

Appendix 4D (Rule 4.2A.3)

Financial statements for the half-year ended 31 December 2014

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to half-year ended 31 December 2013)

	\$ A	Up / Down	% Movement
Revenues from ordinary activities	9,858,644	up	1%
Net profit after tax from ordinary activities (including significant items)	552,725	down	-55%
Underlying net profit after tax (excluding significant items)	965,225	down	-32%
Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking level
Final 2014 dividend per share (paid 3 October 2014)	120.0	120.0	100%
Interim 2015 dividend per share (to be paid 27 March 2015)	80.0	80.0	100%
Interim dividend dates			
Ex-dividend date	27 February 2015		
Record date	13 March 2015		
Payment date	27 March 2015		
The Company's Dividend Reinvestment (DRP) will not operate in respect to the interim dividend.			
	31 Dec 2014	31 Dec 2013	
Net tangible assets per security	\$8.76		\$8.34

This information should be read in conjunction with the 2014 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4D disclosure requirements can be found in the Directors' Report and the 31 December 2014 half-year financial statements.

This report is based on the consolidated 2014 half-year financial statements of Australian Ethical Investment Limited which have been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the 31 December 2014 half-year financial statements.

**Australian Ethical Investment Limited
and its Controlled Entity**

ABN 47 003 188 930

**Interim Consolidated Financial Report
for the half-year ended 31 December 2014**

Australian Ethical Investment Limited and its Controlled Entity

ABN 47 003 188 930

Interim Consolidated Financial Report for the half-year ended 31 December 2014

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Australian Ethical Investment Limited and its Controlled Entity during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

The Directors of Australian Ethical Investment Limited (the "Company") present their report together with the interim consolidated financial statements for the six months ended 31 December 2014 and the review report thereon.

Directors

The following persons held office as Directors of the Company during or since the end of the financial period:

Stephen Gibbs (Chair and Non-Executive Director) (appointed 25 July 2012)
Mara Bun (Non-Executive Director) (appointed 4 February 2013)
Tony Cole (Non-Executive Director) (appointed 4 February 2013)
Kate Greenhill (Non-Executive Director) (appointed 22 February 2013)
Phil Vernon (Managing Director and Chief Executive Officer) (appointed 27 July 2010)

Review of operations

For the six months to 31 December 2014, Australian Ethical reported a net profit after tax of \$552,725 compared to the net profit after tax for the six months to 31 December 2013 of \$1,215,753 and net profit after tax for the six months to 30 June 2014 of \$1,326,773.

In looking at the consolidated entity's performance for the six months to 31 December 2014, the following are the key points:

Funds Under Management and Revenue

- Funds under management increased by \$151.3m since 30 June 2014, \$74.2m due to market movements in addition to net inflows of \$77.1m. Funds under management as at 31 December 2014 was \$1,038.5m.
- Net inflows of \$77.1m are made up of net inflows of \$60.1m (up from \$49.6m in the prior 6 months) into our superannuation fund and net inflows of \$17.0m into our managed funds (\$6.8m net outflow in the prior 6 months). The improvement in flows is a result of increased brand awareness for Australian Ethical and a targeted effort to encourage members to rollover their superannuation balances from other funds.
- Revenues for the six months to 31 December 2014 increased by \$0.11m over the six months to 31 December 2013 as a result of increased funds under management offset by fee reductions which were introduced on 30 June 2014. We have been progressively reducing fees on our superannuation product to be more competitive and to make our business more sustainable.

Expenses

Operating expenses for the six months to 31 December 2014 increased by \$1.09m, an increase of 16% over the six months to 31 December 2013. Total expenses have increased by \$0.78m (9%) over the same period.

- *Employee benefits expense* - staff costs have increased by \$440,941 or 12% over the prior corresponding period. This has been impacted by:
 - Increased bonuses due to Key Performance Indicators being met, recognising the growth in FUM and excellent performance.
 - An adjustment to correct an underaccrual in bonuses related to the prior period reflecting the outstanding performance of the prior period.
 - Timing impacts of transitioning to our new remuneration model, in particular 50% of the prior year STI under the old remuneration scheme was deferred until this reporting period. Under the new remuneration model, the estimated STI is fully expensed within the financial reporting period it relates to.

Base remuneration and incentive payments are set with reference to research on market salaries to remunerate fairly, motivate and retain good staff.

Australian Ethical Investment Limited and its Controlled Entity
Directors' Report
For the half-year ended 31 December 2014
(continued)

Review of operations (continued)

Expenses (continued)

- *Marketing and communication costs* have increased by \$118,347 (37%) over the prior corresponding period due to increased spend to support the growth in inflows.
- *Fund related expenses* have increased by \$176,486 (14%) over the comparative six month period reflecting the increasing funds under management and number of customers.

Community Grants

- \$103,812 has been provisioned for payment to charitable and conservation organisations under our community grants program. The Community Grants for the full year will be allocated after the release of the Company's annual results.

Underlying Profit

Underlying profit is provided to assist shareholders in understanding the Company's performance. Underlying profit excludes certain items, as determined by the Board and management, that are either significant by virtue of their size and impact on Net Profit After Tax, or are deemed to be outside normal operating activities. It reflects an assessment of the result for the ongoing business of the Group.

The reconciliation of net profit after tax to underlying profit after tax for the six months to 31 December 2014 is as follows:

	Half-year ended 31 December 2014 \$'000	Half-year ended 31 December 2013 \$'000
Net profit after tax	553	1,216
Adjustments (gross)		
Add: Employment restructure expenses	-	296
Add: Property revaluation	412	-
Tax on adjustments	-	(89)
Underlying profit after tax	965	1,423

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 reviewed.

Review of operations (continued)
Statement of Financial Position (as at 31 December 2014)

Assets

- Total assets have decreased by \$0.27m to \$13.97m during the six months to 31 December 2014.
- Cash balances increased by \$0.05m to \$8.00m. As a condition of the Company's Australian Financial Services (AFS) Licence the Company is required to maintain minimum Net Tangible Asset levels along with a significant cash balance. At all times during the past six months and as at 31 December 2014 the Company has met the conditions of its AFS Licence.
- Trade and other receivables decreased by \$0.05 million to \$2.70 million. These receivables primarily represent the accrual of fees on our products for the previous month.
- The Company owned property in Bruce, ACT continues to be listed for sale or lease. As such the property has been classified as "Assets classified as held for sale" for the past 18 months. A requirement to continue with this classification is that a sale is highly probable in the next 12 months. Given the current weakness in the Canberra market, a sale of the property in that time frame is not probable and we have reclassified the property to Non-current assets.
- Since 30 June 2014 the Canberra property market has fallen further and the building has been revalued with a subsequent impairment of \$412,500.

Liabilities

- Total liabilities increased by \$0.06m to \$4.82m. Liabilities are primarily payments to suppliers and employee benefits.
- The Company has no debt.

Equity

- Equity has decreased by \$0.33 million due to net profit after tax of \$0.55 million offset by dividends paid during the period.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$	Franked/ unfranked	Date of payment
Declared and paid during the past 6 months				
Final 2014	120	1,227,776	Franked	3 October 2014
Declared after 31 December 2014				
Interim 2015	80	831,115	Franked	27 March 2015 ²

² Planned payment date

Events subsequent to reporting date

Other than as outlined in this report, no matters or circumstances have arisen since the end of the half-year which have or may significantly affect the operations of the Company and its controlled entity, the results of those operations or the state of affairs of the Company in financial years subsequent to the period ended 31 December 2014.

Outlook - Likely developments and business strategies

With our funds under management reaching \$1bn and strong investment performance across all products we are positioned for growth and will look to increase sales across all channels. In many cases our investment performance exceeds traditional funds and we intend to increase the awareness of our investment expertise that has been built over the past 28 years.

We will continue to assess product fees against the market balancing this against returns to shareholders and developing a sustainable business.

The regulatory environment for superannuation and managed funds continues to evolve with increasing compliance cost. Sales and marketing costs are being reviewed to support the goal of increasing flows above current levels.

The largest driver of total revenues is the value of funds under management (FUM) which is in turn influenced by the level of the Australian equity market. We have estimated that a 1% change in the S&P/ASX All Ordinaries index will have a full year impact of \$69,000 on net profit after tax. Changes to the markets are monitored constantly and where there are sustained drops action will be taken to reduce variable expenses.

Environmental regulation

The parent entity owns a direct property asset in the form of Trevor Pearcey House in Canberra.

The parent entity also acts as a responsible entity for the Australian Ethical Property Trust and the Australian Ethical Balanced Trust both of which own direct property assets. These fiduciary operations are subject to environmental regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The licence requirements relate to air, noise, water and waste disposal. The responsible entity is responsible for compliance and reporting under the government legislation. The parent entity is not aware of any material non-compliance in relation to these licences during the financial year. The parent entity has determined that it is not required to register to report under the National Greenhouse and Energy Reporting Act 2007, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the financial year. Trevor Pearcey House has a 6 Green star rating. The properties held in the Australian Ethical Property Trust are required to have a minimum of 5 Green star rated or be in respect to social infrastructure. The properties held in the Australian Ethical Balanced Trust are not required to have a minimum Green star rating.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of Directors.



Phil Vernon
Managing Director and Chief Executive Officer

Sydney
23 February 2015



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

To: the directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

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


KPMG



Tanya Gilerman
Partner

Sydney

23 February 2015



Independent auditor's review report to the members of Australian Ethical Investment Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Australian Ethical Investment Limited, which comprises the consolidated statement of financial position as at 31 December 2014, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Ethical Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Australian Ethical Investment Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Tanya Gilerman
Partner

Sydney

23 February 2015

Australian Ethical Investment Limited and its Controlled Entity
Consolidated Statement of Financial Position
As at 31 December 2014

		Consolidated Entity	
		At	
		31 December	30 June
		2014	2014
Notes		\$	\$
ASSETS			
Current assets			
		7,997,941	7,944,669
		2,698,720	2,745,404
	6	10,652	11,576
		421,725	361,971
	12	-	2,237,500
		<u>11,129,038</u>	<u>13,301,120</u>
Total current assets			
Non-current assets			
	12	2,254,139	459,480
		57,230	83,222
		533,108	395,856
		<u>2,844,477</u>	<u>938,558</u>
		<u>13,973,515</u>	<u>14,239,678</u>
LIABILITIES			
Current liabilities			
		3,773,274	3,470,104
		530,136	757,459
		241,121	232,175
		<u>4,544,531</u>	<u>4,459,738</u>
Non-current liabilities			
		165,777	202,382
		1,717	1,110
		104,712	93,800
		<u>272,206</u>	<u>297,292</u>
		<u>4,816,737</u>	<u>4,757,030</u>
		<u>9,156,778</u>	<u>9,482,648</u>
EQUITY			
		7,003,900	6,432,479
		914,166	1,117,509
		1,238,712	1,932,660
		<u>9,156,778</u>	<u>9,482,648</u>
		<u>9,156,778</u>	<u>9,482,648</u>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Australian Ethical Investment Limited and its Controlled Entity
Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2014

		Consolidated Entity	
		Half-year ended	
		31 December	31 December
		2014	2013
Notes		\$	\$
	Revenue from continuing operations	9,858,644	9,744,995
	Net gain on disposal of property, plant and equipment	620	-
	External services	4 (949,405)	(971,865)
	Employee benefits expense	11 (4,172,957)	(3,732,016)
	Depreciation and amortisation expense	(79,336)	(187,460)
	Occupancy costs	(243,952)	(259,209)
	Marketing and communication costs	(438,866)	(320,519)
	Fund related expenses	4 (1,451,632)	(1,275,146)
	Community grants expense	(103,812)	(151,290)
	Impairment of property, plant and equipment	12 (412,500)	-
	Other expenses	4 (882,595)	(783,316)
	Profit before income tax	1,124,209	2,064,174
	Income tax expense	(571,484)	(848,421)
	Profit for the period	552,725	1,215,753
	Other comprehensive income		
	<i>Items that may be reclassified to profit or loss</i>		
	Net gain on revaluation of available-for-sale financial assets, net of tax	63	-
	Net realised gain on available-for-sale financial assets, net of tax	6	-
	Other comprehensive income for the period, net of tax	69	-
	Total comprehensive income for the period	552,794	1,215,753
	Profit is attributable to:		
	Members of the parent entity	552,725	1,215,753
	Total comprehensive income for the period is attributable to:		
	Members of the parent entity	552,794	1,215,753
		Cents	Cents
	Earnings per share		
	Basic earnings per share	53.41	118.83
	Diluted earnings per share	51.12	116.57

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**Australian Ethical Investment Limited and its Controlled Entity
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2014**

Parent Entity	Notes	Issued capital \$	Asset revaluation reserve \$	Share-based payment reserve \$	Retained earnings \$	Total \$
Balance at 1 July 2013		6,278,225	4,047	345,281	669,072	7,296,625
Profit for the period attributable to members of the parent entity		-	-	-	1,215,753	1,215,753
Other comprehensive income for the period		-	-	-	-	-
Total comprehensive income for the period		-	-	-	1,215,753	1,215,753
Transactions with owners in their capacity as owners:						
Shares issued during the period		133,028	-	(133,028)	-	-
Dividends provided for or paid		-	-	-	(460,416)	(460,416)
Employee share scheme		21,226	-	537,092	-	558,318
		154,254	-	404,064	(460,416)	97,902
Balance at 31 December 2013		6,432,479	4,047	749,345	1,424,409	8,610,280
Parent Entity						
Balance at 1 July 2014		6,432,479	(4,075)	1,121,584	1,932,660	9,482,648
Profit for the period attributable to members of the parent entity		-	-	-	552,725	552,725
Other comprehensive income for the period		-	69	-	-	69
Total comprehensive income for the period		-	69	-	552,725	552,794
Transactions with owners in their capacity as owners						
Shares issued during the period	7	571,421	-	(571,421)	-	-
Dividends provided for or paid	8	-	-	-	(1,246,673)	(1,246,673)
Employee share scheme		-	-	368,009	-	368,009
		571,421	-	(203,412)	(1,246,673)	(878,664)
Balance at 31 December 2014		7,003,900	(4,006)	918,172	1,238,712	9,156,778

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**Australian Ethical Investment Limited and its Controlled Entity
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2014**

		Consolidated Entity	
		Half-year ended	
		31 December	31 December
		2014	2013
Notes		\$	\$
Cash flows from operating activities			
	Receipts from operations	9,805,094	9,155,884
	Payments to suppliers and employees	(7,652,426)	(6,567,392)
	Income taxes paid	(935,452)	(684,050)
	Community grants paid	-	(117,300)
	Interest and distributions received	100,232	57,807
	Net cash inflow from operating activities	1,317,448	1,844,949
Cash flows from investing activities			
	Payments for property, plant and equipment	(22,903)	(31,029)
	Proceeds from sale of property, plant and equipment	4,407	-
	Proceeds from sale of investments	993	-
	Net cash (outflow) from investing activities	(17,503)	(31,029)
Cash flows from financing activities			
	Dividends paid to the Company's shareholders	(1,246,673)	(460,416)
8	Net cash (outflow) from financing activities	(1,246,673)	(460,416)
Net increase in cash and cash equivalents		53,272	1,353,504
Cash and cash equivalents at the beginning of the period		7,944,669	3,894,666
Cash and cash equivalents at end of period		7,997,941	5,248,170

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**Australian Ethical Investment Limited and its Controlled Entity
Notes to the Consolidated Financial Statements
For the half-year ended 31 December 2014**

1 Reporting entity

Australian Ethical Investment Limited (the "Company") is a for profit company domiciled in Australia. These consolidated interim financial statements as at and for the six months ended 31 December 2014 comprise the Company and its subsidiary (together referred to as the "Group").

The principal activities of the Group during the six month period was to be the responsible entity for a range of public offer ethically managed investment schemes and as a trustee of the Australian Ethical Retail Superannuation Fund. Included in these activities are funds management, portfolio management, and investment administration. There were no significant changes in the nature of the Group's activities during the period.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation of half-year report

These consolidated interim financial statements for the half-year reporting period ended 31 December 2014 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Australian Ethical Investment Limited and its Controlled Entity is a for-profit entity for the purpose of preparing the consolidated interim financial statements.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Australian Ethical Investment Limited and its Controlled Entity during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The consolidated interim financial statements have been prepared on an accruals basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(i) Impact of standards issued but not yet applied by the entity

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 reporting periods and have not yet been applied in the consolidated financial statements. The impact on the financial position or performance of the Group 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 2018	30 June 2019
AASB 15 'Revenue from contracts with customers'	1 January 2017	30 June 2018

(ii) Comparative figures

Where required comparative figures have been adjusted to conform with changes in presentation for the current financial period.

3 Critical accounting estimates and judgements

In preparing these consolidated financial statements, Management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2014.

4 Expenses

Restatement of 31 December 2013 comparatives

In preparing the expenses breakdown for the Consolidated Statement of Comprehensive Income, it was identified that some expenses had been incorrectly classified for the period ended 31 December 2013. The primary change was to the classification of Member Administration Services from External services to Fund related expenses. Reclassifying these expenses improves the comparability of expenses between financial years. This is consistent with the classification restatement of the 30 June 2014 expenses. Details are provided below.

	Actual 31 December 2013	Reclassification	Restated Actual 31 December 2013
	\$	\$	\$
External services	1,500,064	(528,199)	971,865
Fund related expenses	-	1,275,146	1,275,146
Other expenses	1,530,263	(746,947)	783,316

5 Income tax expense

Income tax expense is recognised based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2014 was 51% (for the six months ended 31 December 2013: 41%). The high effective tax rate was caused mainly by the following factors:

- The expense related to rights granted by the Group to its employees under its share-based payment arrangement is not deductible for tax purposes.
- The non-deductibility of the property impairment.

6 Fair value measurements

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

The Group measures and recognises the following assets at fair value on a recurring basis:

- Available-for-sale financial assets
- Assets classified as held for sale

6 Fair value measurements (continued)

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Recognised fair value measurements

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2014 and 30 June 2014 on a recurring basis.

At 31 December 2014	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Available-for-sale financial assets				
Equity securities	10,652	-	-	10,652
Total financial assets	10,652	-	-	10,652
At 30 June 2014	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Available-for-sale financial assets				
Equity securities	11,576	-	-	11,576
Total financial assets	11,576	-	-	11,576

There were no transfers between levels for recurring fair value measurements during the period.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of trade and other receivables and payables are assumed to approximate their fair values due to their short-term nature.

7 Capital and reserves

Issues of ordinary shares

10,693 ordinary shares were issued after rights from the 2014 Individual Employment Share Incentive Scheme (iESIS) rights programme vested at a price of \$35.45 per share.

1,257 ordinary shares were issued after rights in relation to the uplift for certain employees from the 2014 Individual Employment Share Incentive Scheme (iESIS) rights programme vested at a price of \$46.00 per share.

3,795 ordinary shares were issued after rights from the 2014 General Employment Share Incentive Scheme (gESIS) rights programme vested at a price of \$35.45 per share.

8 Dividends

(a) Dividends paid or payable during the reporting period

	Dividend Rate cps	Total Amount \$	Date of Payment	% Franked
2014				
Ordinary shares - final	120	1,246,673	3/10/2014	100

(b) Dividends not recognised at the end of the reporting period

Consolidated Entity Half-year ended	
31 December 2014	31 December 2013
\$	\$
831,115	818,518

In addition to the above dividends, since period end the Directors have recommended the payment of an interim dividend of 80 cents per fully paid ordinary share (2013: 80 cents), fully franked based on tax paid at 30% (2013: 30%).

831,115 818,518

9 Commitments and contingencies

The nature of the Group's commitments is as disclosed in the Group's consolidated financial statements as at and for the year ended 30 June 2014.

The Group had no contingent liabilities at 31 December 2014 (2013: nil).

10 Related party transactions

Australian Ethical Investment Limited is the ultimate parent entity and owns 100% of Australian Ethical Superannuation Pty Limited.

Australian Ethical Investment Limited acts as the responsible entity for the Australian Ethical Trusts (Australian Ethical Balanced Trust, Australian Ethical Smaller Companies Trust, Australian Ethical Cash Trust, Australian Ethical Larger Companies Trust, Australian Ethical International Equities Trust, Australian Ethical Property Trust, Australian Ethical Fixed Interest Trust and the Australian Ethical Advocacy Fund).

Australian Ethical Superannuation Pty Limited acts as trustee for the Australian Ethical Retail Superannuation Fund.

Terms and conditions

Transactions between related parties are on commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

No provision for doubtful debts has been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Outstanding balances are unsecured and are repayable in cash.

11 Share-based payments

The following share-based payment arrangements existed at 31 December 2014:

(a) Performance rights

Under the Australian Ethical Investment Limited employee share incentive scheme (ESIS) that existed until August 2014, participants were granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. The number of shares that the participant will ultimately receive will depend on the extent to which the performance criteria are met by the Group and the individual employee. These rights were issued for nil consideration. These rights hold no voting or dividend rights. Subject to the terms and conditions of the ESIS rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights.

Performance rights granted during the period:

ASX Code	Number Granted	Attributes
AEFAG	11,899	<p>i) employment must continue until 1 July 2015</p> <p>ii) in some cases, the number of shares that may be issued to an employee in respect of their AEFAG performance rights is fixed</p> <p>iii) in some cases, the number of shares that will be issued to each employee in respect of their AEFAG performance rights may be adjusted up or down by a maximum of 20%. The adjustment applied depends on the performance of the Company's managed investment scheme for which the employee has responsibility or provides significant input to over the period 1 July 2014 to 30 June 2015. In these cases, the applicable managed investment scheme has been agreed between the Company and the employee.</p>

Performance rights summary

Rights Class	Performance Period	Grant date	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
AEFAA	FY12-FY14	2012	30/06/2014	19,195	(15,400)	(3,795)	-	-
AEFAC	FY13-15	2013	30/06/2015	23,357	(6,523)	-	-	16,834
AEFAE	FY14-16	2014	30/06/2016	17,955	(1,076)	-	-	16,879
AEFAF	FY14	2014	30/06/2014	11,950	-	(11,950)	-	-
AEFAG	FY15	2015	30/06/2015	11,899	-	-	-	11,899

All rights were calculated at grant date based on the underlying share prices minus estimated net present value of future dividends that the holders of rights are not entitled to.

11 Share-based payments (continued)

(b) Deferred shares

Under the Australian Ethical Investment Limited long term incentive scheme which is in the process of being implemented, participants are granted shares subject to meeting specified performance criteria over the performance period. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration. The shares have voting rights and employees receive dividends. Subject to the terms and conditions of the incentive scheme the deferred shares have the following attributes determining whether they will vest.

Number to be Granted	Attributes
15,679	i) employment must continue until 1 July 2017 ii) the number of shares that may be issued to an employee is fixed at the grant date. iii) 50% of the shares are subject to the following hurdle: (a) if the compound earnings per share ('EPS') growth over 3 years is less than 5%, no shares will vest (b) if the compound EPS growth over 3 years is greater than 10%, 100% will vest (c) if the compound EPS growth over 3 years is greater than 5% and less than 10%, then a pro rata amount will vest on a straight line basis. (d) the compound average growth rate on earnings per share is determined as the average of EPS over six month periods calculated using audited half-year financial statements. iv) the performance period is the financial years 2014/15, 2015/16 and 2016/17.

12 Reclassification of assets classified as held for sale

In June 2013, the Company's management reclassified its Canberra property from "Non-current assets - Property, plant and equipment" to "Current assets - Assets classified as held for sale" to reflect its effort to sell the property. Over the past 18 months, the Company has had a comprehensive sales program to locate a buyer. Unfortunately despite continued efforts, the Company has been unable to sell the property. As a result of the depressed market, the Company feels that a sale is not probable in the short term.

As a result, the property has been reclassified as at 31 December 2014 to "Non-current assets - Property, plant and equipment". Although the reclassification has occurred Management continues to actively seek buyers for the property.

Since 30 June 2014 the Canberra property market has continued to soften with:

- Secondary rents falling further including units within the properties' immediate vicinity being offered at lower rents.
- Incentives across all precincts have increased significantly and on average, are moving towards a baseline of 25% for prime and 30%+ for secondary.
- Vacancy rates have continued to increase.
- Comparative sales have deteriorated.

As a result of the above factors, a valuation of the Canberra building was conducted by Jones Lang LaSalle and Knight Frank, independent valuers not related to the Group, to determine the fair value. Based on advice received from independent valuers, the Directors determined that the value of the property was below the carrying value and have recorded an impairment of \$412,500.

12 Reclassification of assets classified as held for sale (continued)

Valuers Jones Lang LaSalle and Knight Frank are both members of the Institute of Valuers of Australia. The valuation was determined by reference to recent market transactions on arm's length terms. Estimated selling costs of \$75,000, including agent's commission and associated legal costs, were deducted from the independent valuation to determine the carrying value.

In accordance with AASB13 *Fair Value Measurement*, the fair value category for the Canberra building input into the valuation techniques has been assessed as **Level 3**. The Company considers the market approach to valuing the building to be the most appropriate method of assessing the fair value. More specifically in arriving at its opinion of fair value, the Company has referred to the direct comparison and capitalisation of net income approach adopted by the independent Valuers.

The capitalisation of net income approach is based on estimates of net market rent, capitalised at an appropriate discount rate less estimates of the time required to lease the property, estimated leasing incentives and estimated agents fees. Significant quantitative unobservable inputs used in determining the fair value of the property include market rents, capitalisation rates, leasing downtime, leasing incentives and agents' fees. These rates are based on feedback from independent Valuers based on the location, type and nature of the property along with current and anticipated market conditions.

Significant unobservable quantitative inputs used in determining the fair value as at 31 December 2014 include:

Unobservable Quantitative Inputs	Range	Average
Comparative Sales	\$1,800 - \$2,000 psm	\$1,900 psm
Building size	1,006.5 square meters	

13 Events occurring after the reporting period

Other than the dividend declared subsequent to period end, no other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

**Australian Ethical Investment Limited and its Controlled Entity
Directors' Declaration
For the half-year ended 31 December 2014**

In the Directors' opinion:

- (a) the consolidated interim financial statements and notes set out on pages 8 to 18 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

A handwritten signature in black ink, consisting of a stylized initial 'P' followed by a long horizontal line extending to the right.

Phil Vernon
Managing Director and Chief Executive Officer

Sydney
23 February 2015