

Australian Ethical Investment Limited

Earnings guidance Update on unit pricing remediation

Australian Ethical Investment Limited (ASX: AEF) advises that Net Profit after Tax (NPAT) for the 6 months ending 31 December 2016 is expected to be between \$0.4 and \$0.8 million a decrease of 59.4% on the prior corresponding period.

The reduction in forecast profit is due primarily to remediation and project costs related to unit pricing errors in respect of our superannuation fund, which was advised to the market in our full year earnings release for the year ended 30 June 2016. At that time and as outlined in the annual financial report for 2016, we advised of a provision of \$0.9m.

Since that time we have undertaken extensive investigation including the appointment of actuarial consultants. The forecast impacts on the 6 months ending 31 December 2016 are:

- \$1.2m additional provision is required relating to an additional error identified during the investigation involving inadequate rebates to the fund by the holding company to avoid the “double dipping” of fees where inter-funding occurs.
- \$1.1m in project and consultant costs associated with investigating the errors and determining the remediation required.

The investigation is scheduled for completion by the end of the 2016 calendar year. The final compensation amounts and costs of remediation may vary to the above amounts once the investigation is complete, however the above are our best estimates based on the information we have to date.

Reconciliation of UPAT and NPAT

Underlying Profit after Tax (UPAT) for the 6 months ending 31 December 2016 is expected to vary from NPAT. NPAT and UPAT are reconciled as follows:

	H1 16 (\$'000)	H1 17 (this guidance) (\$'000)	% Increase/ (Decrease)
Net profit after tax	1,501	610	(59.4%)
Adjustments			
- add back employment restructure expenses		229	
- add back further provision for remediation		1,200	
- add back unit pricing project costs		1,104	
Add back property revaluation		-	
Tax on adjustments		(760)	
Underlying profit after tax	1,501	2,383	58.8%

Explanation of items removed from UPAT

In calculating UPAT we reverse the impact on profit of certain items to provide a better understanding of operational results. Items adjusted include:

- *Employment restructure expenses unrelated to the above errors*
- *Costs incurred in relation to investigation and remediation of unit pricing errors*
- *These remediation costs are in addition to the \$0.9m provisioned in the FY16 accounts*
- *Tax on adjustments: Income tax applicable to some of the adjustment items*

This earnings guidance is based on unaudited management accounts to the end of October 2016. More information will be provided in the announcement of the half year results in February 2017.

Update on net inflows to 31 October 2016

Despite the operational errors described above the business overall continues to perform strongly. Net flows for the month of October 2016 were \$38.7m and for the 4 months to 31 October were \$141.1 million, an increase of 57% over the same period last year.

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.

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