

**Australian Ethical Larger Companies Trust (AELT)**  
**ARSN 089 919 166**

**Consolidated Annual Financial Report for the year ended 30 June 2013**

# **Australian Ethical Larger Companies Trust (AELT)**

**Consolidated Annual Financial Report for the year ended 30 June 2013**

<b>Contents</b>	<b>Page</b>
<b>Directors' Report</b>	<b>1</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>	<b>3</b>
<b>Statement of Financial Position</b>	<b>4</b>
<b>Statement of Changes in Equity</b>	<b>5</b>
<b>Statement of Cash Flows</b>	<b>6</b>
<b>Notes to the Financial Statements</b>	<b>7</b>
<b>Directors' Declaration</b>	<b>26</b>
<b>Lead Auditor's Independence Declaration</b>	<b>27</b>
<b>Independent Auditor's Report</b>	<b>28</b>

**Directors' Report**  
**For the year ended 30 June 2013**

Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Larger Companies Trust ("AELT" or "the Scheme") presents its directors' report together with the audited financial statements of the Scheme and its controlled entities for the year ended 30 June 2013 and the accompanying independent auditor's report.

**Responsible Entity**

Australian Ethical Investment Limited serves as the Responsible Entity for the Scheme. The registered office and principal place of business for the Responsible Entity is:

Registered office:

Trevor Pearcey House (Block E)  
Traeger Court, 34 Thynne Street  
Bruce ACT 2617

Principal place of business:

Level 8, 130 Pitt St  
Sydney,  
NSW 2000

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 indicated:

Justine Hickey (resigned 26 April 2013)

André Morony

Phillip Vernon

Stephen Newnham (resigned 26 July 2013)

Kate Greenhill (appointed 22 February 2013)

Louise Herron (resigned 25 July 2012)

Stephen Gibbs (appointed 25 July 2012)

Mara Bun (appointed 4 February 2013)

Tony Cole (appointed 4 February 2013)

**Principal activities and state of affairs**

The principal activity of the Scheme is to pool investors' savings to invest in a diversified portfolio of securities, in accordance with its respective investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's constitution. The constitution of the Scheme authorises investments in a range of assets, which may include properties, capital stable interest bearing securities and equity investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme investors) with a competitive financial return.

There were no significant changes in the nature of the Scheme's principal activities during the year and there were no significant changes in the Scheme's state of affairs.

**Review of operations**

Overview

The underlying fundamentals of the Scheme are consistent with those set out in the Scheme's product disclosure statement dated 22 June 2012.

Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. The Scheme achieved a total return for the retail and wholesale class of 28.2% (2012: -6.3%) and 29.9% (2012: -6.9%) respectively for the financial year.

**Directors' Report**

**For the year ended 30 June 2013**

Distributions paid and/or payable

Distributions paid and/or payable by the Scheme during the year are shown in the accompanying Statement of Profit or Loss and Other Comprehensive Income.

The Scheme paid distributions to the Retail and Wholesale Class of 1.70 and 3.42 cents per unit over the year respectively (2012: Retail 1.71 cents per unit, Wholesale 0.18 cents per unit).

Net Assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2013 was \$186,862,319 (30 June 2012: \$151,695,816).

**Likely developments**

The Responsible Entity continually reviews the Scheme and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

**Events occurring after the reporting date**

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

**Indemnities and insurance premiums for the Responsible Entity and auditors**

No insurance premiums are paid out of the assets of the Scheme for insurance cover provided to the Responsible Entity, its officers or auditor of the Scheme. Where the Responsible Entity acts in accordance with the Scheme's constitution and the law, it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is not indemnified out of the assets of the Scheme.

**Interest of the Responsible Entity**

Fees paid to the Responsible Entity and its associates out of Scheme property and interests held in the Scheme is shown in note 15 of the attached financial statements.

**Environmental regulation**

The operations of the Scheme are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory legislation.

**Auditor's declaration**

The auditor's independence declaration is included on page 27 of the annual report and forms part of the directors' report for the financial year ended 30 June 2013.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
30 September 2013

**Australian Ethical Larger Companies Trust**

**Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013**

		<b>Australian Ethical Larger Companies Trust Consolidated</b>		<b>Australian Ethical Larger Companies Trust</b>	
	<b>Note</b>	<b>2013 (i)</b>	2012	<b>2013</b>	2012
		\$	\$	\$	\$
<b>Investment income</b>					
Interest income	4	122,711	71,105	45,847	71,105
Dividend and distribution income	5	6,538,221	4,020,751	5,405,540	4,020,751
Net change in fair value of financial assets	6	57,504,936	(10,884,955)	39,835,836	(10,884,955)
Other income		171,708	4,139	104,232	4,139
Net investment income/(loss)		<u>64,337,576</u>	<u>(6,788,960)</u>	<u>45,391,455</u>	<u>(6,788,960)</u>
<b>Operating expenses</b>					
Management fees	15	3,397,639	1,710,730	2,426,783	1,710,730
Administration costs		882,028	412,348	524,605	412,348
<b>Operating expenses before finance costs</b>		<u>4,279,667</u>	<u>2,123,078</u>	<u>2,951,388</u>	<u>2,123,078</u>
<b>Profit/(loss) from operating activities</b>		<b>60,057,909</b>	<b>(8,912,038)</b>	<b>42,440,067</b>	<b>(8,912,038)</b>
<b>Finance costs</b>					
Distributions paid and payable to unitholders of the Scheme	12	(2,241,824)	(1,802,953)	(2,241,824)	(1,802,953)
Change in amounts payable to external unitholders of the Scheme		(17,617,841)	-	-	-
<b>Change in net assets attributable to unitholders (total comprehensive income)</b>		<u><b>40,198,244</b></u>	<u><b>(10,714,991)</b></u>	<u><b>40,198,243</b></u>	<u><b>(10,714,991)</b></u>

(i) For the year ended 30 June 2013 the consolidated statement of profit or loss and other comprehensive income includes the Australian Ethical International Equities Trust; no consolidated statement of profit or loss and other comprehensive income was required for the year ended 30 June 2012 and as such only the parent's results have been presented here.

The accompanying notes form part of these financial statements.

**Australian Ethical Larger Companies Trust**

**Statements of Financial Position as at 30 June 2013**

		<b>Australian Ethical Larger Companies Trust Consolidated</b>		<b>Australian Ethical Larger Companies Trust</b>	
	<b>Note</b>	<b>2013 (i)</b>	2012	<b>2013</b>	2012
		\$	\$	\$	\$
<b>Assets</b>					
Cash and cash equivalents	7	<b>3,127,765</b>	1,561,730	<b>1,733,524</b>	1,561,730
Trade and other receivables	8	<b>1,069,908</b>	755,395	<b>879,776</b>	755,395
Financial assets held at fair value through profit and loss	9	<b>229,263,706</b>	150,846,848	<b>185,724,808</b>	150,846,848
Other assets	10	<b>387,057</b>	234,085	<b>246,776</b>	234,085
<b>Total assets</b>		<b>233,848,437</b>	153,398,058	<b>188,584,885</b>	153,398,058
<b>Liabilities</b>					
Trade and other payables	11	<b>682,871</b>	348,857	<b>551,754</b>	348,857
Distribution payable	12	<b>1,170,812</b>	1,353,385	<b>1,170,812</b>	1,353,385
Amounts payable to external unitholders of the Scheme		<b>45,132,435</b>	-	<b>-</b>	-
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>46,986,118</b>	1,702,242	<b>1,722,566</b>	1,702,242
<b>Net assets attributable to unitholders</b>	3	<b>186,862,319</b>	151,695,816	<b>186,862,319</b>	151,695,816
Represented by:					
Net assets attributable to unitholders at redemption price		<b>188,400,122</b>	153,296,215	<b>188,278,869</b>	153,296,215
Amounts payable to unitholders of the scheme		<b>(1,170,812)</b>	(1,353,385)	<b>(1,170,812)</b>	(1,353,385)
Adjustments arising from different unit pricing and accounting valuation		<b>(366,992)</b>	(247,014)	<b>(245,738)</b>	(247,014)
<b>Total net assets attributable to unitholders</b>	3	<b>186,862,319</b>	151,695,816	<b>186,862,319</b>	151,695,816

(i) For the year ended 30 June 2013 the consolidated statement of financial position include the Australian Ethical International Equities Trust; no consolidated statement of financial position was required for the year ended 30 June 2012 and as such only the parent's results have been presented here.

The accompanying notes form part of these financial statements.

**Australian Ethical Larger Companies Trust**

**Statement of Changes in Equity for the year ended 30 June 2013**

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Scheme has no equity and no items of changes in equity at the start and end of the year.

**Australian Ethical Larger Companies Trust**

**Statements of Cash Flows for the year ended 30 June 2013**

	<b>Australian Ethical Larger Companies Trust Consolidated</b>		<b>Australian Ethical Larger Companies Trust</b>	
	<b>2013 (i) \$</b>	2012 \$	<b>2013 \$</b>	2012 \$
<b>Cash flows from operating activities</b>				
Interest received	125,540	78,188	48,676	78,188
Dividends received	6,305,556	3,634,509	5,320,729	3,634,509
Other income received	170,739	463,639	245,169	463,639
Expenses paid	<b>(3,960,200)</b>	(1,940,962)	<b>(2,829,714)</b>	(1,940,962)
Net cash provided by/(used in) operating activities	14 <b>2,641,635</b>	2,235,374	<b>2,784,860</b>	2,235,374
<b>Cash flows from investing activities</b>				
Purchase of capital projects	<b>(412,738)</b>	(42,749)	<b>(114,806)</b>	(42,749)
Proceeds from disposal of capital projects	98,123	-	-	-
Proceeds from sale of investments	72,523,576	39,997,752	20,477,247	39,997,752
Purchase of investments	<b>(73,895,129)</b>	(97,625,785)	<b>(15,520,648)</b>	(97,625,785)
Acquisition of subsidiary net of cash acquired	<b>(1,000,000)</b>	-	-	-
Net cash provided by/(used in) investing activities	<b>(2,686,168)</b>	(57,670,782)	<b>4,841,794</b>	(57,670,782)
<b>Cash flows from financing activities</b>				
Proceeds from issue of units	15,206,931	97,957,971	4,383,576	97,957,971
Payment of redemption of units	<b>(14,169,693)</b>	(41,890,294)	<b>(10,478,129)</b>	(41,890,294)
Distributions paid to unitholders	<b>(1,360,306)</b>	(252,600)	<b>(1,360,306)</b>	(252,600)
Net cash provided by/(used in) financing activities	<b>(323,068)</b>	55,815,077	<b>(7,454,860)</b>	55,815,077
Net increase/(decrease) in cash and cash equivalents	<b>(367,601)</b>	379,669	<b>171,794</b>	379,669
Cash at 1 July	1,561,730	1,182,061	1,561,730	1,182,061
Cash acquired on consolidation	1,933,636	-	-	-
Cash at 30 June	7 <b>3,127,765</b>	1,561,730	<b>1,733,524</b>	1,561,730

(i) For the year ended 30 June 2013 the consolidated statement of cash flow includes the Australian Ethical International Equities Trust; no consolidated statement of cash flow was required for the year ended 30 June 2012.

The accompanying notes form part of these financial statements.



**Notes to the Financial Statements for the year ended 30 June 2013**

**Note 1 - Statement of significant accounting policies**

These financial statements cover Australian Ethical Larger Companies Trust ("AELT" or the "Scheme") as an individual entity and the Consolidated entity consisting of the Scheme and its subsidiaries. AELT is a registered managed investment scheme under the Corporations Act 2001. For the purposes of preparing the financial statements, the Consolidated Entity consists of for-profit unit trusts. The financial statements of the Scheme are for the year ended 30 June 2013.

*Statement of compliance*

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors of the Responsible Entity on 30 September 2013.

**Basis of preparation**

These financial statements are presented in Australian dollars and are prepared on the historical cost basis with the exception of financial assets designated at fair value through profit and loss and derivatives which are measured at fair value, and receivables and payables which are measured at amortised cost.

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been applied consistently.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Principles of Consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AELT (the "parent entity") as at 30 June 2013 and the results of all subsidiaries for the year ended. The parent entity and its subsidiaries together are referred to in these financial statements as the Consolidated Entity.

Subsidiaries are all those investments in schemes over which AELT has the power to govern the financial and operating policies, generally accompanying a unitholding of more than one half of the units on issue. The existence and effect of potential vesting rights that are currently exercisable or convertible are considered when assessing whether the Scheme controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the Scheme. They are de-consolidated from the date that control ceases.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Scheme

**Accounting policies**

**(a) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions or highly liquid investments of original maturity of three months or less.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

**(b) Financial instruments**

Financial instruments comprise of investments held at fair value through profit or loss, loans held at amortised cost, trade and other receivables, cash and cash equivalents and other payables.

*Recognition and initial measurement*

A financial instrument is recognised when the Scheme becomes a party to the contractual provisions of the instrument. Regular way purchase and sales of financial assets are accounted for at trade date (i.e. the date the Scheme commits itself to purchase or sell the asset).

Financial assets and liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Statement of Profit or Loss and Other Comprehensive Income. Financial assets and liabilities not at fair value through profit or loss are initially recognised at fair value plus any directly attributable transaction costs.

*Derecognition*

The Scheme derecognises financial assets when the contractual rights to the cash flows from the financial assets expire or it transfers the financial assets and the transfer qualifies for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

*Classification*

Financial assets and financial liabilities held at fair value through profit or loss are classified as either held for trading or are designated at fair value through profit or loss. Financial assets and liabilities held for trading include derivative financial instruments. Financial assets and liabilities designated at fair value through profit or loss include equity securities, investments in unit trusts and fixed interest securities.

*Measurement*

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income. All other financial instruments are carried at amortised cost using the effective interest rate method less any recognised impairment.

Financial liabilities arising from redeemable units issued by the Scheme are carried at the redemption amount representing the unitholders' rights to the residual interest in the Scheme's assets, effectively the fair value at the reporting date.

*Fair value measurement principles*

The Scheme can invest into a variety of assets, including cash, equities, fixed and floating rate interest securities, unit trusts and derivative contracts. Generally, valuation information is obtained from third party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security;
- quoted 'bid' prices on long securities and quoted 'ask' prices on securities sold short;
- redemption prices published by the relevant Responsible Entity, for investments into unlisted unit trusts.

For certain investments, prices cannot be obtained from the above sources. In these instances, valuations obtained from service providers are estimated through the use of valuation models which are consistent with accepted industry practice and incorporate the best available information regarding assumptions that market participants would use when pricing the assets or liabilities. Irrespective of the method used by third party industry standard service providers to obtain valuations, prices achieved in actual transactions may be different.

*Impairment of financial assets held at amortised cost*

Financial assets other than those at fair value through profit or loss are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flows are less than the carrying amount.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

**(b) Financial instruments - continued**

*Offsetting*

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

*Derivative financial instruments*

In accordance with the Investment Mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

**(c) Trade and other receivables**

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC).

**(d) Payables**

Payables are carried at amortised cost and may include amounts for unsettled purchases, accrued expenses and other payables such as GST and redemption monies owing by the Scheme. Unsettled purchases are amounts due to brokers for securities purchased that has not been paid at reporting date. Trades are recorded on trade date and normally settle within three business days.

Accrued expenses include management fees payable.

**(e) Distributions paid and payable**

In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Comprehensive Income as 'Finance costs'. Distributions paid are included in the Statement of Cash Flows as 'Net cash flows (used in)/ provided by financing activities'.

**(f) Change in net assets attributable to unitholders**

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising from fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

**(g) Revenue**

*Interest income*

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues. Interest income is recognised on a gross basis, including withholding tax, if any.

*Dividend income*

Dividend income relating to exchange-traded equity investments is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date. Income distributions from other managed investment schemes are recognised in the Statement of Comprehensive Income as dividend income on a present entitlement basis.

In some cases, the Scheme may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Scheme recognises the dividend income for the amount of the dividend alternative with the corresponding debit treated as an additional investment.

Notes to the Financial Statements for the year ended 30 June 2013

**Note 1 - Statement of significant accounting policies - continued**

**(h) Goods and services tax (GST)**

The Scheme qualifies for reduced input tax credits (RITC's) at a rate of between 55% to 75% depending on the service.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

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

**(i) Income tax**

Under current income tax legislation the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Scheme. There is no income of the Scheme to which the unitholders are not presently entitled and additionally, the Scheme's Constitution requires the distribution of the full amount of the net income of the Scheme to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Scheme to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Scheme's Constitution.

**(j) Net assets attributable to unitholders**

In accordance with AASB 132, unitholders' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as 'Net assets attributable to unitholders'. The units can be put back to the Scheme at any time for cash equal to the proportionate share of the Scheme's net asset values. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Scheme. Changes in the value of this financial liability are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

**(k) Expenses**

All expenses, including management fees, are recognised in the profit or loss on an accrual basis.

**(l) Foreign currency transactions and balances**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currency, are translated at the rates of exchange ruling at the reporting date. Unrealised foreign exchange gains or losses, arising on translation of assets and liabilities denominated in foreign currency at reporting date, are recognised as part of the 'Net change in fair value of investments' in the Statement of Profit or Loss and Comprehensive Income. Realised gains and losses on amounts denominated in foreign currencies are also brought to account as part of 'Net change in fair value of investments' in the Statement of Profit or Loss and Other Comprehensive Income and as part of 'Other income received' in the Statement of Cash Flows.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

**(m) Capitalised software**

The amortisable amount of all fixed assets are amortised over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

A straight line basis of amortisation has been adopted for capitalised software. The amortisation rates used for each class of assets are:

Software	3 - 5 years
----------	-------------

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Profit or Loss and Other Comprehensive Income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(n) Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(o) Standards affecting presentation and disclosure**

Amendments to AASB 101 'Presentation of Financial Statements':

The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**(p) Standards and interpretations affecting the reported results or financial position**

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

Notes to the financial statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies -continued

(q) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Responsible Entity has not elected to early adopt any of these new standards or amendments in this Financial report. The impact on the financial position or performance of the Scheme of these new standards and amendments is currently being assessed by management.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13.	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards - Investment Entities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014

**Australian Ethical Larger Companies Trust**

**Notes to the financial statements for the year ended 30 June 2013**

**Note 2 - Issued Units**

Each unit represents a right to an individual share in the Scheme per the Constitution.

	<b>Australian Ethical Larger Companies Trust</b>	
	<b>2013 Units</b>	2012 Units
<i>Retail Class</i>		
On issue at beginning of year	<b>105,908,694</b>	77,958,242
Issued	<b>2,000,555</b>	59,783,127
Redeemed	<b>(4,292,408)</b>	(31,832,675)
On issue at year end	<b>103,616,841</b>	105,908,694
<i>Wholesale Class</i>		
On issue at beginning of year	<b>15,095,713</b>	-
Issued	<b>1,701,110</b>	16,459,615
Redeemed	<b>(2,981,390)</b>	(1,363,902)
On issue at year end	<b>13,815,433</b>	15,095,713

**Note 3 - Net assets attributable to unitholders**

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to deliver income and capital appreciation through investing in equities. The Scheme is not subject to any externally imposed capital requirements.

	<b>Australian Ethical Larger Companies Trust Consolidated</b>		<b>Australian Ethical Larger Companies Trust</b>	
	<b>2013 \$</b>	2012 \$	<b>2013 \$</b>	2012 \$
Opening balance	<b>151,695,816</b>	105,293,744	<b>151,695,816</b>	105,293,744
Issued	<b>4,383,576</b>	97,957,971	<b>4,383,576</b>	97,957,971
Distribution reinvested	<b>1,062,814</b>	1,049,386	<b>1,062,814</b>	1,049,386
Redeemed	<b>(10,478,129)</b>	(41,890,294)	<b>(10,478,129)</b>	(41,890,294)
Change in net assets attributable to unitholders	<b>40,198,244</b>	(10,714,991)	<b>40,198,243</b>	(10,714,991)
Total net assets attributable to unitholders	<b>186,862,320</b>	151,695,816	<b>186,862,319</b>	151,695,816

**Note 4 - Interest income**

Cash and cash equivalents	<b>122,711</b>	71,105	<b>45,847</b>	71,105
	<b>122,711</b>	71,105	<b>45,847</b>	71,105

**Note 5 - Dividend and distribution income**

Dividend and distribution income from securities	<b>6,538,221</b>	4,020,751	<b>5,405,540</b>	4,020,751
	<b>6,538,221</b>	4,020,751	<b>5,405,540</b>	4,020,751

**Australian Ethical Larger Companies Trust**

**Notes to the financial statements for the year ended 30 June 2013**

	Australian Ethical Larger Companies Trust Consolidated		Australian Ethical Larger Companies Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
<b>Note 6 - Gains/(losses) on Financial assets</b>				
Unrealised gain/(loss) arising on financial assets designated as at FVTPL				
Equity investments and units trusts	65,306,416	(6,251,514)	43,437,204	(6,251,514)
Net gain/ (loss) arising on foreign currency options	-	(146,665)	-	(146,665)
	<b>65,306,416</b>	<b>(6,398,180)</b>	<b>43,437,204</b>	<b>(6,398,180)</b>
Realised gain/(loss) arising on the disposal of financial assets				
Gain/(loss) on the disposal of investments	(7,696,689)	(4,347,862)	(3,496,577)	(4,347,862)
Net gain/ (loss) on the disposal of foreign currency options	(104,791)	(138,913)	(104,791)	(138,913)
	<b>(7,801,480)</b>	<b>(4,486,775)</b>	<b>(3,601,368)</b>	<b>(4,486,775)</b>
<b>Total of realised and unrealised gains/(losses) on financial assets</b>	<b>57,504,936</b>	<b>(10,884,955)</b>	<b>39,835,836</b>	<b>(10,884,955)</b>
<b>Note 7 - Cash and cash equivalents</b>				
Cash at bank - Domestic	2,922,691	1,561,730	1,733,524	1,561,730
Cash at bank- Foreign currency	205,074	-	-	-
	<b>3,127,765</b>	<b>1,561,730</b>	<b>1,733,524</b>	<b>1,561,730</b>
Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purposes of the Statement of Cash Flows, cash includes cash at bank and cash on deposit.				
<b>Note 8 - Trade and other receivables</b>				
Dividend receivable	950,130	717,635	802,447	717,635
Interest receivable	-	2,829	-	2,829
Other debtors	119,778	34,931	77,329	34,931
	<b>1,069,908</b>	<b>755,395</b>	<b>879,776</b>	<b>755,395</b>
<b>Note 9 - Financial assets at fair value through profit or loss</b>				
<b>Designated at fair value through profit or loss</b>				
<b>Equities</b>				
Australian listed	102,781,883	69,506,678	102,781,883	69,506,678
International listed	104,759,986	-	11,993,578	-
	<b>207,541,869</b>	<b>69,506,678</b>	<b>114,775,461</b>	<b>69,506,678</b>
<b>Unit trusts</b>				
Listed	2,921,419	-	2,921,419	-
Unlisted	-	40,043,533	49,227,510	40,043,533
	<b>2,921,419</b>	<b>40,043,533</b>	<b>52,148,929</b>	<b>40,043,533</b>
<b>Stapled securities</b>				
Listed	18,800,419	41,235,455	18,800,419	41,235,455
	<b>18,800,419</b>	<b>41,235,455</b>	<b>18,800,419</b>	<b>41,235,455</b>
<b>Held for trading</b>				
<b>Derivatives</b>				
Currency options	-	61,182	-	61,182
	<b>-</b>	<b>61,182</b>	<b>-</b>	<b>61,182</b>
	<b>229,263,706</b>	<b>150,846,848</b>	<b>185,724,808</b>	<b>150,846,848</b>

The Scheme's accounting policy on fair value measurements is discussed in note 1(b).



**Australian Ethical Larger Companies Trust**

**Notes to the financial statements for the year ended 30 June 2013**

	Australian Ethical Larger Companies Trust Consolidated		Australian Ethical Larger Companies Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
<b>Note 10 - Other assets</b>				
Capitalised project costs	<b>387,057</b>	234,085	<b>246,776</b>	234,085
	<b>387,057</b>	234,085	<b>246,776</b>	234,085
<b>Capitalised project costs</b>				
<i>At cost</i>				
Balance as at 1 July	<b>700,797</b>	264,815	<b>307,564</b>	264,815
Additions	<b>114,806</b>	42,749	<b>114,806</b>	42,749
Disposals	<b>(98,123)</b>	-	<b>-</b>	-
Balance as at 30 June	<b>717,480</b>	307,564	<b>422,370</b>	307,564
<i>Accumulated amortisation and impairment</i>				
Balance as at 1 July	<b>168,780</b>	9,630	<b>73,480</b>	9,630
Amortisation	<b>161,643</b>	63,850	<b>102,114</b>	63,850
Balance as at 30 June	<b>330,423</b>	73,480	<b>175,594</b>	73,480
<b>Note 11 - Trade and other payables</b>				
Trade payables and sundry creditors	<b>682,871</b>	348,857	<b>551,754</b>	348,857
	<b>682,871</b>	348,857	<b>551,754</b>	348,857
<b>Note 12 - Distributions paid and payable</b>				
Distributions paid during the year	<b>1,071,012</b>	449,568	<b>1,071,012</b>	449,568
Distributions payable	<b>1,170,812</b>	1,353,385	<b>1,170,812</b>	1,353,385
	<b>2,241,824</b>	1,802,953	<b>2,241,824</b>	1,802,953
<b>Note 13 - Auditors' remuneration</b>				
Audit fees in relation to the Scheme are paid directly by the Responsible Entity. During the year the following fees were paid or payable by the Responsible Entity for services in relation to the audit of the Scheme. In the 2012 year audit fees were				
Auditing the financial statements	<b>20,000</b>	21,450	<b>10,000</b>	21,450
Compliance plan audit	<b>4,750</b>	1,334	<b>2,375</b>	1,334
	<b>24,750</b>	22,784	<b>12,375</b>	22,784

The auditor of the Scheme is KPMG (2012: Thomas Davis and Co).

**Australian Ethical Larger Companies Trust**

**Notes to the financial statements for the year ended 30 June 2013**

**Note 14 - Reconciliation of profit for the period to net cash provided by operating activities**

	Australian Ethical Larger Companies Trust Consolidated		Australian Ethical Larger Companies Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Net profit from operating activities	60,057,909	(8,912,038)	42,440,067	(8,912,038)
Adjustments for:				
Net (gains)/losses on disposal of investments	7,696,689	4,347,862	3,496,577	4,347,862
Net (gains)/losses on revaluation of investments	(65,306,416)	6,398,180	(43,437,204)	6,398,180
Net (gains)/losses on foreign exchange	104,791	138,913	104,791	138,913
Amortisation of project costs	161,643	63,850	102,114	63,850
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	(408,157)	193,535	(124,382)	193,535
Increase/(decrease) in trade and other payables	335,176	5,072	202,897	5,072
Net cash provided by operating activities	<u>2,641,635</u>	<u>2,235,374</u>	<u>2,784,860</u>	<u>2,235,374</u>

**Non-cash financing and investing activities**

During the year income distributions totaling \$1,062,814 (2012: \$1,049,386) were reinvested by unitholders for additional units in the Scheme.

**Note 15 - Related party disclosures**

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the Scheme, provides investment services for the Scheme in accordance with Scheme's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

Interests in subsidiaries are set out in Note 17.

During the year the following amounts were paid to the Responsible Entity in accordance with each Scheme's Constitution:

Management fees	3,397,639	1,710,730	2,426,783	1,710,730
Accounting fees (Reimbursable)	341,764	126,505	139,183	126,505
Reimbursable expenses	2,755	21,671	1,895	21,671
	<u>3,742,158</u>	<u>1,858,906</u>	<u>2,567,861</u>	<u>1,858,906</u>

The amounts due and payable at 30 June 2013 to the Responsible Entity, exclusive of GST and input tax credits, in accordance with the Scheme's Constitution were:

Management fees, accounting fees, and reimbursable expenses	131,117	-	-	-
	<u>131,117</u>	<u>-</u>	<u>-</u>	<u>-</u>

Transactions between Australian Ethical Investment Ltd and the Scheme and Consolidated Entity during the financial year were:

Australian Ethical Retail Superannuation Fund purchase of units	1,913,000	3,829,265	847,000	3,829,265
Australian Ethical Retail Superannuation Fund sale of units	4,071,028	11,469,800	3,192,000	11,469,800
Value of units held by Australian Ethical Retail Superannuation Fund	57,714,808	40,758,762	49,872,553	40,758,762
Distribution payments to Australian Ethical Retail Superannuation Fund	265,456	232,725	265,456	232,725
Distribution payable to Australian Ethical Retail Superannuation Fund	274,198	358,245	274,198	358,245

## Australian Ethical Larger Companies Trust

### Notes to the financial statements for the year ended 30 June 2013

#### Note 15 - Related party disclosures

Transactions between the schemes during the financial year were:

	Australian Ethical Larger Companies Trust Consolidated		Australian Ethical Larger Companies Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
Number of units purchased by Australian Ethical Balanced Trust	16,518,843	55,329,846	-	55,329,846
Number of units sold by Australian Smaller Companies Trust	4,863,427	-	-	-
Number of units sold in Australian Ethical International Equities Trust	-	-	2,776,519	8,755,556
Number of units purchased in Australian Ethical International Equities Trust	-	-	1,595,151	35,180,299
Australian Ethical Balanced Trust sale of units	9,500,000	72,742,148	-	72,742,148
Australian Ethical Balanced Trust purchase of units	123,039,514	69,389,644	87,981,758	69,389,644
Value of units held by Australian Ethical Balanced Trust	2,542,600	-	-	-
Australian Ethical Smaller Companies Trust sale of units	-	-	1,500,000	4,740,000
Value of units sold in Australian Ethical International Equities Trust	-	-	1,000,000	20,000,000
Value of units purchased in Australian Ethical International Equities Trust	-	-	49,226,640	37,878,639
Value of units held in Australian Ethical International Equities Trust	459,191	-	459,191	-
Distribution payments to Australian Ethical Balanced Trust	483,722	609,901	483,722	609,901
Distribution payable to Australian Ethical Balanced Trust				

#### Note 16 - Financial risk management and financial instruments

##### a) Categories of financial instruments

###### *Financial assets*

Cash and cash equivalents	3,127,765	1,561,730	1,733,524	1,561,730
Investments designated at FVTPL	229,263,706	150,846,848	185,724,808	150,846,848
Trade and other receivables	1,069,908	755,395	879,776	755,395
	<b>233,461,379</b>	<b>153,163,973</b>	<b>188,338,108</b>	<b>153,163,973</b>

###### *Financial liabilities*

Other financial liabilities				
Trade and other payables	682,871	348,857	551,754	348,857
Distribution payable	1,170,812	1,353,385	1,170,812	1,353,385
Amounts payable to unitholders	186,862,319	151,695,816	186,862,319	151,695,816
Amounts payable to external unitholders	45,132,435	-	-	-
	<b>233,848,437</b>	<b>153,398,058</b>	<b>188,584,885</b>	<b>153,398,058</b>

Notes to the financial statements for the year ended 30 June 2013

**Note 16 - Financial risk management and financial instruments - continued**

**b) Financial risk management objectives**

The Scheme and the Consolidated Entity is exposed to a number of risks due to the nature of its activities as further set out in its Product Disclosure Statement. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Scheme's objective in managing these risks is the protection and enhancement of unitholder value.

The Scheme's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Scheme outsources the investment management to specialist investment managers, who provide services to the Scheme, co-ordinate access to domestic and international financial markets, and manage the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's constitution and product disclosure statement.

The Scheme and the Consolidated Entity does not enter into or trade derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Scheme's investment policies, which provide written principles on the use of financial derivatives. These principles permit the use of derivatives to change the Scheme's exposure to particular assets. Derivatives are not used to gear the Scheme and the Scheme's effective market exposure will not exceed its market value. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

The Investment Committee's Charter requires it to oversight the processes which govern the investment of money of the Scheme for which Australian Ethical Investment Limited is the Responsible Entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

**c)(i) Market risk**

Market risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Investment Manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's constitution and Product Disclosure Statement. The Scheme's investment mandate is to invest in a diversified portfolio of stocks listed on the ASX and international listed stocks, and it may also invest in derivative instruments such as futures and options. There has been no change to the Scheme or Consolidated Entity's exposure to market risks or the manner in which it manages and measures the risk.

**c)(ii) Foreign currency risk management**

Foreign currency risk arises when recognised assets and liabilities and future commercial transactions are denominated in a currency that is not the entity's functional currency.

The responsible entity can use derivative financial instruments such as foreign currency options and forward contracts, to hedge the foreign currency risk exposures. The foreign currency exposure of the Scheme is reviewed regularly and updated as required. The use of derivative financial instruments is subject to policies and parameters set out in the Responsible Entities' Derivatives Risk Statement and Trust Investment Parameters. The Investment Committee is responsible for monitoring adherence to the Derivatives Risk Statement and the Trust Investment Parameters.

The carrying amounts of the Scheme's and Consolidated Entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

**Australian Ethical Larger Companies Trust**

**Notes to the financial statements for the year ended 30 June 2013**

**Note 16 - Financial risk management and financial instruments - continued**

**c)(ii) Foreign currency risk management-continued**

		Australian Ethical Larger Companies Trust Consolidated		Australian Ethical Larger Companies Trust	
		2013	2012	2013	2012
		\$	\$	\$	\$
Assets					
	EUR	9,088,590	29,939	-	29,939
	USD	48,131,728	13,828	-	13,828
	GBP	7,233,012	5,273	-	5,273
	CAD	3,185,596	-	-	-
	Other	37,326,135	772	11,993,578	772
		<b>104,965,059</b>	49,812	<b>11,993,578</b>	49,812

Management has performed a sensitivity analysis relating to the Scheme's exposure to currency risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in exchange rates by 5%. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in foreign exchange rates as at balance sheet date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in foreign exchange rates have been taken into account.

At 30 June 2013, the effect on net assets attributable to unit holders and the change in net assets attributable as a result of changes in foreign currency rates with all other variables remaining constant would be as follows:

<b>Increase in AUD vs other currencies by 5%</b>	<b>(5,248,253)</b>	(1,826,084)	<b>(599,679)</b>	(1,826,084)
<b>Decrease in AUD vs other currencies by 5%</b>	<b>5,248,253</b>	1,826,084	<b>599,679</b>	1,826,084

**c)(iii) Interest rate risk management**

Interest rate risk represents the risk that the Scheme and Consolidated Entity's financial performance will be adversely affected by fluctuations in interest rates.

The Scheme's and Consolidated Entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 100 basis points. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2013, the effect on net assets attributable to unit holders and the change in net assets attributable to unitholders as a result of changes in interest rates with all other variables remaining constant would be as follows:

Increase in interest rate by 1%	<b>31,278</b>	15,617	<b>17,335</b>	15,617
Decrease in interest rate by 1%	<b>(31,278)</b>	(15,617)	<b>(17,335)</b>	(15,617)

Notes to the financial statements for the year ended 30 June 2013

Note 16 - Financial risk management and financial instruments - continued

c)(iv) Price risk

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Scheme and Consolidated Entity has investments in equity instruments, unlisted trusts and derivative financial instruments, which exposes it to price risk. The investment manager manages the Scheme's market risk on a daily basis in accordance with the Scheme's investment objectives and policies, as detailed in the Product Disclosure Statement.

As the majority of the Scheme's financial instruments are carried at fair value with changes in fair value recognised in the income statement, all changes in market conditions will directly affect investment income.

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unit holders which could result from a change in market prices of 10%. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in market prices as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

At 30 June 2013, the effect on net assets attributable to unitholders and the change in net assets attributable to unit holders as a result of changes in market prices with all other variables remaining constant would be as follows:

	Australian Ethical Larger Companies Trust Consolidated		Australian Ethical Larger Companies Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
Increase by 10%	22,926,371	15,084,685	18,572,481	15,084,685
Decrease by 10%	(22,926,371)	(15,084,685)	(18,572,481)	(15,084,685)

d) Credit risk management

(d)(i) Management and exposure to credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Consolidated Entity and the Scheme are predominately exposed to credit risk through its deposits at banks and trade and other receivables.

The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trade and other receivables on a monthly basis.

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2013 (2012: AA-).

No financial assets carried at amortised cost were past due or impaired at 30 June 2013 (2012: nil).

The maximum credit risk exposure (without taking into account collateral and other credit enhancements) is represented by the respective carrying amounts of the relevant financial asset in the Statement of Financial Position.

The table below details the maximum exposure to credit risk for the assets held by the Scheme and the Consolidated Entity.

Cash and cash equivalents	3,127,765	1,561,730	1,733,524	1,561,730
Trade and other receivables	1,069,908	755,395	879,776	755,395
<b>Total</b>	<b>4,197,673</b>	<b>2,317,125</b>	<b>2,613,300</b>	<b>2,317,125</b>

Notes to the financial statements for the year ended 30 June 2013

Note 16 - Financial risk management and financial instruments - continued

(e) Liquidity risk management

Liquidity risk is the risk that the Scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Scheme's approach to managing liquidity is for the Scheme to invest a significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash (for example, the Scheme's listed securities). As a result, there is a risk that the Scheme may not be able to liquidate all of these investments at their fair value in order to meet its liquidity requirements. In the event of significant redemptions, the Scheme has the ability to suspend redemptions until it can realise investments to meet the redemptions.

All payables of the Scheme are classed as normal operating obligations and are to be paid within six months of balance date.

Financial instrument composition and maturity analysis

Australian Ethical Larger Companies Trust Consolidated 2013						
	Weighted average interest rate	1-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	\$	\$	\$	\$	\$
Variable interest-bearing assets						
Cash and cash equivalents	2.90	3,127,765	-	-	-	3,127,765
Non-interest bearing						
Trade and other receivables	N/A	1,069,908	-	-	-	1,069,908
Financial assets	N/A	229,263,706	-	-	-	229,263,706
<b>Total financial assets</b>		<b>233,461,379</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>233,461,379</b>
Non-interest bearing						
Trade and other payables	N/A	682,871	-	-	-	682,871
Distributions payable	N/A	1,170,812	-	-	-	1,170,812
Liabilities to unitholders	N/A	186,862,319	-	-	-	186,862,319
Liabilities to external unitholders	N/A	45,132,435	-	-	-	45,132,435
<b>Total financial liabilities</b>		<b>233,848,437</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>233,848,437</b>

2012						
	Weighted average interest rate	1-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	\$	\$	\$	\$	\$
Variable interest-bearing assets						
Cash and cash equivalents	4.22	1,561,730	-	-	-	1,561,730
Non-interest bearing						
Trade and other receivables	N/A	755,395	-	-	-	755,395
Financial assets	N/A	150,846,848	-	-	-	150,846,848
<b>Total financial assets</b>		<b>153,163,973</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,163,973</b>
Non-interest bearing						
Trade and other payables	N/A	348,857	-	-	-	348,857
Distributions payable	N/A	1,353,385	-	-	-	1,353,385
Liabilities to unitholders	N/A	151,695,816	-	-	-	151,695,816
<b>Total financial liabilities</b>		<b>153,398,058</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,398,058</b>

Australian Ethical Larger Companies Trust

Notes to the financial statements for the year ended 30 June 2013

Note 16 - Financial risk management and financial instruments - continued

(e) Liquidity risk management - continued

Financial instrument composition and maturity analysis

Australian Ethical Larger Companies Trust 2013						
	Weighted average interest rate	1-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	\$	\$	\$	\$	\$
Variable interest-bearing assets						
Cash and cash equivalents	2.90	1,733,524	-	-	-	1,733,524
Non-interest bearing						
Trade and other receivables	N/A	879,776	-	-	-	879,776
Financial assets	N/A	185,724,808	-	-	-	185,724,808
<b>Total financial assets</b>		<b>188,338,108</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>188,338,108</b>
Non-interest bearing						
Trade and other payables	N/A	551,754	-	-	-	551,754
Distribution payable	N/A	1,170,812	-	-	-	1,170,812
Liabilities to unitholders	N/A	186,862,319	-	-	-	186,862,319
<b>Total financial liabilities</b>		<b>188,584,885</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>188,584,885</b>

2012						
	Weighted average interest rate	1-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	\$	\$	\$	\$	\$
Variable interest-bearing assets						
Cash and cash equivalents	4.22	1,561,730	-	-	-	1,561,730
Non-interest bearing						
Trade and other receivables	N/A	755,395	-	-	-	755,395
Financial assets	N/A	150,846,848	-	-	-	150,846,848
<b>Total financial assets</b>		<b>153,163,973</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,163,973</b>
Non-interest bearing						
Trade and other payables	N/A	348,857	-	-	-	348,857
Distribution payable	N/A	1,353,385	-	-	-	1,353,385
Liabilities to unitholders	N/A	151,695,816	-	-	-	151,695,816
<b>Total financial liabilities</b>		<b>153,398,058</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,398,058</b>



Notes to the financial statements for the year ended 30 June 2013

Note 16 - Financial risk management and financial instruments - continued

f) Fair values

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

-Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

-Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

-Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Australian Ethical Larger Companies Trust Consolidated 2013				
	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
<b>Financial assets at fair value through profit or loss</b>				
<b>Designated at fair value through profit or loss</b>				
<b>Equities</b>				
Australian listed	102,781,883	-	-	102,781,883
International listed	104,759,986	-	-	104,759,986
<b>Unit trusts</b>				
Listed	2,921,419	-	-	2,921,419
Unlisted	-	-	-	-
<b>Stapled securities</b>				
Listed	18,800,419	-	-	18,800,419
<b>Derivatives</b>				
Currency options	-	-	-	-
<b>TOTAL</b>	<b>229,263,707</b>	<b>-</b>	<b>-</b>	<b>229,263,707</b>

2012				
	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
<b>Financial assets at fair value through profit or loss</b>				
<b>Designated at fair value through profit or loss</b>				
<b>Equities</b>				
Australian listed	69,506,678	-	-	69,506,678
International listed				
<b>Unit trusts</b>				
Unlisted	-	40,043,533	-	40,043,533
<b>Stapled securities</b>				
Listed	41,235,455	-	-	41,235,455
<b>Derivatives</b>				
Currency options	-	61,182	-	61,182
<b>TOTAL</b>	<b>110,742,133</b>	<b>40,104,715</b>	<b>-</b>	<b>150,846,848</b>

**Australian Ethical Larger Companies Trust**

Notes to the financial statements for the year ended 30 June 2013

Note 16 - Financial risk management and financial instruments - continued

f) Fair values - continued

Australian Ethical Larger Companies Trust 2013				
	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
<b>Financial assets at fair value through profit or loss</b>				
<b>Designated at fair value through profit or loss</b>				
<b>Equities</b>				
Australian listed	102,781,883	-	-	102,781,883
International listed	11,993,578	-	-	11,993,578
Unlisted				-
<b>Unit trusts</b>				
Listed	2,921,419	-	-	2,921,419
Unlisted	-	49,227,510	-	49,227,510
<b>Stapled securities</b>				
Listed	18,800,419	-	-	18,800,419
<b>Held for trading</b>				
<b>Derivatives</b>				
Currency options	-	-	-	-
<b>TOTAL</b>	<b>136,497,298</b>	<b>49,227,510</b>	<b>-</b>	<b>185,724,808</b>

2012				
	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
<b>Financial assets at fair value through profit or loss</b>				
<b>Designated at fair value through profit or loss</b>				
<b>Equities</b>				
Australian listed	69,506,678	-	-	69,506,678
International listed	-	-	-	-
Unlisted	-	-	-	-
<b>Unit trusts</b>				
Listed				-
Unlisted	-	40,043,533	-	40,043,533
<b>Stapled securities</b>				
Listed	41,235,455	-	-	41,235,455
Unlisted	-	-	-	-
<b>Interest bearing securities</b>				
<b>Held for trading</b>				
<b>Derivatives</b>				
Currency options	-	61,182	-	61,182
<b>TOTAL</b>	<b>110,742,133</b>	<b>40,104,715</b>	<b>-</b>	<b>150,846,848</b>

**Note 17 - Investments 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 1.

Name of entity	Country of Domicile	Consolidated			
		Fair value		Units Held	
		30 June 2013 \$	30 June 2012 \$	30 June 2013 %	30 June 2012 %
Australian Ethical International Equities Trust	Australia	49,227,510	N/A	52	N/A

Notes to the financial statements for the year ended 30 June 2013

**Note 18 - Acquisition of Subsidiaries**

On 1 July 2012, the Parent acquired an additional 4.5% of units of Australian Ethical International Equities Trust, giving it a controlling interest in the units of Australian Ethical International Equities Trust.

**Effect of acquisitions**

The acquisition had the following effect on the consolidated entity's assets and liabilities on acquisition date:

*Acquiree's net assets at 1 July 2012 acquired at fair value*

	<b>Fair value</b>
Cash and cash equivalents	1,933,636
Trade and other receivables	286,682
Financial assets held at fair value through profit and loss	63,339,620
Other assets	297,932
Trade and other payables	<u>(146,541)</u>
Net identifiable assets and liabilities	65,711,329
Amounts attributable to external unit holders of the subsidiary	(24,899,054)
Fair value of previously held interest	(37,878,639)
Consideration paid	2,933,636
Cash acquired	<u>(1,933,636)</u>
Net cash outflow	<u><u>1,000,000</u></u>

The contribution of the acquired entity's profit to the results of the consolidated entity was an increase of \$17,617,841 from the date of acquisition.

**Note 19 - Events subsequent to the reporting date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme and the Consolidated Entity, the results of its operations, or the state of affairs of the scheme, in future financial years.

**Note 20 - Contingencies**

There are no contingent liabilities or contingent assets as at 30 June 2013 and 30 June 2012.

## Australian Ethical Larger Companies Trust

### Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Larger Companies Trust and its controlled entities (the "Scheme"):

- (a) The consolidated financial statements and notes that are set out on pages 3 to 25 are in accordance with the Corporations Act 2001, including:
  - i. Giving a true and fair view of the Scheme's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
  - ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and
  
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable.

The Directors draw attention to Note 1 of the financial report which contains a statement of compliance with International

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
30 September 2013



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

To: the directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical Larger Companies Trust:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 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

Karen Hopkins  
*Partner*

Sydney  
30 September 2013



## **Independent auditor's report to the unitholders of the Australian Ethical Larger Companies Trust**

### **Report on the financial report**

We have audited the accompanying consolidated financial report of the Australian Ethical Larger Companies Trust (the "Scheme"), which comprises of the statement of financial position as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Scheme and Group, comprising the Scheme and the entity that it controlled at 30 June 2013 and from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of Australian Ethical Investment Limited ('the Responsible Entity') are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

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

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



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

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the consolidated financial report of the Australian Ethical Larger Companies Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Scheme's and the Group's financial position as at 30 June 2013 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

Karen Hopkins  
*Partner*

Sydney

30 September 2013