



August 2015

Shareholder Update

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Shareholder calendar

Record Date for Final Dividend _____	16 September 2015
Payment Date for Final Dividend _____	30 September 2015
Annual General Meeting _____	28 October 2015

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Chair & Managing Director's Report

Dear shareholder,

We are very pleased to write to you with our update for the year.

The past year has been a significant year on many fronts. There is a sense that we are at a real tipping point regarding climate action with so many positive moves around the globe toward a hopefully positive outcome in Paris in November. Add to that breakthroughs in technology such as battery storage and grid technology and there is real cause for optimism on the climate front.

More generally people are increasingly making ethical choices in their daily consumer purchases as well as their investment and savings decisions. Our research confirms an increasing demand from investors for ethical product and a greater confidence that it will produce the same or better returns than unscreened investing.

And the evidence continues to strengthen that this is the case. The recently released Benchmark Report of the Responsible Investment Association of Australia showed that money invested in ethical investment funds had doubled in the past two years. Moreover, the investment performance of ethical investment funds had outperformed mainstream funds across all asset classes over most time periods.

This growth and performance of the sector is reflected in our own returns with strong performance over the past year across many metrics:

- Funds under management (FuM) of \$1,167m (up 32% on previous year)
- Net inflows of \$179m (up 96%)
- Superannuation membership at 21,196 (up 20%)
- Top quartile investment performance of a number of our funds
- Record of over 700 philanthropic grant applications

We are living proof that businesses and investment funds can operate to give consideration to social and environmental factors as well as financial returns and deliver on each equally as well.

Financial performance

Net profit

Net profit after tax for the financial year to 30 June 2015 was \$1.97m compared to the prior year of \$2.54m.

The 23% decrease on the previous year is due to three main factors: a reduction in fees at the beginning of the financial year on our superannuation fund as part of an ongoing fee reduction strategy, issues arising from the transition to a new remuneration structure, and a further impairment on the Company's property in Canberra.

Revenues

Revenue increased 6% to \$21.2 million, up from \$20 million recorded for the previous corresponding period. Revenue is mostly driven by funds under management which is, in turn, influenced by market movements and net inflows.

Funds under management increased 32% to \$1,167 million, up from \$887 million in the previous corresponding period. Net inflows almost doubled to \$179 million for the year, up 96% on last year's net inflows of \$92 million.

The progressive reduction of superannuation fees over the medium term continues to have a significant impact on revenues. This strategy is aimed at sharing the benefits of growth with our members and improving our competitiveness, taking into account shareholder returns and the long term sustainability of the business.

Our goal for fees is to be at the 75th percentile of comparable MySuper funds by 2020. Consistent with this strategy, on 30 June 2014 we reduced the fees on our superannuation fund by 0.67% and by a further 0.30% on 31 July 2015.

Whilst net flows are impacted by many factors, their significant increase over the past year supports our contention that these planned fee reductions will lead to growth that will, ultimately, offset the reduction and lead to a better, long term, sustainable business with far greater impact.

Final Dividend

A fully franked final dividend of \$1.20 per share was declared for the full year ended 30 June 2015, bringing the total dividend for the year to \$2.00 per share. The record date for the dividend will be 16 September 2015 with payment due on 30 September 2015.

We are pleased to maintain our dividend during a period where profit has been impacted by changes aimed at building a stronger business over the long term, namely the fee reductions and remuneration changes.

Expenses

Operating expenses increased by \$2.0m, an increase of 14% over the previous year, due to the following:

- Employee costs: Employee costs have increased by \$1.9m or 27% over the prior year. This increase comprises a number of significant items including:
 - bonuses in general have been high due to outperformance on most key performance indicators including investment performance, net inflows and new clients.
 - under our revised incentive scheme we will now be paying Short Term Incentives entirely in cash rather than a mix of cash and performance rights, as was previously the case. Thus we have accrued 100% of the bonus payable for the current period as well as the amortised performance rights attributable to the previous year.
 - increased provision for employee share rights as a result of significant increases in the share price over the year. The total expense for rights issued under the previous remuneration model this year was \$1.4m.
 - an adjustment of \$0.23m was made in respect of bonuses under-accrued in the previous year.

Non-operating expenses were impacted by:

- Property impairment: A full year impairment of \$484,249 has been incurred on our property held in Bruce 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 and have recently secured a tenant for half of the available floor space. Further detail is provided in Note 11 of the financial statements.
- Income tax expense: Tax expense increased despite the lower profit due to items that are not deductible for tax purposes which are detailed in Note 8b of the financial report. The effective tax rate was 45%, an increase on the prior year rate of 38%.

The above increases in expenses have been partially offset by the following decreases:

- External services: costs to outsource providers have reduced by \$0.3m as a result of reduced use of consultants this year following significant projects completed in 2014; and
- Marketing: marketing costs have decreased by \$0.25m over the prior year due to a reduction in the cost of acquisition of new clients.

Financial Position

The Company retains a strong balance sheet position with no debt. Net assets increased by \$1.7m over the year to \$11.2m.

The majority of assets are held in cash to meet the Company's Australian Financial Services Licence conditions. The only significant non-cash asset is the property held in Canberra which is discussed in detail in Note 11 of the financial statements.

Funds Under Management

Funds under management has grown from \$887m to \$1,167m over the past year (a 32% increase).

\$1 billion milestone passed

In November 2014 we hit a significant milestone in our 28 year history by reaching \$1bn. This result follows strong growth over the past year which defies industry averages.

We are extremely proud of the Company's performance in reaching this milestone. It marks a coming of age and maturing of the Company to be a stable and substantial player in the financial services landscape.

Since reaching this milestone our funds under management has continued to grow reaching \$1.167bn at 30 June despite some recent market falls.

Net inflows

Over the year we achieved \$179m in net flows almost double (96% increase) the flows for the prior year of \$92m.

Many factors contributed to the improved flows including an increasing awareness of ethical investing and of Australian Ethical, website optimisation making the joining process more client friendly and a more efficient process in consolidating members benefits from other super funds.

New clients

Our new client growth continues to be strong due to active sales and marketing strategies, a rapidly growing social media community and continued improvements to our digital and online processes removing the barriers for members to join. New clients averaged 439 per month compared to 375 per month in the previous year.

Investment performance

Performance across our funds and superannuation options has been strong with a number of our funds and investment options delivering above median performance over the year according to the regular survey published by consulting firm Mercer¹.

Managed Fund	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Cash	3 rd	2 nd	1 st	1 st	1 st
Fixed Interest	3 rd	-	-	-	-
Balanced	3 rd	3 rd	4 th	2 nd	2 nd
Diversified Shares	1 st	1 st	1 st	1 st	1 st
Advocacy	1 st	1 st	1 st	-	-
Australian Shares	1 st	1 st	1 st	1 st	1 st
International Shares	4 th	2 nd	4 th	3 rd	-

Superannuation Accumulation Options	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Defensive	3 rd	3 rd	2 nd	2 nd	2 nd
Conservative	4 th	4 th	4 th	-	-
Balanced	3 rd	3 rd	4 th	3 rd	3 rd
Growth	1 st	1 st	4 th	4 th	4 th
Smaller Companies	1 st	1 st	1 st	1 st	1 st
International	4 th	4 th	4 th	4 th	-
Advocacy	3 rd	3 rd	3 rd	-	-

Our flagship Australian Shares fund recently celebrated its 20th anniversary having delivered consistent upper quartile performance over the whole period. Its exceptional track record ranks it first over every reported time period. The fund has returned 10% per annum over its 20 year history, far exceeding its benchmark index. Similarly our Diversified Shares fund, ranks first over all periods.

¹ Based on Mercer's Peer Group Category as at 30 June 2015.

Product Improvements

We continue to review our product suite to ensure competitiveness in an increasingly changing and competitive environment.

Superannuation fees

As communicated previously, the superannuation environment has become increasingly competitive and we have a medium term strategy for our fees to be at the 75th percentile of comparable My Super funds by 2020. Consistent with this strategy on 30 June 2014 we reduced the fees on our superannuation fund by 0.67% and by a further 0.30% on 31 July 2015.

The reductions to date have moved us some way toward our goal however we still have some way to go and shareholders should expect further reductions in the future.

Launch of the Australian Ethical Emerging Companies Fund

On 1 July 2015 we launched a new fund, the Australian Ethical Emerging Companies Fund which invests in a diversified portfolio of shares in small capitalisation companies on the basis of their social, environmental and financial credentials. The Fund utilises an active stock-picking management style with stocks selected for growth rather than income.

There is increased interest in small capitalisation companies and we have a demonstrated strength in selecting growth stocks. Inflows in the first month have been very positive.

Improved access to our managed funds

We also made a number of changes aimed at making our managed funds more accessible to both retail investors and advisers.

These were:

- listing on the ASX mFunds platform - a number of our funds were listed on the ASX mFunds platform, a platform that provides easier access for both retail investors and advisers
- more funds with wholesale units - we increased the number of our funds with a wholesale unit providing lower fees for clients with large balances
- product name changes - we changed the names of a number of our investment funds to better reflect their underlying portfolio and align with current industry practice.

Awards

We continue to be regularly recognised by industry peers through awards. The following awards were received over the year:

- Ethical Fund of the Year - we were awarded the Ethical Fund of the Year award from the financial magazine, Money Management.
- International Fund of the Year - we were awarded the International Fund of the Year by the Australian Investment Management Association. This is significant as it was rated against the market as a whole not just purely ethical peers.
- United Nations Association of Aust. - we were awarded two awards in the United Nations Association of Australia World Environment Day: Excellence in Overall Environmental Management (Business) and the Leadership Award for Large Organisations.
- B Corp "Best for the World" - we were awarded B Corp "Best for the World" status ranking us in the top 10% of B Corps worldwide (a field of 1,300) for our social and environmental credentials.



United Nations Association of Australia Awards

Ethical leadership

We continue to be the leader in ethical investment in Australia with the highest ethical conviction in our investment selection coupled with taking a strong stand in encouraging more ethical behaviour in the corporate and broader community. The following are key initiatives pursued through the course of the financial year:

Net zero emissions by 2050

To meet the urgent challenge of global warming, investors, companies and governments need to commit to decarbonise across all sectors of the economy not just a single sector. Excluding high emissions fossil fuel companies is important, but this needs to be accompanied by action across the many other industry sectors which are big direct and indirect emitters.

Alongside our exclusion of coal, oil and unconventional gas, Australian Ethical has set a target to fully decarbonise all our portfolios (i.e. net zero portfolio emissions) in the timeframe needed to limit warming to 2 degrees. To achieve this we need to reduce emissions across our entire portfolio, from health care to food production to manufacturing.

Our decarbonisation project has a dual purpose:

- to ensure that our investments are aligned with a clean energy future; and
- to help create momentum to drive the mainstream action needed to address climate change.

During the year we became the first Australian member of the international Portfolio Decarbonisation Coalition, a coalition of institutional investors launched at the 2014 United Nations Climate Summit to mobilise financial markets to drive economic de-carbonisation.

The big banks: a force for good or bad in a warming world?

During the year we collaborated with a number of investors and NGOs to encourage the banks to better disclose their exposure to carbon emissions. This included:

- work with other institutional investors and the banks to agree a more uniform approach to disclosure of lending to fossil fuel and renewables sectors;
- supporting shareholder resolutions at bank AGMs; and
- working as an Australian 'co-lead' for an international investor initiative focused on climate governance at 60 banks globally.

The Australian banks responded to this diverse activity at the end of 2014 with significant new disclosure of fossil fuel and clean energy exposures.

Support for climate expertise in the Boardroom

In 2014 we were proud to again have supported Ian Dunlop for election as a director of BHP Billiton by being one of his nominating shareholders via a shareholding in our Advocacy Fund, in order that his climate expertise could help BHPB show greater leadership in dealing with the risks and opportunities created by climate change. Although Ian was unsuccessful, we credit his campaigns with raising public awareness of the issues at stake and encouraging greater climate transparency from BHPB.

Climate lobbying

We are participating in two international investor collaborations advocating for 'responsible corporate climate lobbying', to encourage companies to play a productive rather than destructive role in the development of responsible climate policy.

Too often companies stand silent as their industry associations promote media scare campaigns which are not aligned with their privately stated views – or with long term company, industry and societal interests.

Human rights

We are participating as a lead investor in a global investor coalition to improve the way companies identify and manage human rights risks in their supply chain and other activities (<http://www.ungpreporting.org/early-adopters/investor-statement/>). We are encouraging both Australian investors and companies to use this new reporting framework to improve the quality of their internal discussions and external disclosure of the human rights impacts of their activities.

Shell and BP shareholder resolutions

We were part of the "co-filing group" for shareholder resolutions by a coalition of UK investors and NGOs calling on energy and petrochemical giants BP and Shell to say more about the preparation they are making for a low carbon world. In particular we want disclosure of operational emissions, their testing of the resilience of their businesses to different global warming scenarios and their work on low carbon energy R&D and investment.

The resolutions were passed with overwhelming shareholder support following recommendations from both Shell and BP that shareholders vote in favour of the resolutions.

The next step is to hold the companies to account to provide meaningful reporting about how they are aligning their businesses with the global changes needed to deliver a low warming future.

Our People

Our people are our greatest asset – we say it often and with good reason. It is only with the determination and dedication of our people that we can serve our clients, generate long-term value for our shareholders and contribute to the community.

We focus on cultivating and sustaining a diverse work environment and workforce, which is critical to meeting the unique needs of our diverse client base and the communities in which we operate.

Our goals are to maximise individual potential, increase commercial effectiveness, reinforce the company's culture, expand our people's professional opportunities, and help them contribute positively to their greater communities. Focusing on cultivating and sustaining a diverse work environment and workforce supports these goals.

2015 Community Grants

Each year 10% of the Company's pre-tax profit is donated to community organisations working to address humanitarian, environmental and animal welfare needs, one of the highest percentages of a listed company's profits donated to charity in Australia.

In the 2015 financial year \$0.37m has been provisioned for payment to charitable and conservation organisations under our community grants program with over \$2m having now been paid or provisioned.

Recently we created the Australian Ethical Foundation as a vehicle to distribute the community grants we make each year. There are two drivers behind establishing a Foundation:

- **Flexibility:** the Foundation will provide an investment pool that would give greater flexibility in the types of support we would be able to provide recipients;
- **Leverage:** in the future we would like to invite shareholders and clients to contribute to the Foundation and participate in the support of the many worthwhile recipients.

Outlook

The growth in the ethical investment market is strong as increasingly people are becoming more socially conscious and realising that they can consume and invest in alignment with their values without compromising on quality and performance.

The regulatory environment for superannuation and managed funds continues to evolve with increasing compliance costs and downward pressure on fees. We will continue to assess product fees against the market balancing member interests, returns to shareholders and the need to develop a long term, sustainable business.

Global markets are currently going through a period

of considerable volatility and we expect that this will continue for some time. This will impact our revenues as the value of funds under management (which is in turn influenced by the state of the markets) is the largest driver of revenues.

Our Company is a very special company and truly serves as a model of the future where social and environmental outcomes are achieved alongside financial performance. With our funds under management having passed \$1bn, we are of a size and capacity where we are a significant player in the financial services landscape with a substantial voice and influence.

With rising consumer awareness of the ethical impact of their consumption choices and the need for better ways of doing business, we are well placed to continue to grow and have an even greater impact on achieving a better world. We have our sights firmly set on reaching \$5bn by 2020 and with the passion, commitment and skills of our people we have every reason to believe that we'll get there.



A handwritten signature in black ink that reads "S. P. Gibbs".

Steve Gibbs
Chairman

28 August 2015



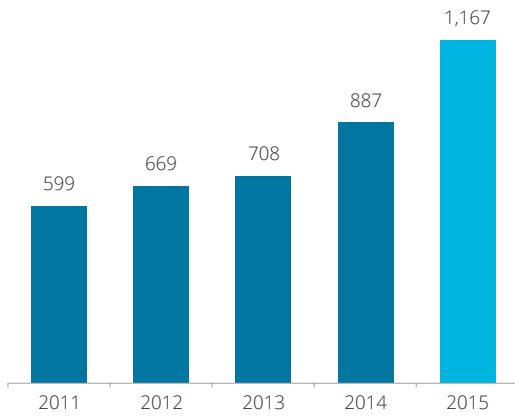
A handwritten signature in black ink that reads "Phil Vernon".

Phil Vernon
Managing Director &
Chief Executive Officer

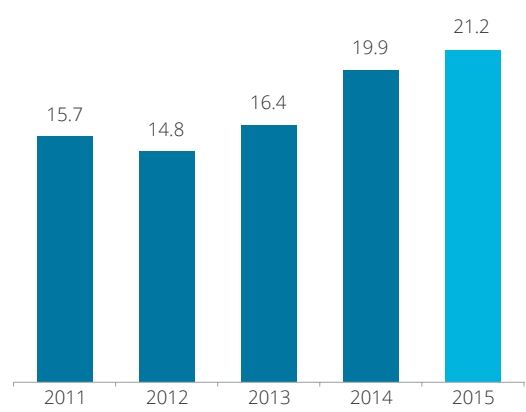
28 August 2015

Financial Summary

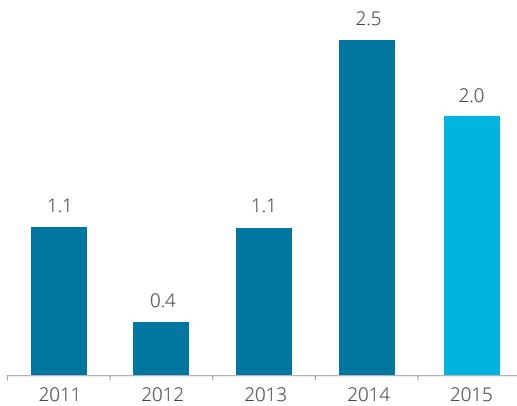
Funds Under Management (\$m)



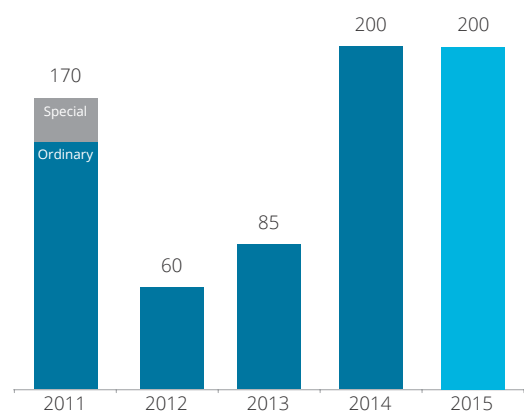
Revenue (\$m)



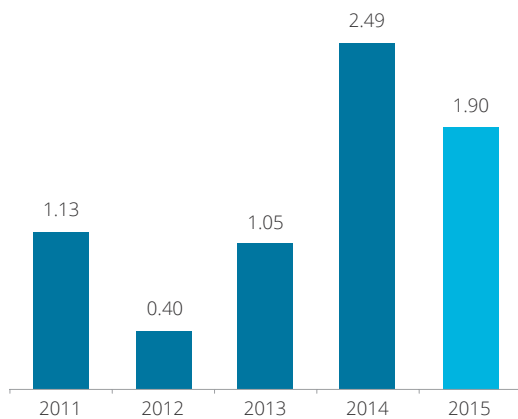
Profit After Tax (\$m)



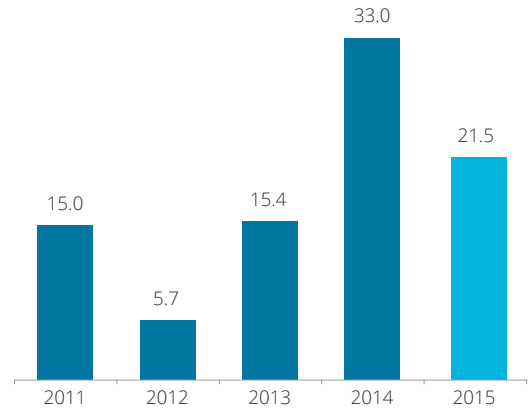
Dividends (cps)



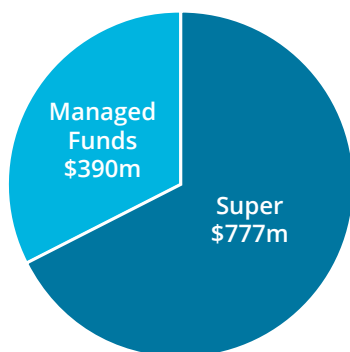
Basic Earnings Per Share (\$)



Return On Equity (%)

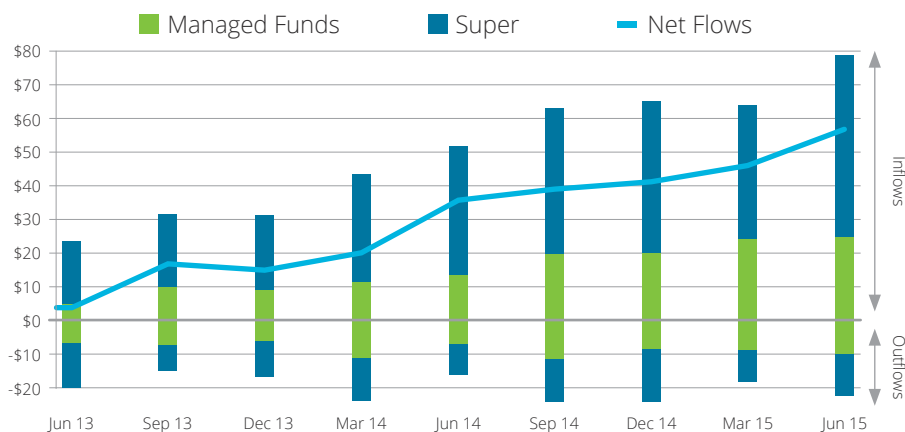


Funds under Management



As at 30 June 15

Net Inflows



Financial results for the year to 30 June 2015

Profit	2014 (\$,000)	2015 (\$,000)	% change
Revenue	19,889	21,171	6%
Operating expenses	(14,476)	(16,478)	(14%)
Non-operating expenses*	(2,871)	(2,723)	6%
Net Profit After Tax (NPAT)	2,542	1,970	(23%)
Adjustments (gross)			
Add back employment restructure	409	-	
Add back property revaluation	282	484	
Tax on adjustments	(122)	-	
Underlying Net Profit After Tax (UPAT)^	3,111	2,454	(21%)

* Non-operating costs include tax, depreciation, amortization, community grants, loss on disposal of assets and property impairment.

^ 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. 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.

Funds Under Management	2014 (\$m)	2015 (\$m)	% change
Opening FuM	708	887	25%
Super flows (net)	78	132	70%
Managed Funds flows (net)	14	47	240%
Net Flows	92	179	96%
Market movement	87	100	14%
Closing FuM	887	1,167	32%

Dividends	2013/2014 (cents per share)	2014/2015 (cents per share)	% change
Interim (fully franked)	80	80	-
Final (fully franked)	120	120	-
Total dividend	200	200	-



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