

28 February 2017

Australian Ethical reports strong underlying growth for half year

Membership, net inflows and FUM increase by more than 30%

Financial highlights (all comparisons to half year ended 31 December 2015):

- Net profit after tax attributable to shareholders \$0.564m (2015: \$1.501m down 62%)
- Consolidated statutory net profit after tax of \$0.569m
- Underlying profit after tax (UPAT) of \$2.3 m (up 52%)
- Revenues of \$13.3 m (up 22%)
- Operating expenses of \$10.1m (up 19%)
- Interim ordinary dividend of 50 cents per share, fully franked

Operating highlights:

- Net profit impacted by \$2.2m cost of remediating unit pricing error
- Group funds under management of \$1.84bn (up 31%)
- Net inflows of \$209m (up 35%)
- Superannuation membership at 30,535 members (up 30%)
- Continued above benchmark performance for our flagship *Australian Shares* fund

Australian Ethical Investments (ASX: AEF) today announced its financial results for the half year ended 31 December 2016, reporting a decrease in net profit after tax attributable to shareholders of 62% to \$0.564m when compared to the prior corresponding period.

The consolidated statutory net profit after tax was \$0.569m (2015 restated: \$1.701m) which includes the results of the Australian Ethical Foundation Limited.

Results were impacted by remediation and project costs associated with a unit pricing error in our superannuation fund as well as employment restructure expenses. Underlying profit after tax was \$2.3m, up 52% compared with the prior corresponding period.

Half year revenue increased 22% to \$13.3 million, up from the \$10.9 million recorded for the previous corresponding period.

Funds under management (FUM) for the half year lifted 31% to \$1.84 billion, up from \$1.40 billion reported for the same period in 2015.

The increase was driven by significant member growth, net inflows and positive investment performance. Membership of Australian Ethical Super has grown 30 per cent from the previous corresponding period to 30,535.

“Increasing awareness of ethical investment and our investment in targeted marketing helped us set new records in our super fund. In the six months to 31 December 2016, Australian Ethical Super averaged 812 new members per month, which is approaching double the rate of new membership in the corresponding period in 2015. In November, we set a new monthly record of 993 new members,” said Australian Ethical Managing Director Phil Vernon.

“Our company continues to experience tremendous growth as we head towards \$2 billion in funds under management. Underlying profit after tax was \$2.3m, up 52% compared with the prior corresponding period. We’re clearly demonstrating that ethical investing has truly come of age and can deliver strong investment returns while having a positive impact on our planet,” he said.

“The past year has seen extraordinary global developments including the outcome of the Brexit vote and the new administration in the US. Rather than seeing these world events as an impediment to business growth, we believe the rise of the conscious consumer means people will be galvanised to take more direct action with their consumption and investing choices as they become frustrated and disillusioned with the political situation,” said Phil.

Unit price remediation

As previously reported, our results for the period have been impacted by remediation and project costs relating to unit pricing errors affecting our superannuation fund.

The error was identified by management in June 2016 and a provision was made in the financial year ended 30 June 2016. Following identification of the error we appointed independent actuaries (Deloitte Consulting Pty Ltd) to investigate the error and its causes. The investigation was completed at the end of the 2016 calendar year and the remediation of member accounts is on track to be completed by 31 March 2017. Our approach is to put members back into the position that they would have been in had the error not occurred.

The total impact of remediation was:

Item	Year ended 30 June 2016 (\$,000)	This period (\$,000)	Total (\$,000)
Member remediation	900	1,045	1,945
Project costs	-	1,160	1,160
Total	900	2,205	3,105

In order to minimise the chances of such an error reoccurring we have increased our resources in key operational, risk and compliance roles. As a result, shareholders should expect an increase in staff expenses over the coming year. This is a step-change strengthening of our support infrastructure to ensure that we keep ahead of our growth.

The impact of the remediation and employment restructure on net profit was:

Key financials	Half year to 31 Dec 2015 (\$,000)	Half year to 31 Dec 2016 (\$,000)	Change (%)
Net profit after tax attributable to shareholders	1,501	564	(62%)
Adjustments (gross)			
Add back employment restructure	-	250	
Add back unit price remediation expense	-	1,045	
Add back unit price remediation project costs	-	1,160	
Tax on adjustments	-	(737)	
Underlying profit after tax (UPAT)^	1,501	2,282	52%

^This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

Australian Ethical Foundation Limited ('the Foundation')

The Foundation was established in July 2015 as a vehicle to manage the portion of profits to be distributed to charitable, benevolent and conservation causes under the Australian Ethical Constitution. Utilising a vehicle such as the Foundation provides more flexibility.

This is the first period in which the Foundation has been consolidated. Prior period balances have been restated accordingly. Net profits within the Foundation are not available to shareholders.

A summary of the profits of the group are:

	2016 (\$m)	2015 (\$m)
Consolidated statutory profit	0.569	1.701
Profit attributable to The Foundation	0.005	0.200
Net profit after tax attributable to shareholders	0.564	1.501

Interim dividend

The Board declared an interim fully franked dividend of 50 cents per share for the six months ended 31 December 2016. The record date for the dividend will be 10 March 2017 and payment due on 24 March 2017.

About Australian Ethical

Australian Ethical is Australia's leading ethical wealth manager. Since 1986, Australian Ethical has provided investors with wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which both shapes its ethical approach, and underpins the Company's culture and vision.

Australian Ethical has \$1.84 billion in funds under management across superannuation and managed funds.

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Media inquiries: Rebecca Piercy, Honner: 0422 916 422