

Australian Ethical Balanced Trust (AEBT)
ARSN 089 919 255

Annual Financial Report for the year ended 30 June 2014

Australian Ethical Balanced Trust (AEBT)

Annual Financial Report for the year ended 30 June 2014

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Australian Ethical Balanced Trust

Directors' Report For the year ended 30 June 2014

Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Balanced Trust ("AEBT" or "the Scheme") presents its directors' report together with the audited financial statements of the Scheme for the year ended 30 June 2014 and the accompanying independent auditor's report.

Responsible Entity

Australian Ethical Investment Limited (ABN 47 003 188 930) 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:

Phil Vernon
Kate Greenhill
Stephen Gibbs
Mara Bun
Tony Cole
Stephen Newnham (ceased 26 July 2013)
André Morony (ceased 20 November 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 the 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 30 June 2014.

Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance-Calculation of Return. The Scheme achieved a total return of 13.5% (2013: 14.3%).

Australian Ethical Balanced Trust

Directors' Report For the year ended 30 June 2014

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 an interim distribution of 0.37 cents per unit (2013: 2.09 cents per unit) and a year end distribution of 0.91 cents per unit (2013: 1.19 cents per unit).

Net Assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2014 was \$324,656,358 (30 June 2013: \$253,795,867).

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. The Responsible Entity plans to continue to invest in line with the strategy set out in the Product Disclosure Statement.

Events occurring after the reporting date

The Australian and international markets remain relatively volatile, and this impacts the valuation of the Scheme's investment portfolio. As the investments are measured at their 30 June 2014 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However the volatility in value of investments has been reflected in the current unit price.

Except as outlined above, 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 for 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 17 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 26 of the annual report and forms part of the directors' report for the financial year ended 30 June 2014.

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



Phil Vernon
Managing Director
Australian Ethical Investment Limited
26 September 2014

Australian Ethical Balanced Trust

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2014

	Note	2014 \$	2013 (Restated)* \$
Investment income			
Interest income	4	699,510	1,428,217
Dividend and distribution income	5	5,158,474	4,437,408
Net change in fair value of financial assets	6	30,974,765	28,729,957
Rental income	11	623,392	644,001
Other income		20,609	396,033
Net investment income		37,476,750	35,635,616
Operating expenses			
Management fees	17	1,514,153	2,008,170
Administration costs	17	486,440	232,394
Other expenses		-	135,788
Amortisation of software	12	53,140	56,845
Investment property expenses	11	198,620	200,136
Operating expenses before finance costs		2,252,353	2,633,333
Profit from operating activities		35,224,397	33,002,283
Finance costs			
Distributions paid and payable to unitholders of the Scheme	14	(3,199,836)	(7,362,164)
Change in net assets attributable to unitholders (total comprehensive income)	3	32,024,561	25,640,119

* See note 1 for adjustments made to the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013 as a result of the deconsolidation of its subsidiaries due to the early adoption of the investment entity exemption in new accounting standard AASB 10 *Consolidated Financial Statements* and Amendments to AAS10.

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Trust

Statement of Financial Position as at 30 June 2014

	Note	2014	2013 (Restated)*
		\$	\$
Assets			
Cash and cash equivalents	7	19,615,191	3,955,671
Trade and other receivables	8	3,685,236	2,843,877
Financial assets held at fair value through profit or loss	9	294,651,579	238,275,788
Loans and receivables held at amortised cost	10	3,735,779	5,884,517
Investment property held at fair value	11	5,450,000	5,600,000
Other assets	12	75,282	128,423
Total assets		327,213,067	256,688,276
 Liabilities			
Trade and other payables	13	220,889	210,875
Distribution payable	14	2,335,820	2,681,534
Total liabilities		2,556,709	2,892,409
 Net assets attributable to unitholders	 3	 324,656,358	 253,795,867
 Represented by:			
Net assets attributable to unitholders at redemption price		327,641,830	257,292,244
Amounts payable to unitholders of the scheme		(2,335,820)	(2,681,534)
Adjustments arising from different unit pricing and accounting valuation		(649,652)	(814,843)
Total net assets attributable to unitholders	3	324,656,358	253,795,867

* See note 1 for adjustments made to the Statement of Financial Position at 30 June 2013 as a result of the deconsolidation of its subsidiaries due to the early adoption of the investment entity exemption in new accounting standard AASB 10 *Consolidated Financial Statements* and Amendments to AAS10.

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Trust

Statement of Changes in Equity for the year ended 30 June 2014

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.

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Trust

Statement of Cash Flows for the year ended 30 June 2014

	2014	2013
	\$	(Restated)*
	\$	\$
Cash flows from operating activities		
Interest received	669,814	1,698,581
Dividends and distributions received	4,365,879	2,725,175
Other income received	639,723	1,048,009
Expenses paid	<u>(2,169,586)</u>	<u>(2,684,825)</u>
Net cash provided by operating activities	16 3,505,830	2,786,940
Cash flows from investing activities		
Proceeds from sale of investments	1,575,208	44,643,678
Proceeds from return of capital	10,936,446	-
Sale proceeds from capital projects	-	318,095
Loans held at amortised cost repaid	1,398,738	825,895
Loans held at amortised cost granted	-	(300,000)
Purchase of investments	<u>(37,012,679)</u>	<u>(38,127,562)</u>
Net cash (used in)/provided by investing activities	(23,102,287)	7,360,106
Cash flows from financing activities		
Proceeds from issue of units	49,535,825	14,706,439
Payment of redemption of units	(13,854,080)	(21,209,783)
Distributions paid to unitholders	<u>(425,768)</u>	<u>(1,226,671)</u>
Net cash provided by/(used in) financing activities	35,255,977	(7,730,015)
Net increase in cash and cash equivalents	15,659,520	2,417,031
Cash and cash equivalents at 1 July	<u>3,955,671</u>	<u>1,538,640</u>
Cash and cash equivalents at 30 June	7 19,615,191	3,955,671

* See note 1 for adjustments made to the Statement of Cash Flows for the year ended 30 June 2013 as a result of the deconsolidation of its subsidiaries due to the early adoption of the investment entity exemption in new accounting standard AASB 10 *Consolidated Financial Statements* and Amendments to AAS10.

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies

The Australian Ethical Balanced Trust ("AEBT" or the "Scheme") is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 2 November 1999. The Scheme will terminate on 1 November 2079 unless terminated earlier in accordance with the provisions of the Scheme constitution. The Scheme is domiciled in Australia and is a for profit entity. The financial statements of the Scheme are for the year ended 30 June 2014.

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 26 September 2014.

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.

Change in accounting policies

The Scheme has adopted the following standards and amendments for the 30 June 2014 reporting period:

(a) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective for accounting periods beginning on or after 1 January 2013)

AASB 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation.

On adoption of the standard, the Scheme has not changed its valuation inputs for listed financial assets or liabilities and continues to utilise quoted bid and ask prices. There has been no impact to the net gains/(losses) on financial instruments held at fair value through profit or loss.

(b) AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for accounting periods beginning on or after 1 January 2013)

AASB 2012-2 requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the Scheme's financial position or performance.

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

Change in accounting policies - continued

(c) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 (revised 2011) *Separate Financial Statements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures* (effective for accounting periods beginning on or after 1 January 2013)

The Scheme has early adopted AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities* (effective for accounting periods beginning on or after 1 January 2014) which makes amendments to AASB 10, AASB 12 and AASB 127 (the "Amendments").

AASB 10 *Consolidated financial statements* and Amendments to AASB 10:

The objective of AASB 10 is to establish principles for the presentation and preparation of consolidated financial statements. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The amendments to AASB 10 define an investment entity and introduce an exception from the consolidation requirements for investment entities.

On adoption, the Scheme has determined that it meets the definition of an investment entity. As a result, the Scheme has changed its accounting policy with respect to its investment in its subsidiaries. Subsidiaries, which were previously consolidated, are now accounted for at fair value through profit or loss. This change in accounting policy has been applied retrospectively in accordance with the transition provisions of AASB 10 and the Amendments to AASB 10. The transition provisions require retrospective application in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Investment entity

The Scheme has multiple unrelated unitholders and holds multiple investments directly or indirectly. Ownership interests in the interfunding investments are in the form of units which are classified as debt in accordance with AASB 132 and which are exposed to variable returns from changes in the fair value of the Scheme's net assets. The Scheme has been deemed to meet the definition of an investment entity per AASB 10 as the following conditions exist:

- (i) The Scheme has obtained funds for the purpose of providing unitholders with investment management services;
 - (ii) The Scheme's business purpose, which is communicated directly to unitholders, is investing solely for returns from capital appreciation and investment income; and
 - (iii) The performance of investments made through the Scheme are measured and evaluated on a fair value basis.
- The Scheme meets the typical characteristics of an investment entity.

AASB 12 *Disclosure of interests in other entities* and Amendments to AASB 12:

The standard requires entities to disclose significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities. Entities will also be required to provide more disclosures around certain 'structured entities'. The amendments also introduce new disclosure requirements related to investment entities. Adoption of the standard has impacted certain disclosures in the Scheme's annual financial report, but has had no impact to the Scheme's financial position or results of operations.

AASB 127 (revised 2011) *Separate financial statements* and Amendments to AASB 127:

The objective of the standard is to prescribe the accounting and disclosure requirements when an entity prepares separate financial statements. The amendments require an investment entity as defined in AASB 10 to present separate financial statements as its only financial statements in the case where it measures all of its subsidiaries at fair value through profit or loss and to disclose that fact. As a result of the adoption of AASB 127, consolidated financial statements are no longer required to be prepared.

AASB 11 *Joint arrangements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures* and related amendments have also been adopted, however, these standards have had no impact on the scheme.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2013 that would be expected to have a material impact on the Scheme.

The following table summarises the adjustments made to the Scheme's Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income and the Statement of Cash Flows for the period ended 30 June 2013 as a result of the deconsolidation of its subsidiaries due to the early adoption of the investment entity relief.

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

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

	Consolidated (As previously reported)	Adjustments	As restated
	\$	\$	\$
Investment Income			
Interest income	5,079,449	3,651,232	1,428,217
Dividend and distribution income	2,060,886	(2,376,522)	4,437,408
Net change in fair value of investments	28,272,737	(457,220)	28,729,957
Rental Income	644,001	-	644,001
Other Income	401,033	5,000	396,033
Net investment income	36,458,106	822,490	35,635,616
Operating expenses			
Management fees	2,008,170	-	2,008,170
Administration costs	344,328	111,934	232,394
Other expenses	163,548	27,760	135,788
Amortisation of software	104,639	47,794	56,845
Investment property management fees	200,136	-	200,136
Operating expenses before finance costs	2,820,821	187,488	2,633,333
Profit from operating activities	33,637,285	635,002	33,002,283
Finance costs			
Distributions payable to unitholders of the Scheme	(8,061,439)	(699,275)	(7,362,164)
Change in amounts payable to external unitholders of the Scheme	64,273	64,273	-
Change in net assets attributable to unitholders (total comprehensive income)	25,640,119	-	25,640,119

Statement of Financial Position as at 30 June 2013

	Consolidated (As previously reported)	Adjustments	As restated
	\$	\$	\$
Assets			
Cash and cash equivalents	4,936,116	980,445	3,955,671
Trade and other receivables	1,857,675	(986,202)	2,843,877
Financial assets held at fair value through profit and loss	256,096,802	17,821,014	238,275,788
Loans and receivables held at fair value	5,884,517	-	5,884,517
Investment property held at fair value	5,600,000	-	5,600,000
Other assets	243,927	115,504	128,423
Total assets	274,619,037	17,930,761	256,688,276
Liabilities			
Trade and other payables	224,328	13,453	210,875
Distribution payable	3,160,778	479,244	2,681,534
Amount payable to external unitholders of the Scheme	17,438,064	17,438,064	-
Total liabilities excluding net assets attributable to unitholders	20,823,170	17,930,761	2,892,409
Net assets attributable to unitholders	253,795,867	-	253,795,867
Represented by:			
Net assets attributable to unitholders at redemption price	258,006,270	714,026	257,292,244
Amounts payable to unitholders of the scheme	(3,160,778)	(479,244)	(2,681,534)
Adjustments arising from different unit pricing and accounting valuation	(1,049,625)	(234,782)	(814,843)
Total net assets attributable to unitholders	253,795,867	-	253,795,867

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

Statement of Cash Flows for the year ended 30 June 2013

	Consolidated (As previously reported)	Adjustments	As restated
	\$	\$	\$
Cash flows from operating activities			
Interest received	4,797,143	3,098,562	1,698,581
Dividends and distributions received	3,224,823	499,648	2,725,175
Other income received	1,049,871	1,862	1,048,009
Expenses paid	(2,811,065)	(126,240)	(2,684,825)
Net cash provided by operating activities	<u>6,260,772</u>	<u>3,473,832</u>	<u>2,786,940</u>
Cash flows from investing activities			
Proceeds from sale of investments	93,438,168	48,794,490	44,643,678
Payment for other assets	(163,299)	(163,299)	-
Sale proceeds from capital projects	318,095	-	318,095
Loans held at amortised cost repaid	825,895	-	825,895
Loans held at amortised cost granted	(300,000)	-	(300,000)
Purchase of investments	(99,855,309)	(61,727,747)	(38,127,562)
Net cash (used in)/provided by investing activities	<u>(5,736,450)</u>	<u>(13,096,556)</u>	<u>7,360,106</u>
Cash flows from financing activities			
Proceeds from issue of units	22,443,439	7,737,000	14,706,439
Payment of redemption of units	(23,399,783)	(2,190,000)	(21,209,783)
Distributions paid to unitholders	(1,231,783)	(5,112)	(1,226,671)
Net cash used in financing activities	<u>(2,188,127)</u>	<u>5,541,888</u>	<u>(7,730,015)</u>
Net (decrease)/increase in cash and cash equivalents	(1,663,805)	(4,080,836)	2,417,031
Cash at 1 July	6,599,919	5,061,279	1,538,640
Cash at 30 June	<u>4,936,114</u>	<u>980,443</u>	<u>3,955,671</u>

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.

(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.

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

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.

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'.

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

(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.

Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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

(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.

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

(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.

(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
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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 and interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period and have not yet been early adopted by the Scheme. The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

AASB 9 Financial Instruments (2009 or 2010 version), AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures and AASB 2013-9 Amendments to Australian Accounting Standards Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has also now introduced revised rules around hedge accounting. The standard is available for early adoption but management does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. Further, the derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting.

The Scheme has not yet decided when to adopt AASB 9.

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 2 - Issued units

Each unit represents a right to an individual share in the Scheme per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Scheme.

	2014	2013
	Units	Units
On issue at beginning of year	225,592,677	224,187,883
Issued	42,883,393	21,105,659
Redeemed	(11,394,700)	(19,700,865)
On issue at year end	<u>257,081,370</u>	<u>225,592,677</u>

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.

	2014	2013
	\$	As restated \$
Opening balance	253,795,867	226,841,915
Issued	49,570,228	14,706,439
Distributions reinvested	3,119,782	7,817,177
Redeemed	(13,854,080)	(21,209,783)
Change in net assets attributable to unitholders	32,024,561	25,640,119
Total net assets attributable to unitholders	<u>324,656,358</u>	<u>253,795,867</u>

Note 4 - Interest income

Interest income from securities designated at fair value through profit and loss	181,725	1,028,722
Interest income from financial assets carried at amortised cost:		
Cash and cash equivalents	194,551	70,726
Loans and receivables	323,234	328,769
	<u>699,510</u>	<u>1,428,217</u>

Note 5 - Dividend and distribution income

Dividend and distribution income from securities designated at FVTPL	5,158,474	4,437,408
	<u>5,158,474</u>	<u>4,437,408</u>

Note 6 - Gains/(losses) on Financial assets

Unrealised gain/(loss) arising on financial assets designated as at FVTPL		
Equity investments and unit trusts	31,240,561	29,584,575
Fixed interest securities	285,333	(3,327,348)
Change in fair value of investment properties	(150,000)	(785,000)
	<u>31,375,894</u>	<u>25,472,227</u>
Gain/(loss) on the disposal of investments	<u>(401,129)</u>	<u>3,257,730</u>
Net change in fair value of financial assets	<u>30,974,765</u>	<u>28,729,957</u>

Note 7 - Cash and cash equivalents

Cash at bank	19,612,104	3,955,671
Cash on Deposit - Property Manager	3,087	-
	<u>19,615,191</u>	<u>3,955,671</u>

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.

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

	2014	2013 As restated
Note 8 - Trade and other receivables	\$	\$
Interest receivable	104,178	74,482
Rent and other income receivable	22,670	18,392
Dividends and distributions receivable	3,492,601	2,700,006
Applications receivable	47,966	13,563
Other receivables	17,821	37,434
	3,685,236	2,843,877

Note 9 - Financial assets at fair value through profit or loss

Designated at fair value through profit or loss

Equities:

Australian listed	-	250,000
	-	250,000

Unit trusts:

Unlisted	289,491,859	232,901,401
	289,491,859	232,901,401

Interest bearing securities

Government securities	5,159,720	4,912,480
Notes/debt instruments unsecured	-	211,907
	5,159,720	5,124,387

	294,651,579	238,275,788
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The Scheme's accounting policy on fair value measurements is discussed in note 1(b).

Note 10 - Loans and receivables held at amortised cost

Loans to other entities - secured (i)	2,735,779	4,134,517
Term deposits	1,000,000	1,750,000
	3,735,779	5,884,517

(i) The Scheme holds loans to external parties secured by first mortgages. The weighted average interest rate on these loans is 7.53% per annum (2013: 7.98% per annum). The loans have maturity dates ranging between 1 and 13 years from the end of the reporting period.

Note 11 - Investment properties

Commercial property at fair value	5,450,000	5,600,000
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At Fair Value

Opening balance at 1 July	5,600,000	6,385,000
Net loss on property revaluation	(150,000)	(785,000)
Closing balance at 30 June	5,450,000	5,600,000

(a) Amounts recognised in profit and loss for investment property

Rental income	623,392	644,001
Recoverable expenses income	20,609	-
Direct operating expenses from property that generate income	(198,620)	(200,136)
	445,381	443,865

(b) Valuation basis

Property investments are investments in properties which are held either to earn rental income or for capital appreciation or for both. Property investments are carried at fair value. An external valuation company, having an appropriately recognised professional qualification and recent experience in the location and category of property being valued, values the investment properties annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller, in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 11 - Investment properties - continued

(b) Valuation basis - continued

Both investment properties have been independently valued during the period by CBRE and Jones Lang LaSalle (the "valuers") (2013: CBRE and Jones Lang LaSalle), independent valuers not related to the Group, and the directors are of the view that these valuations reflect the fair value of the properties at 30 June 2014. The valuations conducted by CBRE and Jones Lang LaSalle have been made on the basis of fair value, using the capitalised rate and a blended valuation method. The capitalisation rate utilised for the 30 June 2014 valuations was 8.50% to 9.00% (30 June 2013: 8.75 to 9.00%). Valuers CBRE and Jones Lang LaSalle are both members of the Institute of Valuers of Australia. Valuations reflect, where appropriate, the type of tenants, future rent reviews and market conditions. Any change in any of these factors could have a significant impact on the value of the Scheme's property investments. Any gain or loss from a change in fair value is recognised in the Statement of Profit or Loss and Other Comprehensive Income. All property acquisition costs in respect of properties acquired are capitalised into the value of the property investments at the time of purchase to reflect the total acquisition cost in the Statement of Financial Position. Additions and other expenditure on property investments which are capital in nature are capitalised as incurred.

(c) Leasing arrangements

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	2014	2013
	\$	\$
Within one year	673,291	653,710
Later than one year but not later than 5 years	1,426,875	1,651,214
	2,100,166	2,304,924

Operating leases relate to the investment property owned by the Scheme with lease terms of between 3 to 5 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Note 12 - Other assets

Capitalised project costs	75,282	128,423
	75,282	128,423

Capitalised project costs

At cost

Balance as at 1 July	345,179	663,274
Disposals	-	(318,095)
Balance as at 30 June	345,179	345,179

Accumulated amortisation and impairment

Balance as at 1 July	216,757	159,912
Amortisation	53,140	56,845
Balance as at 30 June	269,897	216,757

Note 13 - Trade and other payables

Other payables	220,889	210,875
	220,889	210,875

Note 14 - Distributions paid and payable

Distributions paid during the year	864,016	4,680,630
Distributions payable	2,335,820	2,681,534
	3,199,836	7,362,164

The Scheme paid an interim distribution of 0.37 cents per unit (2013: 2.09 cents per unit) and a year end distribution of 0.91 cents per unit (2013: 1.19 cents per unit).

Note 15 - Auditors' remuneration

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.

Financial statements audit fees	28,300	25,000
Compliance plan audit	3,425	2,375
	31,725	27,375

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 16 - Reconciliation of profit for the period to net cash provided by operating activities

	2014	2013
	\$	As restated \$
Net profit from operating activities	35,224,397	33,002,283
Adjustments for:		
Net losses/(gains) on disposal of investments	401,129	(3,257,730)
Net gains on revaluation of investments	(31,375,894)	(25,472,227)
Amortisation of project costs	53,140	56,845
Changes in assets and liabilities:		
Increase in income and other receivables	(806,956)	(1,433,671)
Increase/(decrease) in other payables	10,014	(108,560)
Net cash provided by operating activities	3,505,830	2,786,940

Non-cash financing and investing activities

During the year income distributions totalling \$3,119,782 (2013: \$7,817,177) were reinvested by unitholders for additional units in the Scheme.

Note 17 - Related party disclosures

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

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

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:

Phil Vernon
 Kate Greenhill
 Stephen Gibbs
 Mara Bun
 Tony Cole
 Stephen Newnham (ceased 26 July 2013)
 André Morony (ceased 20 November 2013)

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly and indirectly during or since the end of the financial year.

During the year the following amounts were paid to the Responsible Entity in accordance with the Scheme's Constitution. Percentage rate of fees charged did not change from 30 June 2013.

Management fees (1.90% of Net Assets)	1,514,153	2,008,170
Administration fees (0.438% of Net Assets)	486,440	232,394
Reimbursable expenses	-	2,499
	2,000,593	2,243,063

Fees payable to the Responsible Entity at 30 June 2014 were \$194,683 (2013: \$177,828).

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733), a subsidiary of AEIL, is the Trustee of the Australian Ethical Retail Superannuation Fund (AERSF). Transactions with the AERSF are undertaken on commercial terms and conditions.

Transactions between AERSF and the Scheme during the financial year were:

AERSF purchase of units	42,506,559	17,959,497
AERSF sale of units	3,059,000	8,469,000
Value of units held by AERSF	241,378,836	179,012,377
Distribution payments to AERSF	2,510,059	3,249,321
Distribution payable to AERSF	1,736,557	1,891,372

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 17 - Related party disclosures - continued

	2014	2013
	Units	Units
Units purchased by AERSF	34,558,951	7,755,282
Units sold by AERSF	2,550,396	16,837,566

	2014	2013
	%	%
Percentage of units held by Australian Ethical Superannuation Fund	74.34%	70.53%

Transactions between the Schemes where AEIL is the Responsible Entity during the financial year were:

	2014	2013
	\$	As restated \$
Units purchased in Australian Ethical Fixed Interest Trust	23,739,647	27,541,854
Units sold in Australian Ethical Fixed Interest Trust	-	2,500,000
Value of units held in Australian Ethical Fixed Interest Trust	94,051,732	68,520,344
Distribution receipts from Australian Ethical Fixed Interest Trust	3,114,647	1,004,932
Distribution receivable from Australian Ethical Fixed Interest Trust	1,912,642	1,871,238
Units purchased in Australian Ethical International Equities Trust	2,582,000	950,000
Units sold in Australian Ethical International Equities Trust	-	-
Value of units held in Australian Ethical International Equities Trust	46,719,566	35,057,756
Units purchased in Australian Ethical Larger Companies Trust	10,262,363	-
Units sold in Australian Ethical Larger Companies Trust	-	-
Value of units held in Australian Ethical Larger Companies Trust	115,558,078	87,981,758
Distribution receipts from Australian Ethical Larger Companies Trust	596,085	459,191
Distribution receivable from Australian Ethical Larger Companies Trust	557,709	483,722
Value of units held in Australian Ethical Property Trust	5,217,817	16,122,085
Return of Capital receipts from Australian Ethical Property Trust	10,936,446	-
Units purchased in Australian Ethical Smaller Companies Trust	101,468	-
Units sold in Australian Ethical Smaller Companies Trust	-	4,000,000
Value of units held in Australian Ethical Smaller Companies Trust	26,711,575	23,851,085
Distribution receipts from Australian Ethical Smaller Companies Trust	446,513	167,574
Distribution receivable from Australian Ethical Smaller Companies Trust	1,022,250	345,046

	2014	2013
	Units	Units
Units purchased in Australian Ethical Fixed Interest Trust	23,230,027	26,925,421
Units sold in Australian Ethical Fixed Interest Trust	-	2,438,311

Units purchased in Australian Ethical International Equities Trust	2,962,845	16,518,843
Units sold in Australian Ethical International Equities Trust	-	-

Units purchased in Australian Ethical Larger Companies Trust	5,409,743	-
Units sold in Australian Ethical Larger Companies Trust	-	-

Units purchased in Australian Ethical Smaller Companies Trust	50,311	-
Units sold in Australian Ethical Smaller Companies Trust	-	2,368,360

	2014	2013
	%	%
Percentage of units held in Australian Ethical Fixed Interest Trust	77.46%	79.61%
Percentage of units held in Australian Ethical International Equities Trust	33.19%	37.15%
Percentage of units held in Australian Ethical Larger Companies Trust	42.39%	47.06%
Percentage of units held in Australian Ethical Property Trust	49.31%	49.06%
Percentage of units held in Australian Ethical Smaller Companies Trust	8.76%	9.22%

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 18 - Financial risk management and financial instruments

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including operational risk, market risk, credit risk and liquidity risk.

This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risks and the management of unitholder funds.

	2014	2013
(a) Categories of financial instruments		As restated
<i>Financial assets</i>	\$	\$
Fair value through profit or loss (FVTPL)		
Designated at FVTPL	294,651,579	238,275,788
Cash and cash equivalents	19,615,191	3,955,671
Loans and receivables held at amortised cost	3,735,779	5,884,517
Trade and other receivables	3,685,236	2,843,877
	321,687,785	250,959,853
<i>Financial liabilities</i>		
Other financial liabilities		
Trade and other payables	220,889	210,875
Distribution payable	2,335,820	2,681,534
Amounts payable to unitholders	324,656,358	253,795,867
	327,213,067	256,688,276

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Responsible Entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The objective of the Responsible Entity of the Fund is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(c) Financial risk management objectives

The Scheme 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 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.

(d)(i) 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. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Scheme manages this risk via outsourcing its investment management; 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 it may also invest in derivative instruments such as futures and options. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

(d)(ii) Interest rate risk management

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

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

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 18 - Financial risk management and financial instruments - continued

(d)(ii) Interest rate risk management - continued

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate 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 interest rates by 100 basis points (2013: 100 basis points). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance sheet 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 balance date, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2014	2013
	\$	As restated \$
Increase in interest rate by 1%	1,786,376	149,646
Decrease in interest rate by 1%	(1,786,376)	(149,646)

(d)(iii) Price risk

Price 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 has investments in equity instruments and unlisted unit trusts 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% (2013: 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 balance date, 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:

Increase in market prices by 10%	29,465,158	23,827,579
Decrease in market prices by 10%	(29,465,158)	(23,827,579)

(e)(i) Credit risk management

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is 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 2014 (2013: AA-). No financial assets carried at amortised cost were past due or impaired at 30 June 2014 (2013: nil).

No financial assets carried at amortised cost were impaired at 30 June 2014 (2013: nil). One loan is past due with a face value of \$395,000.

The maximum credit risk exposure 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.

Cash and cash equivalents	19,615,191	3,955,671
Trade and other receivables	3,685,236	2,843,877
Loans and receivables at amortised cost	3,735,779	5,884,517
Interest bearing securities	5,159,720	5,124,387
	32,195,926	17,808,452

(e)(ii) Investments in debt securities

At 30 June the Scheme was invested in debt securities with the following credit quality ratings:

	2014	2013
Rating	%	%
AAA/ AA	64%	2%
A	3%	0%
BBB	0%	0%
Not-rated	33%	98%
	100%	100%

Australian Ethical Balanced Trust

Notes to the Financial Statements for the year ended 30 June 2014

Note 18 - Financial risk management and financial instruments - continued

(g) 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.

	2014			
	Level 1	Level 2	Level 3	TOTAL
	\$	\$	\$	\$
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss				
Equities				
Australian listed	-	-	-	-
Unit trusts				
Unlisted	-	289,491,859	-	289,491,859
Interest bearing securities				
Government Securities	5,159,720	-	-	5,159,720
Notes/debt instruments unsecured	-	-	-	-
TOTAL	5,159,720	289,491,859	-	294,651,579

	2013			
	As restated			
	Level 1	Level 2	Level 3	TOTAL
	\$	\$	\$	\$
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss				
Equities				
Australian listed	250,000	-	-	250,000
Unit trusts				
Unlisted	-	232,901,401	-	232,901,401
Interest bearing securities				
Government Securities	4,912,480	-	-	4,912,480
Notes/debt instruments unsecured	-	211,907	-	211,907
TOTAL	5,162,480	233,113,308	-	238,275,788

During the year there were no transfers between levels.

Australian Ethical Balanced Trust

Note 21 - Events subsequent to the reporting date

The Australian and international markets remain relatively volatile, and this impacts the valuation of the Scheme's investment portfolio. As the investments are measured at their 30 June 2014 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However the volatility in value of investments has been reflected in the current unit price.

Except as outlined above, 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.

Note 22 - Contingencies

There are no contingent assets or liabilities as at 30 June 2014 (2013: Nil)

Australian Ethical Balanced Trust

Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Balanced Trust (the "Scheme"):

(a) The annual financial statements and notes that are set out on pages 3 to 24 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 2014 and of its performance for the financial year ended on that date; and
- ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 Financial Reporting Standards.

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



Phil Vernon
Managing Director
Australian Ethical Investment Limited
26 September 2014



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 Balanced Trust:

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

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Karen Hopkins
Partner

Sydney
26 September 2014



Independent auditor's report to the unitholders of the Australian Ethical Balanced Trust

Report on the financial report

We have audited the accompanying financial report of Australian Ethical Balanced Trust ('the Scheme'), which comprises the statement of financial position as at 30 June 2014, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 22 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 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 financial report is free from material misstatement.

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

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



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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Australian Ethical Balanced Trust is 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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Kepkin

Karen Hopkins
Partner

Sydney
26 September 2014