Australian Ethical International Equities Trust (AEIET)

ARSN 124 861 338

Annual Financial Report for the year ended 30 June 2013

Australian Ethical International Equities Trust

Annual Financial Report for the year ended 30 June 2013

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Directors' Report
For the year ended 30 June 2013

Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical International Equities Trust ("AEIET" or the "Scheme") presents its directors' report together with the audited financial statements of the Scheme 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 diversified portfolios of securities, in accordance with their 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 portfolio of international companies on the basis of their social, environmental and financial credentials and that may not be available locally. 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 year's operations
Overview
For the year ended 30 June 2013, 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. These returns are calculated in accordance with FSC Standard 6 Product Performance-Calculation of Return. The Scheme achieved a total return of 32.3% (2012: -18.1%) for the financial year.

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.

Directors' Report
For the year ended 30 June 2013

Net Assets
The value of the Scheme's net assets attributable to unitholders as at 30 June 2013 was $94,359,945 (30 June 2012: $65,711,329).

Likely developments
The Responsible Entity continually reviews the Scheme it manages 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.

Related party disclosures
Fees paid to the Responsible Entity and its associates out of Scheme assets is shown in note 14 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 22 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 International Equities Trust

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

	Note	2013	2012
		$	$
Investment income			
Interest income	4	**76,864**	208,309
Dividend income	5	**1,132,681**	1,593,339
Net change in fair value of financial assets	6	**22,068,082**	(18,159,613)
Other income		**67,476**	55,972
Net investment income/(loss)		**23,345,103**	(16,301,993)
Operating expenses			
Management fees	14	**970,856**	1,094,112
Administration costs		**357,423**	328,836
Operating expenses before finance costs		**1,328,279**	1,422,948
Profit/(loss) from operating activities		**22,016,824**	(17,724,941)
Finance costs			
Distributions paid and payable to unitholders of the Scheme		**-**	-
Net profit attributable to unitholders		**22,016,824**	(17,724,941)

The accompanying notes form part of these financial statements.

Australian Ethical International Equities Trust

Statement of Financial Position as at 30 June 2013

	Note	2013 $	2012 $
Assets			
Cash and cash equivalents	7	**1,394,241**	1,933,636
Trade and other receivables	8	**190,132**	286,682
Financial assets held at fair value through profit and loss	9	**92,766,408**	63,339,620
Other assets	10	**140,281**	297,932
Total assets		**94,491,062**	65,857,870
Liabilities			
Trade and other payables	11	**131,117**	146,541
Total liabilities		**131,117**	146,541
Net assets attributable to unitholders	3	**94,359,945**	65,711,329
Represented by:			
Net assets attributable to unitholders at redemption price		**94,481,199**	65,776,557
Adjustments arising from different unit pricing and accounting valuation		**(121,254)**	(65,228)
Total net assets attributable to unitholders	3	**94,359,945**	65,711,329

The accompanying notes form part of these financial statements.

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 have been presented for the current or comparative year.

Australian Ethical International Equities Trust

Statement of Cash Flows for the year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Interest received		**76,864**	395,560
Dividends received		**1,146,250**	1,434,201
Other income received		**50,830**	527,800
Expenses paid		**(1,277,027)**	(1,625,352)
Net cash (used in)/provided by operating activities	13	**(3,083)**	732,209
Cash flows from investing activities			
Proceeds from sale of investments		**52,046,329**	52,579,365
Proceeds from disposal of capital projects		**98,123**	-
Purchase of investments		**(59,312,555)**	(41,416,779)
Net cash (used in)/provided by investing activities		**(7,168,103)**	11,162,586
Cash flows from financing activities			
Proceeds from issue of units		**11,823,355**	29,500,000
Payment of redemption of units		**(5,191,563)**	(43,595,778)
Net cash provided by/(used in) by financing activities		**6,631,792**	(14,095,778)
Net decrease in cash and cash equivalents		**(539,395)**	(2,200,983)
Cash and cash equivalents at 1 July		**1,933,636**	4,134,619
Cash and cash equivalents at 30 June	7	**1,394,241**	1,933,636

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

The Australian Ethical International Equities Trust ("AEIET" or the "Scheme") is a registered managed investment scheme under the Corporations Act 2001. The Scheme is a for profit entity. 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 schemes comply 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, 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 IFRS 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.

Accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents consists of the balances nominated in Australian Dollars and foreign currencies and is interest bearing at variable rates.

(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.

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

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued

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 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, 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; and
• quoted 'bid' prices on long securities and quoted 'ask' prices on securities sold short.

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.

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

Note 1 - Statement of significant accounting policies - continued

(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 Profit or Loss and Other 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 on 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 using the effective interest rate method. 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.

(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.

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

Note 1 - Statement of significant accounting policies - continued

(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 "Financial Instruments: Presentation", 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 returned 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 return the units 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 Other 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

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.

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

Note 1 - Statement of significant accounting policies -continued

(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.

(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 Trust 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

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

Note 2 - Number of 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.

	2013 Units	2012 Units
On issue at beginning of year	**122,561,131**	149,113,680
Issued	**20,295,595**	52,672,471
Redeemed	**(9,699,536)**	(79,225,020)
On issue at year end	**133,157,190**	122,561,131

Note 3 - Net assets attributable to unitholders

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

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

	2013 $	2012 $
Opening balance	**65,711,329**	97,532,048
Issued	**11,823,355**	29,500,000
Redeemed	**(5,191,563)**	(43,595,778)
Change in net assets attributable to unitholders	**22,016,824**	(17,724,941)
Total net assets attributable to unitholders	**94,359,945**	65,711,329

Note 4 - Interest income

Cash and cash equivalents	**76,864**	208,309
	76,864	208,309

Note 5 - Dividend income

Dividend income from securities designated at fair value through profit and loss	**1,132,681**	1,593,339
	1,132,681	1,593,339

Note 6 - Gains/(losses) on Financial assets

Unrealised gain/(loss) arising on financial assets designated as at FVTPL:		
International equities	**26,756,737**	783,208
Realised gain/(loss) arising on financial assets designated as at FVTPL:		
Gain/(loss) on the disposal of investments	**(4,688,655)**	(18,942,821)
Total realised and unrealised gains/(losses) on financial assets	**22,068,082**	(18,159,613)

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

Note 7 - Cash and cash equivalents

	2013 $	2012 $
Cash at bank - Domestic	**1,189,167**	874,576
Cash at bank - Foreign currency	**205,074**	1,059,060
	1,394,241	1,933,636

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.

Note 8 - Trade and other receivables

	2013 $	2012 $
Dividend receivable	**147,683**	161,251
Investment sales	**-**	99,457
Other debtors	**42,449**	25,974
	190,132	286,682

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

	2013 $	2012 $
Designated at fair value through profit or loss		
Equities - International listed	**92,766,408**	63,339,125
Held for trading		
Held for trading - Foreign currency options	**-**	495
	92,766,408	63,339,620

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

Note 10 - Other assets

	2013 $	2012 $
Capitalised project costs	**140,281**	297,932
	140,281	297,932
Capitalised project costs		
At cost		
Balance as at 1 July	**393,233**	341,026
Additions	**-**	52,207
Disposals	**98,123**	-
Balance as at 30 June	**295,110**	393,233
Accumulated amortisation and impairment		
Balance as at 1 July	**95,300**	6,600
Depreciation	**59,529**	88,700
Balance as at 30 June	**154,829**	95,300

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

	2013	2012
	$	$

Note 11 - Trade and other payables

Trade payables and sundry creditors	**131,117**	145,378
Investment purchases	**-**	1,163
	131,117	146,541

Note 12 - 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. In the 2012 year audit fees were paid directly by the Scheme.

Financial statement audit fees	**10,000**	16,775
Compliance plan audit	**2,375**	1,334
	12,375	18,109

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

Note 13 - Reconciliation of profit for the period to net cash provided by operating activities

Net profit/(loss) from operating activities	**22,016,824**	(17,724,941)
Adjustments for:		
Net losses on disposal of investments	**4,688,655**	18,942,821
Net gains on revaluation of investments	**(26,756,737)**	(783,208)
Amortisation of capital costs	**59,529**	140,907
Changes in assets and liabilities:		
Decrease in trade and other receivables	**2,907**	269,939
Decrease in trade and other payables	**(14,261)**	(113,309)
Net cash (used)/provided by operating activities	**(3,083)**	732,209

Note 14 - 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.

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

Management fees	**970,856**	1,094,112
Accounting fees (reimbursable)	**202,581**	92,160
Reimbursable expenses	**860**	9,842
	1,174,297	1,196,114

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

Note 14 - Related party disclosures - continued

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

Australian Ethical Retail Superannuation Fund sale of units	**879,028**	221,500
Australian Ethical Retail Superannuation Fund purchase of units	**1,066,000**	2,775,000
Value of units held by Australian Ethical Retail Superannuation Fund	**7,842,255**	5,826,624

Transactions between the Schemes during the financial year were:

	2013 Units	2012 Units
Units sold by Australian Ethical Balanced Trust	**-**	35,180,299
Units purchased by Australian Ethical Balanced Trust	**16,518,843**	12,157,281
Units sold by Australian Smaller Companies Trust	**4,863,427**	34,097,389
Units purchased by Australian Ethical Smaller Companies Trust	**-**	-
Units sold by Australian Ethical Larger Companies Trust	**2,776,519**	8,755,556
Units purchased by Australian Ethical Larger Companies Trust	**1,595,151**	35,180,299

	2013 $	**2012 $**
Australian Ethical Balanced Trust sale of units	**-**	20,000,000
Australian Ethical Balanced Trust purchase of units	**9,500,000**	6,500,000
Value of units held by Australian Ethical Balanced Trust	**35,057,756**	17,649,508
Australian Ethical Smaller Companies Trust sale of units	**2,542,600**	18,200,000
Australian Ethical Smaller Companies Trust purchase of units	**-**	-
Value of units held by Australian Ethical Smaller Companies Trust	**-**	2,607,426
Australian Ethical Larger Companies Trust sale of units	**1,500,000**	4,740,000
Australian Ethical Larger Companies Trust purchase of units	**1,000,000**	20,000,000
Value of units held by Australian Ethical Larger Companies Trust	**49,226,640**	37,878,639

Note 15 - Financial risk management and financial instruments

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including 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.

(a) Categories of financial instruments

Financial assets		
Cash and bank balances	**1,394,241**	1,933,636
Investments - Designated at FVTPL	**92,766,408**	63,339,620
Trade and other receivables	**190,132**	286,682
	94,350,781	65,559,938
Financial liabilities		
Trade and other payables	**131,117**	146,541
Amounts payable to unitholders	**94,359,945**	65,711,329
	94,491,062	65,857,870

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

Note 15 - Financial risk management and financial instruments - continued

(b) 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 oversee 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 international listed stocks 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.

(c)(ii) Foreign currency risk management

The Scheme can invest in financial instruments and enter into transactions that are denominated in currencies other than its functional currency. Consequently, the Scheme is exposed to risk that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of the Scheme's financial assets or liabilities denominated in currencies other than Australian dollar.

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.

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 market prices with all other variables remaining constant would be as follows:

	2013	2012
	$	$
Assets		
EUR	**9,088,590**	6,292,693
USD	**48,131,728**	35,565,110
GBP	**7,233,012**	5,820,426
CAD	**3,185,596**	2,014,403
Other	**25,332,557**	14,645,553
Total	**92,971,482**	64,338,185

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

Note 15 - Financial risk management and financial instruments - continued

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

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 exchanges 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.

		2013	**2012**
Currency	FX Exposure	**$**	$
+5% AUD v's	All currencies	**(4,648,574)**	(3,166,958)
-5% AUD v's	All currencies	**4,648,574**	3,166,958

(c)(iii) 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.

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. 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 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%	**13,942**	19,336
Decrease in interest rate by 1%	**(13,942)**	(19,336)

(c)(iv) 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 can have investments in equity instruments 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.

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

	2013	2012
	$	$
Increase in interest rate by 10%	**9,276,641**	6,333,962
Decrease in interest rate by 10%	**(9,276,641)**	(6,333,962)

The methods and assumptions used to prepare the sensitivity analysis remain unchanged from the prior year.

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

Note 15 - Financial risk management and financial instruments - continued

(d) 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 minimize 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 amortized 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.

Cash and cash equivalents	**1,394,241**	1,933,636
Trade and other receivables	**190,132**	286,682
Total	**1,584,373**	2,220,318

(e) Liquidity risk management
Liquidity risk is the risk that the Scheme will encounter difficulty in realizing 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 realize 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.

Note 15 - Financial risk management and financial instruments - continued

(e) Liquidity risk management - continued

Financial instrument composition and maturity analysis

	2013					
	Weighted average	**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**	**1,394,241**	**-**	**-**	**-**	**1,394,241**
Non-interest bearing						
Trade receivables	**N/A**	**190,132**	**-**	**-**	**-**	**190,132**
Financial assets	**N/A**	**92,766,408**	**-**	**-**	**-**	**92,766,408**
Total financial assets		**94,350,781**	**-**	**-**	**-**	**94,350,781**
Non-interest bearing						
Trade and other payables	**N/A**	**131,117**	**-**	**-**	**-**	**131,117**
Amounts payable to unitholders	**N/A**	**94,359,945**	**-**	**-**	**-**	**94,359,945**
Total financial liabilities		**94,491,062**	**-**	**-**	**-**	**94,491,062**

	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	1,933,636	-	-	-	1,933,636
Non-interest bearing						
Trade receivables	N/A	286,682	-	-	-	286,682
Financial assets	N/A	63,339,620	-	-	-	63,339,620
Total financial assets		65,559,938	-	-	-	65,559,938
Non-interest bearing						
Trade and other payables	N/A	146,541	-	-	-	146,541
Amounts payable to unitholders	N/A	65,711,329	-	-	-	65,711,329
Total financial liabilities		65,857,870	-	-	-	146,541

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

Note 15 - 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.

	2013			
	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 - International listed	**92,766,408**	**-**	**-**	**92,766,408**
TOTAL	**92,766,408**	**-**	**-**	**92,766,408**

	2012			
	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 - International listed	63,339,125	-	-	63,339,125
Derivatives - Currency options	495	-	-	495
TOTAL	63,339,620	-	-	-

Note 16 - 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, the results of its operations, or the state of affairs of the scheme, in future financial years.

Note 17 - Contingencies

There are no contingent assets or liabilities as at 30 June 2013 (2012: Nil).

Directors' Declaration

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

(a) The financial statements and notes that are set out on pages 3 to 20 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 Financial Reporting Standards.

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 International Equities 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

KPMG

Karen Hopkins
Partner

Sydney
30 September 2013

KPMG

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

Report on the financial report

We have audited the accompanying financial report of the Australian Ethical International Equities 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 17 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 Scheme'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 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 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 International Equities 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 2013 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

Karen Hopkins
Partner

Sydney
30 September 2013