-term employee benefits	3,960,767	4,172,814	3,830,608	4,034,694
Post-employment benefits	503,395	238,763	491,030	225,641
Long-term benefits	65,873	139,759	65,873	139,759
Share-based payments	316,385	276,721	316,385	276,721
	4,846,420	4,828,057	4,703,896	4,676,815

Information regarding key management personnel's remuneration and shares held in Australian Ethical Investment Limited is provided in the Remuneration Report.

On 31 August 2019, Phil Vernon resigned from his role as Managing Director and CEO. Mr Steve Gibbs, Chair of Australian Ethical stepped in as Acting CEO following Mr Vernon's departure. On 10 February 2020, John McMurdo was appointed as Managing Director and CEO. On this date, Acting CEO Steve Gibbs resumed his position as Chair of the Board, replacing Acting Chair Michael Monaghan, who remains on the Board of Directors. During this time, Mr Gibbs was paid an annual salary of $430,000 inclusive of superannuation on a pro-rated 0.8 FTE and was not eligible for STI or LTI. He continued to be a director of AEI and other entities in the Group however, did not receive payment for those directorships while he was acting CEO.

Marion Enander, strategy consultant, was appointed Chief Strategy and Innovation Officer, a new role within the management team effective 13 July 2020.

On 30 June 2020, Allyson Lowbridge ceased employment as Chief Customer Officer. Also on 30 June 2020, the role of Head of People & Culture was restructured with the People & Culture department to commence reporting through to the Chief Strategy and Innovation Officer from 9 October 2020. The termination payment for Fiona Horan includes contractual redundancy provisions, payout for remaining notice period to 1 January 2021 and other statutory payments including long-service entitlements.

Subsequently, Maria Loyez was appointed Chief Customer Officer on 20 July 2020.

Note 36. Remuneration of auditors

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

	Consolidated		Parent	
	2020 $	2019 $	2020 $	2019 $
Audit services for the consolidated group and subsidiaries - KPMG				
Audit or review of the financial statements	94,600	103,208	69,700	76,391
Audit services in accordance with regulatory requirements	41,893	41,372	41,893	41,372
Assurance services in relation to the Sustainability Report	25,625	24,450	25,625	24,450
Assurance services in relation to Carbon Footprint calculator	-	10,350	-	10,350
	162,118	179,380	137,218	152,563
*Audit services for the non-consolidated trusts and superannuation fund – KPMG**				
Audit and review of managed funds for which the Company acts as Responsible Entity	147,651	145,817	147,651	145,817
Audit of superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity	34,850	38,514	-	-
Audit services in accordance with regulatory requirements	58,088	57,367	-	-
	240,589	241,698	147,651	145,817
Non-audit services - KPMG				
Tax compliance and advisory services	88,091	93,516	52,347	52,347
Other consulting services	90,425	90,303	90,425	90,303
	178,516	183,819	142,772	142,650
	581,223	604,897	427,641	441,030

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

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

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

Note 37. Commitments

In the prior financial year, the Group also entered into a commitment with Studio60 for the provision of website design and development services in relation to the strategic project referred to in Note 20. The commitment of $148,000 was paid during the financial year ending 30 June 2020.

Refer to Notes 2 and 18 for impact of transition to AASB 16.

Note 38. Related party transactions

Parent entity
Australian Ethical Investments Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 39.

KMP remuneration
Disclosures relating to key management personnel are set out in Note 35 and the remuneration report included in the Directors' report.

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

Australian Ethical Investment Limited (AEI) acts as the responsible entity for the following Australian Ethical Trusts (AETs):
- Australian Ethical Income Fund
- Australian Ethical Fixed Interest Fund
- Australian Ethical Balanced Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical International Shares Fund
- Australian Ethical Australian Shares Fund
- Australian Ethical Emerging Companies Fund

The Funds listed above are considered structured entities that have not been consolidated by the Group, as the Group does not have control over these entities. The table below sets out the transactions that occurred during the year between the Group and these entities.

Australian Ethical Employee Share Trust (EST) hold the employee deferred shares. Pacific Custodian Pty Limited acts as trustee to the EST.

Note 38. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated		Parent	
	2020 $	2019 $	2020 $	2019 $
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	-	-	8,089,092	3,800,000
Investment management fees	-	-	16,077,545	11,927,644
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	-	-	629,991	1,978,324
Dividends from the subsidiary	-	-	4,016,158	4,446,460
Director fees reimbursed by the subsidiary	-	-	55,142	151,241
Receipt from the Australian Ethical Trusts (AETs):				
Provision of investment management services to the AETs as identified above in accordance with the Constitution and PDS	12,267,475	11,095,479	12,267,475	11,095,479
Performance fee	3,639,560	768,682	3,639,560	768,682
Receipts from Australian Ethical Retail Superannuation Fund (AERSF):				
Provision of investment management / administration services to AERSF	29,433,651	24,168,191	-	-
Provision of member administration services to AERSF	3,230,066	3,685,401	-	-
Payments to Australian Ethical Foundation Limited:				
Community grants paid to The Foundation	-	-	936,756	709,813

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

	Consolidated		Parent	
	2020 $	2019 $	2020 $	2019 $
Current receivables:				
Amounts receivable from the AETs	3,812,840	1,005,050	3,812,840	1,005,050
Amounts receivable from AES	-	-	2,094,721	591,616
Amounts receivable from AERSF	655,622	1,122,584	-	-
Current payables:				
Amounts payable to AES	-	-	(1,474,088)	
Amounts payable to The Foundation	-	-	(1,299,759)	(936,756)

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

Note 39. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %	Ownership interest 2019 %
Australian Ethical Superannuation Pty Limited (AES) - Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	-	100.00%
Australian Ethical Foundation Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	-	100.00%

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

All income received and net assets including cash of The Foundation are restricted to activities of the Foundation and are not available for distribution to AEI's shareholders or to settle liabilities of other group entities. Refer to Note 44 for further details about the Foundation's activities.

Note 40. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit after income tax expense for the year	9,457	6,614	11,830	5,696
Adjustments for:				
Depreciation and amortisation	898	362	898	362
Make-good & straight-line rent expense	-	31	-	31
Non-cash employee benefits expense - deferred shares and related tax	1,134	824	1,134	824
Impairment of assets held for sale	-	75	-	75
Lease incentive amortisation	-	(109)	-	(109)
Gain on sale of investment property held for sale	(178)	-	(178)	-
Dividend received from subsidiary	-	-	(4,016)	(4,446)
Change in operating assets and liabilities:				
Increase in trade and other receivables	(2,396)	(1,527)	(4,335)	(1,349)
Increase in lease assets	(1,297)	-	(1,297)	-
Increase in prepayments	(725)	(75)	(681)	(46)
Increase in deferred tax assets	(329)	(356)	(316)	(378)
Increase in non-current receivable	(440)	-	(440)	-
Increase in trade and other payables	769	1,695	1,752	1,074
Increase in employee benefits	242	809	222	809
Increase in lease liabilities	1,641	-	1,641	-
Increase in other provisions	6	6	6	6
Increase in current tax liability	44	56	44	57
Increase in deferred tax liability	25	-	25	-
Net cash from operating activities	8,851	8,405	6,289	2,606

Note 41. Earnings per share

	Consolidated 2020 $'000	Consolidated 2019 $'000
Profit after income tax attributable to the owners of Australian Ethical Investment Limited and its Controlled Entities	9,457	6,614

	Cents	Cents
Basic earnings per share	8.62	6.05
Diluted earnings per share	8.42	5.90

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	109,725,643	109,257,797
Adjustments for calculation of diluted earnings per share:		
Deferred shares	2,577,353	2,766,008
Weighted average number of ordinary shares used in calculating diluted earnings per share	112,302,996	112,023,805

Recognition and measurement

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

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

Note 42. Share-based payments

The following share-based payment arrangements existed as at 30 June 2020.

Deferred Shares
Under the employee long term incentive scheme, 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 over the vesting period.

For the grant dated 1 September 2018, shares were purchased on market by the Trustee. The grant dated 1 September 2019 comprised a combination of shares purchased on market by the Trustee and new share issues. In the current year, $633,000 (2019: $855,000) was paid to purchase deferred shares granted to employees. The Board continues to retain discretion to issue new shares if required.

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is $1,071,000 (2019: $788,000) relating to the long term incentive shares granted and $64,000 (2019: nil) relating to the short term incentive shares granted.

As at 30 June 2020, the Employee Share Trust holds 2,596,158 shares (30 June 2019: 2,904,400 shares) on behalf of employees until vesting conditions are met.

Note 42. Share-based payments (continued)

2020

Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
01/09/2016	31/08/2019	747,300	-	(747,300)	-	-
03/01/2017	30/11/2019	46,500	-	(46,500)	-	-
01/09/2017	31/08/2020	1,004,900	28,500	(4,050)	(25,650)	1,003,700
01/09/2018	31/08/2021	880,100	-	(1,875)	(40,860)	837,365
01/09/2019	31/08/2022	-	727,346	-	(31,966)	695,380
		2,678,800	755,846	(799,725)	(98,476)	2,536,445
Unallocated treasury shares						59,713
Total deferred shares in the Employee Share Trust						2,596,158

2019

Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
01/09/2015	31/08/2018	796,700	-	(796,700)	-	-
01/09/2016	31/08/2019	814,300	-	-	(67,000)	747,300
03/01/2017	30/11/2019	46,500	-	-	-	46,500
01/09/2017	31/08/2020	1,105,300	-	-	(100,400)	1,004,900
01/09/2018	31/08/2021	-	1,082,000	-	(201,900)	880,100
		2,762,800	1,082,000	(796,700)	(369,300)	2,678,800
Unallocated treasury shares						225,600
Total deferred shares in the Employee Share Trust						2,904,400

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

The grant-date fair value of equity-settled transactions are recognised as an employee expense with a corresponding increase in Share based payment reserve. Upon vesting, the employees become unconditionally entitled to the awards and the shares are transferred from the Share based payment reserve to Contributed equity.

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. The objective is that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date.

Note 43. Contingent liabilities

A claim for specified damages was lodged by a subsidiary of the Company against the Company relating to the unit pricing matter and disclosed in the 30 June 2017 annual report. The claim was to recover costs already incurred. In turn, the Company has lodged an insurance claim in respect of the claim against it by the subsidiary. No further information is disclosed as the disclosure of such information may prejudice the Company’s position in the claim. The outcome of the insurance claim is not yet known.

Note 44. Results of the Foundation

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

As at and for the year ended 30 June 2020, the impact of The Foundation before intercompany eliminations is noted below:

	2020 $'000	2019 $'000
Statement of comprehensive income		
Revenue from parent entity	1,300	937
Interest income	5	6
Community grants expense	(1,291)	(780)
Audit fees	(14)	(14)
Profit for the year	-	149
Other comprehensive income		
Fair value adjustment of investment	(3)	(2)
Total comprehensive income for the year	(3)	147

	2020 $'000	2019 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	468	439
Receivables from parent entity	1,300	937
Financial assets at fair value through profit or loss	133	76
Liabilities:		
Payables	(1,245)	(793)
Net assets	656	659
Equity:		
Retained earnings	663	663
FVOCI reserve	(7)	(4)
Total Equity	656	659

Note 45. Events after the reporting period

Subsequent to year end, Marion Enander has been appointed Chief Strategy and Innovation Officer, a new role within the management team effective 13 July 2020. Maria Loyez has been appointed Chief Customer Officer effective 20 July 2020. Karen Hughes has been appointed joint Company Secretary effective 25 August 2020.

Apart from the dividend declared as disclosed in Note 32, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years. Management have considered the impact of the ongoing COVID-19 pandemic in Australia and assessed there are no changes required to the financial statements subsequent to the end of the financial year.

Australian Ethical Investment Limited and its Controlled Entities
Directors' declaration
30 June 2020

In the Directors' opinion:

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

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

- the attached financial statements and notes give a true and fair view of the Company's and Group's financial position as at 30 June 2020 and of their performance for the financial year ended on that date; and

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

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

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

On behalf of the Directors

John McMurdo
Managing Director and Chief Executive Officer

25 August 2020
Sydney

Independent Auditor's Report

To the shareholders of Australian Ethical Investment Limited

Report on the audits of the Financial Reports

Opinions

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

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

- giving a true and fair view of the ***Group***'s and of the ***Company***'s financial position as at 30 June 2020 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2020;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declarations.

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

Basis for opinions

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

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

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

Key Audit Matters

The ***Key Audit Matter*** we identified is:

- Management, Performance and Administration fees

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

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

Management Fees - ($33.9m), Performance Fees – ($3.6m) and Administration fees ($8.8m) - Group and Company

Refer to Note 5 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audit
Management, Performance and Administration fees were a key audit matter due to the: • individual fee arrangements in place for each of the managed funds and the Australian Ethical Retail Superannuation Fund (the superannuation fund) which necessitated considerable audit effort; and • significance of the revenue to the Group and Company, constituting 93% and 91% of total revenue, respectively.	Our procedures included: • We read and understood the individual Management, Performance and Administration fee arrangements in the Product Disclosure Statements ("PDS") of each of the funds and the superannuation fund; • We performed a recalculation of Management, Performance and Administration fees charged using the fee percentages and funds under management, obtained from each of the Product Disclosure Statements and underlying fund financial records respectively. We compared the independently calculated fee revenue to those of the Group and Company and investigated significant differences; • We assessed funds under management ("FUM") by: - testing key controls over the input of valuation data into the Group's system such as daily price movement checks performed by management; - checking the data output of the Group's system by selecting a sample of balances and comparing to source documentation; - checking the quantity of assets held to external custodian service provider reports at balance date; and - using valuation specialists, we tested the fair value of a sample of investments by comparing the value to market data such as global and domestic equity prices, or using alternative valuation techniques such as discounted cash flow models, at balance date.

	• We read and understood the Management and Administration fee arrangement in the Investment Management and Trustee Service Agreements between the Company and its subsidiary, Australian Ethical Superannuation Limited (AES); and • We performed a recalculation of the Management and Administration fee between the Company and AES using the fee percentages obtained from the Investment Management and Trustee Service Agreements and the FUM. We compared the independently calculated fee revenue to the fee revenue recorded by the Company and investigated significant differences.

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and the Remuneration Report. The Highlights, Year in review, Messages from the Chair & CEO, Strategic update, Financial & Investment performance, Ethical products, Where we invest and Shareholder Information sections of the annual report are expected to be made available to us after the date of the Auditor's Report.

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

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

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2020, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2020.

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

KPMG

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
25 August 2020