

ASX Code: AEF

24 February 2015

**Australian Ethical Investment Limited****Results for the half-year ended 31 December 2014**

Australian Ethical today announced its half year results for the period ended 31 December 2014.

Financial results were (all comparisons are to half-year ended 31 December 2013):

- Revenues of \$9.9 million (up 1%)
- Net profit after tax (NPAT) of \$0.553 million (down 55%)
- Underlying profit after tax (UPAT) of \$0.965 million (down 32%)
- Total expenses were \$9.3m (up 9.1%)
- Interim ordinary dividend of 80 cents per share, fully franked.

Operating highlights include:

- Funds under management of \$1,039m (up 30%)
- Net inflows of \$77m (up from \$35m, an increase of 119%)
- Superannuation membership at 19,284 members (up 22%)
- Top quartile investment performance
- International Fund wins International Fund of the Year award

**Comments on the result**

Australian Ethical Investment Managing Director, Phil Vernon, said the last six months have seen strong investment performance with outstanding investment returns and continued strong inflows into both superannuation and managed funds.

“Reaching \$1 billion in funds under management in November was a significant milestone for Australian Ethical. At the end of the six months to 31 December 2014, funds under management had increased 30% over the prior period to \$1,039m, attributable to increased inflows and favourable market conditions,” said Mr Vernon.

“As we continue our rapid growth we have deliberately shared the benefits of that growth with our clients through lower fees which, in turn, fed into greater inflows. This will produce a far more sustainable business in the long term.”

“Our investment performance continues to be consistently strong with many of our funds performing in the top quartile of the popular surveys, and our International Equities Fund recently won International Fund of the Year in the annual Australian Fund Manager of the Year awards.”

“Our people are our greatest asset. Their experience, knowledge and skill are our competitive advantage. We want to attract and retain the best and provide them with encouragement, stimulus and make them feel that they are an integral part of our company's mission. In our Remuneration Report last year we announced improvements to our remuneration structure which are designed to meet these goals.”

“Whilst we have had some impacts on our current period’s profits due to fee reductions, property impairment and remuneration adjustments, our underlying business is strong and the strategy to reduce fees is helping to drive inflows and removing what was a significant barrier for growth,” Mr Vernon said.

**Guidance**

“Our full year Net Profit after Tax (NPAT) for the 12 months ended 30 June 2015 is expected to be between \$1.9 million and \$2.4 million. NPAT for the year ended 30 June 2014 was \$2.5 million. This forecast is based on an estimate of net inflows, an assumption of zero market movements between now and 30 June and no further impairment to the property in Canberra” Mr Vernon said.

**Explanation of changes to prior corresponding period**

There were a number of items that impacted the result for the period.

**Revenue**

- *Fee reductions* – As we’ve previously disclosed, we have been progressively reducing fees on our superannuation product to be more competitive and to make our business more sustainable. A significant fee reduction was made on 30 June 2014, the impact of which was offset by increased net flows and growth of funds under management, resulting in revenue growing by 1%.

**Expenses**

- *Property impairment* – a further impairment of \$412,500 has been incurred on our property in Canberra. This has been due to the further deterioration of the Canberra property market particularly for secondary grade properties. We continue to seek a purchaser for the property.
- *Staff costs* – staff costs increased by \$440,941 or 12% over the prior corresponding period. This has been impacted by:
  - increased bonuses due to Key Performance Indicators (KPIs) being met, recognising excellent investment performance, significant growth in net inflows and funds under management
  - an adjustment to correct an under accrual in bonuses related to the prior period reflecting the strong performance of that period
  - timing impacts of transitioning to our new remuneration model. In particular, 50% of the prior year short term incentive under the old remuneration scheme was deferred until this reporting period. Under the new remuneration model the estimated short term incentive is fully expensed within the financial reporting period to which it relates.

**Financial Results**

	Half year to 31 Dec 2013 (\$,000)	Half year to 31 Dec 2014 (\$,000)	Change (%)
Revenue	9,745	9,859	1%
Operating Expenses	(7,046)	(8,139)	(16%)
Non-operating expenses*	(1,483)	(1,167)	21%
<b>Net Profit After Tax (NPAT)</b>	<b>1,216</b>	<b>553</b>	<b>(55%)</b>
Add: Employment restructure expenses	296	-	
Add: Property revaluation	-	412	
Tax on adjustments	(89)	-	
<b>Underlying Profit After Tax (UPAT)**</b>	<b>1,423</b>	<b>965</b>	<b>(32%)</b>
<b>Interim dividend (fully franked) – cents per share</b>	<b>80</b>	<b>80</b>	<b>0%</b>

\* Abnormals, tax, community grants, depreciation, etc.

\*\* 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 NPAT, or are deemed to be outside normal operating activities. This portion of the 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. UPAT has not been reviewed or audited by our external auditors; however the adjustments to net profit have been extracted from books and records that have been reviewed.

**Funds under Management (FUM)**

	Half year to 31 Dec 2013 (\$m)	Half year to 31 Dec 2014 (\$m)	Change
Opening FUM	708	887	25%
Superannuation net flows	28	60	115%
Managed Fund net flows	7	17	137%
<b>Total Net Flows</b>	<b>35</b>	<b>77</b>	<b>119%</b>
Market Movements	59	75	27%
<b>Closing FUM</b>	<b>802</b>	<b>1,039</b>	<b>30%</b>

**Comparison to Earnings Guidance of 8 January 2015**

Variations to the Earnings Guidance released on 8 January 2015 are:

- the impairment on the property in Canberra
- the treatment of long term incentives has been corrected to be amortised over three years as is the case with the current performance rights
- reconciliation of underlying profit no longer includes the impact of transition to the new remuneration structure.

**About Australian Ethical**

Australian Ethical is Australia's first listed ethical investment manager. We are a fund manager with a difference – investing money in a way that aims to provide financial security for investors and positive, sustainable change for society and the environment.

Australian Ethical was incorporated in 1986 and has \$1 billion in funds under management across superannuation and managed funds.

Visit: [www.australianethical.com.au](http://www.australianethical.com.au)

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