

February 2016

# Shareholder Update



australian**ethical**

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## Shareholder calendar

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Record Date for Interim Dividend	10 March 2016
Payment Date for Interim Dividend	24 March 2016
2015 Annual Results Announcement	31 August 2016
Annual General Meeting (planned)	26 October 2016

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# Managing Director and Chairman's Report

## Dear shareholder,

We are very pleased to provide you with the half yearly update on the business for the six months to 31 December 2015.

The Company continues to perform strongly, with a doubling of new business, continuing strong investment performance and disciplined cost management.

Our growth is underpinned by growing demand for ethical investment as investors become increasingly aware that they can save and invest for a secure future whilst having a positive impact on the future of the planet. People from all walks of life really do care about the future of the planet and social values and want to see those values reflected in the products they consume and the investments they make.

Our strong investment performance described below continues to "bust the myth" that often surrounds ethical investing and demonstrates that you can invest in accordance with your values and earn good returns over the long term.

In short, you can make your money do good for both yourself and the planet.

### Financial highlights (all comparisons to half year ended 31 December 2014):

- Net profit after tax (NPAT) of \$1.5 million (up 172%)
- Underlying profit after tax<sup>1</sup> (UPAT) of \$1.5 million (up 55%)
- Revenues of \$10.9 million (up 11%)
- Operating expenses of \$8.4m (up 3%)
- Total expenses of \$9.4m (up 1%)
- Interim ordinary dividend of \$1.20 per share, fully franked

### Operating highlights:

- Group funds under management of \$1.4bn (up 35%)
- Net inflows of \$155m (up 102%)
- Superannuation membership at 23,570 members (up 11%)
- Top quartile investment performance for key funds

## Financial performance

### Net profit

Net profit after tax (NPAT) for the half year ended 31 December 2015 increased 172% to \$1.50 million, when compared to the \$0.55 million reported for the previous corresponding period.

### Revenues

Half year revenue increased 11% to \$10.9 million, up from \$9.9 million recorded for the previous corresponding period.

### Fees

The impact of significant superannuation fee reductions at the end of the 2013/14 financial year was offset by increases in net flows and growth of funds under management this period. A part of this reduction strategy a further reduction of 0.30% occurred on 31 July 2015, reducing superannuation asset based administration fees to 0.63%.

As stated previously, this is part of a strategy to progressively reduce fees to a more competitive level in order to place the business on a sustainable long term footing.

### Expenses

Total expenses for the six months to 31 December 2015 increased slightly (1.4%) by \$0.15m, when compared to the six months to 31 December 2014.

Operating expenses for the six months to 31 December 2015 increased by \$0.22m (2.7%) compared to the six months to 31 December 2014.

The main drivers of expenses were:

- Staff costs: staff costs have decreased by \$0.09m or 2% over the prior corresponding period. This has been impacted by a number of adjustments to the Remuneration structure that were set out in the Remuneration Report included in the full year financial report.
- External services & Fund Related expenses: costs to outsource providers have increased by \$0.12m as a result of increased number of clients and funds under management.
- Marketing: marketing costs have increased by \$0.27m due to increased spend to support the growth in inflows on digital marketing resulting an increase in new clients.
- Community Grants and Income Tax expense: the amount provisioned for Community Grants and Income Tax increased by \$0.29m as a result of the improved profit result for the period.

There was no impairment on our property in Canberra during this period.

### Interim Dividend

An interim fully franked dividend of \$1.20 per share was declared for the six months to 31 December 2015. The record date for the dividend will be 10 March 2016 with payment due on 24 March 2016.

<sup>1</sup> Refer reconciling table on page 7

## Managing Director and Chairman's Report (continued)

### 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 only significant non-cash asset is the property held in Canberra.

### Funds under management and business growth

#### Net inflows

Net inflows doubled to \$155 million for the last six months, up 101% on the previous corresponding period's net inflows of \$77 million.

### Funds under management

FUM for the half year increased 32% to \$1.4 billion, up from \$1.0 billion in the previous corresponding period. FUM growth was driven by a combination of net inflows and asset management performance.

#### New clients

We averaged 487 new superannuation clients per month compared to 377 last year (an increase of 29%).

### Investment performance

Performance across all our managed funds has been excellent with consistent above median performance over recent periods.

Our investment performance continues to be outstanding with both our Australian Shares Fund and the Diversified Shares Fund achieving 1st quartile performance over 1, 3, 5, 7 & 10 years in a survey of managed funds published by consulting firm Mercer<sup>2</sup>.

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

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

<sup>2</sup> Based on Mercer's Peer Group Category as at 31 December 2015.

## Launch of the Australian Ethical Emerging Companies Fund

On 1 July 2015, we launched the Australian Ethical Emerging Companies Fund. The new fund invests in a diversified portfolio of shares in small capitalisation companies that are screen for 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. The fund had net inflows in the first six months of \$5.8m which is encouraging.

## 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 behavior in the corporate and broader community. Areas of focus over the period have been:

### COP21 agreement in Paris – and beyond

Managing Director Phil Vernon went to Paris in December to participate in meetings and forums for investors and other companies advocating for decisive climate action. We were encouraged by the COP21 agreement reached, which underlined the urgency required to act. An enormous amount of capital needs to move from the old economy to the new in a very short period of time. The business and investment community needs to be bolder and act with greater urgency regardless of political solutions.

Australian Ethical is leading the way on decarbonising our own investments beyond avoiding fossil fuels and by doing so aim to demonstrate to others that it can be done and how to resolve the complexities of navigating the pathways to a clean economy.

### Big four Australian banks and the climate

Banks are some of the largest allocators of capital in the economy and we continue to advocate for greater transparency by the big four Australian banks of their lending to climate-sensitive sectors.

We used our Advocacy Fund's nominal shareholding in ANZ to support a shareholder resolution calling for an improved response to global warming.

Australian Ethical also led the domestic leg of an engagement program organised by US investment manager Boston Common Asset Management to benchmark 61 of the world's largest banks. Boston Common Asset Management's report on the program revealed the big four Australian banks performed strongly when compared to their international peers.

A number of companies outlined positive efforts to address climate change at the 2015 reporting and AGM season. Furthermore, a number of companies provided firmer commitments to align their businesses with the COP21 agreement to reduce the level of warming below two degrees.

Ethical Australian investors and customers as well as some hard-campaigning NGOs can claim considerable credit for the progress that the banks have made.

Despite these positive steps, more needs to be done by the banks. They need to continue to enhance their carbon monitoring and reporting, and move beyond disclosure to making tangible changes to the way they lend and invest.

They also need to give clear commitments to align their businesses to an economic and societal path that limits warming to a safe level. And they need to implement that commitment in a transparent and measurable way.

## Human rights

Human rights issues are increasingly in the spotlight in Australia and the corporate sector's awareness and responsiveness to the issues a key focus of the investment sector.

Two particular issues have received a lot of attention over the past year; media revelations of mistreatment of workers at 7Eleven convenience stores and by food suppliers to major supermarkets and the scrutiny of Broad Spectrum's (formerly known as Transfield Services) operation of offshore detention centres on Nauru and Manus Island.

A fundamental harm we avoid under our Australian Ethical Charter is the inhibition of human rights. We don't invest in companies which operate detention centres – offshore or onshore – and we have never invested in Broad Spectrum (Transfield).

Australian Ethical supports the work of No Business in Abuse (NBIA) which is doing excellent work raising public awareness, building investor understanding of the issues, as well as directly engaging with companies like Broad Spectrum. We support NBIA's 'human rights floor' of minimum conditions for treatment of people seeking asylum:

1. Zero tolerance for child abuse;
2. No arbitrary and indefinite detention;
3. No cruel, inhumane or degrading treatment; and
4. Transparency and effective monitoring.

Australian Ethical has also contributed its ethical investment voice to the debate, including in direct dialogue with Broad Spectrum. Some mainstream investors have argued that Broad Spectrum should not be targeted or penalised for simply implementing government policy. We disagree. Human rights

transcend the laws and actions of individual countries, being universal rights possessed by all humans. Indeed international human rights law developed after World War II as a response to state-sanctioned human rights violations. Individuals and companies have a responsibility to respect human rights in their activities, independently of government policy.

### Animal welfare

We became the first Australian fund to join international investors to promote ethical agriculture using the Business Benchmark on Farm Animal Welfare. The Benchmark ranks global food producers and supermarkets (including Woolworths and Coles) according to their management and reporting of impacts on the well-being of farm animals. The global investor group we have joined is working to encourage companies that rank poorly to improve their practices.

### Our people

Over the past six months we have been working with the whole team to clarify our purpose and the values that we aspire to. We feel we are creating a culture where individuals have the opportunity to achieve their potential and contribute positively to their greater communities.

### Update on current market conditions

Since the end of the last reporting period (31 December 2015) global markets have been extremely volatile. This can be a challenging time for all investors, in particular those approaching retirement.

For our clients, our in-house investment team remain focussed and diligent on managing through these difficult times. It is also important through times such as these that investors and members have a range of investment options available to them allowing them to reallocate their investments according to their comfort levels.

For our shareholders, the main sensitivity to the market volatility is the impact on our revenues. Our revenues are primarily based on our funds under management which are in turn based on asset performance (what the market does and our own investment performance) and net inflows. We provide quarterly funds under management and net flows data so that the market is kept informed.

Given the market volatility since 31 December 2015 we provide below a table showing movements since that date.

### Outlook

Whilst we see investment markets continuing to be volatile for some time, we remain confident that the trend for growing social consciousness and increasing demand for ethical investment products will continue.

We believe that our strategy of providing values based consumers a range of competitive, professionally managed superannuation and investment products with multiple investment options to suit their current investment profile fills a unique need in the market and will lead to continual growth.



**Phillip Vernon**  
Managing Director  
24 February 2015



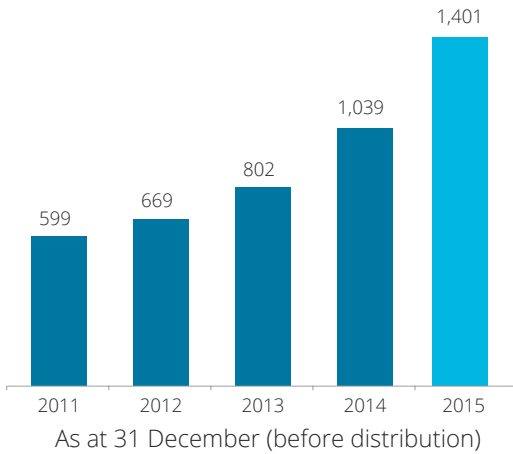
**Steve Gibbs**  
Chairman  
24 February 2015

### Movements since 31 December

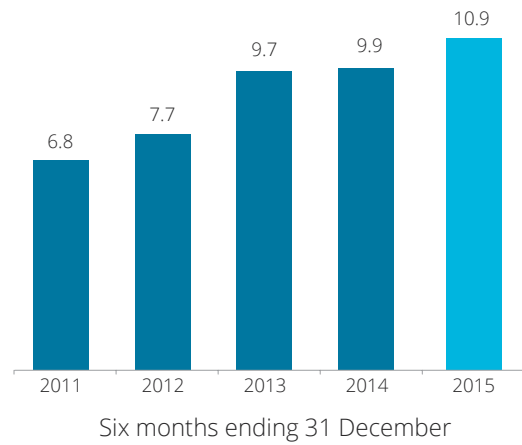
Product Category	FUM - Dec 15 (\$m)	Net Flows (\$m)	Market & Other* (\$m)	FUM 22 Feb 16 (\$m)
Managed Funds	493.7	1.8	(50.3)	445.1
Superannuation	907.6	33.7	(38.5)	902.9
All Products	1,401.3	35.5	(88.8)	1,348.0

# Financial Summary

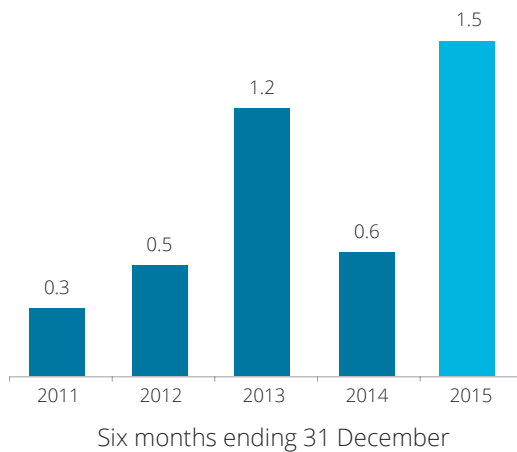
Funds Under Management (\$m)



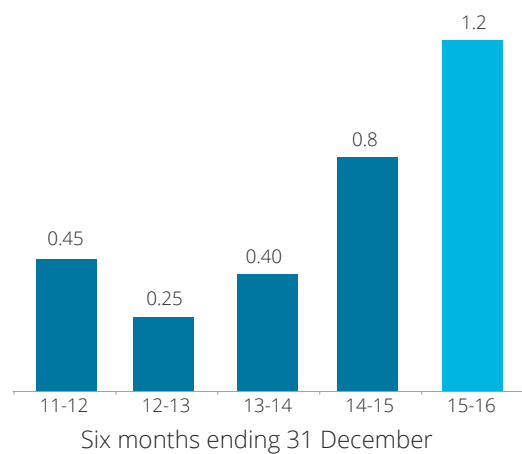
Revenue (\$m)



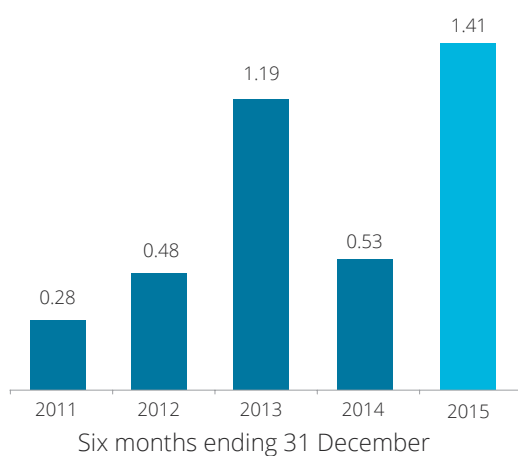
Profit After Tax (\$m)



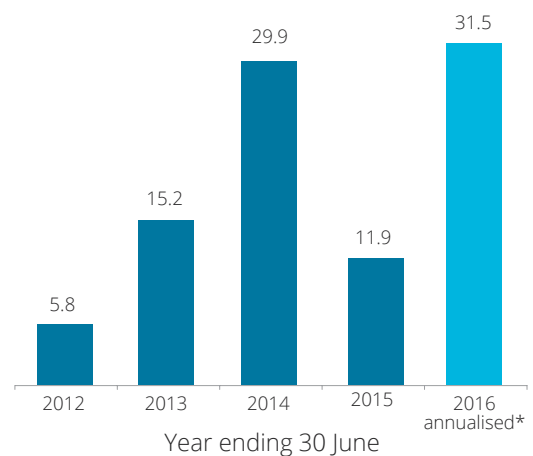
Interim Dividend (\$)



Basic Earnings Per Share (\$)



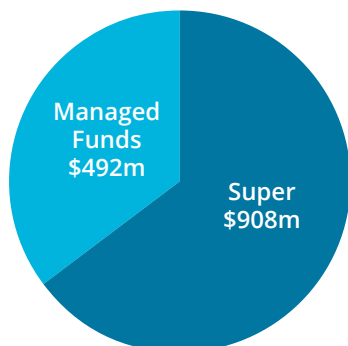
Return On Equity (%)



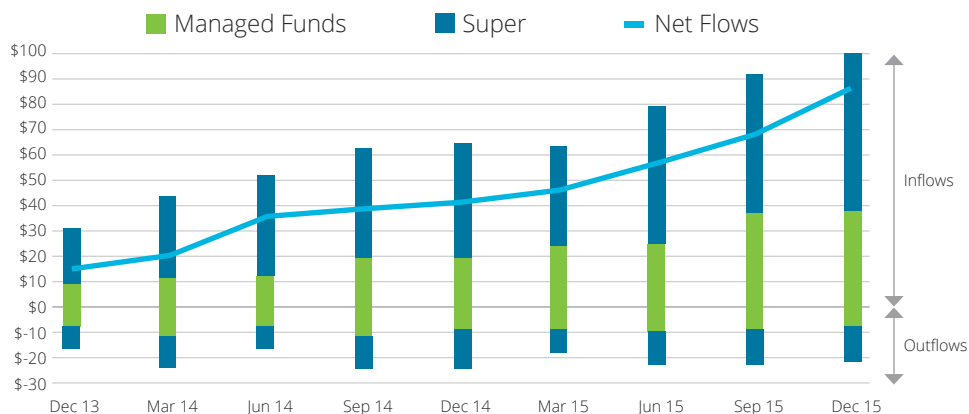
\* Return on Equity quoted for 2016 is an annualised ROE of the half year. This does not represent a forecast of full year results in respect of the 2016 financial year.

## Financial Summary (continued)

### Funds under Management



### Quarterly Flow Analysis



### Financial results for the half-year to 31 December 2015

Profit	Half year to 31 Dec 2014 (\$,000)	Half year to 31 Dec 2015 (\$,000)	% Change
Revenue	9,859	10,940	11%
Operating expenses	(8,139)	(8,358)	3%
Depreciation, amortisation, community grants and tax	(1,167)	(1,081)	7%
<b>Net profit after tax</b>	<b>533</b>	<b>1,501</b>	<b>171%</b>
Adjustments (gross)	-	-	-
Add back property revaluation	412	-	-
Tax on adjustments	965	-	-
<b>Underlying Net Profit After Tax (UPAT)<sup>^</sup></b>	<b>1,423</b>	<b>1,501</b>	<b>55%</b>

<sup>1</sup> 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

Funds under management	Half year to 31 Dec 2014 (\$m)	Half year to 31 Dec 2015 (\$m)	Change %
Opening FUM	887	1,167	32%
Super flows (net)	60	96	59%
Managed Funds flow (net)	17	59	251%
<b>Net flows</b>	<b>77</b>	<b>155</b>	<b>102%</b>
Market movement	74	79	7%
<b>Closing FUM</b>	<b>1,038</b>	<b>1,401</b>	<b>35%</b>

## Dividends

Dividends	2014/2015 (cents per share)	2015/2016 (cents per share)	% change
Interim (fully franked)	80	120	50%
Final (fully franked)	120	To be declared at August 2016	
<b>Total dividend</b>	<b>200</b>		

# Community Grants

The Australian Ethical Community Grants program has a positive impact on our world and a direct alignment with our Charter and values. Each year 10% of Australian Ethical's pre-tax profit is donated to community organisations working to address humanitarian, environmental and animal welfare needs. This represents one of the highest percentages of a listed company's profits donated to charity in Australia. Over the past 14 years we have donated over \$2 million

We recently announced the grant recipients for our 2015 Community Grants program. It was a difficult process to award the final 18 grants. Thanks to the voting input of shareholders and staff, we have now distributed grants to a total value of \$230,000 across four monetary categories (\$20,000, \$15,000, \$10,000 and \$5,000).

This year we increased the number of major grant recipients from two to five. Details of these five programs are on the following pages.

Many of the projects will be fully funded by Australian Ethical. We look forward to receiving feedback from the recipients on the progress of the projects over the next six to twelve months.

## Project Profiles



### Animalia Wildlife Shelter

#### Renewable energy for a wildlife rescue centre in Victoria

Animalia Wildlife Shelter provides emergency and short and long term care for injured, sick and orphaned Australian wildlife, releasing them back into the wild once rehabilitated. In a truly admirable goal, the centre has decided it's not only desirable but absolutely necessary for them to switch to renewable energy, and effectively take their organisation off-the-grid. Water and energy is currently costing Animalia Wildlife Shelter around \$10,000 per year due to the amount of heat pads, heat lamps, and the constant need of electricity and water to provide care for the wildlife needing rehabilitation. Our \$20,000 grant will allow the shelter to build a solar system, meaning they can put other monies fundraised solely into the care, feeding and rehabilitation of Australian native wildlife.



### Green Connect

#### Growing sustainable jobs and food in the Illawarra region of NSW

The Illawarra has one of the highest unemployment rates in Australia (9.8%). This number doubles for young people, and for refugees only 31% have a job 5 years after resettlement. Green Connect is a social enterprise that creates jobs that help the environment for resettled refugees and young people. Last year Green Connect employed 122 resettled refugees and young people, kept over 2,000 tonnes of waste out of landfill, and grew and distributed over 2,000 kilograms of vegetables. Green Connect will use our \$20,000 grant to develop a further 5,000m<sup>2</sup> of their urban chemical-free farm to increase employment, food production and financial sustainability.



### Animal Aid Abroad

#### Working donkey welfare program in Afghanistan

In Afghanistan the working donkey is vital to carry supplies (water, food and building supplies) to the many outlying villages, including most of Kabul's surrounding urban areas. The donkeys are overworked and many years of conflict have left a limited knowledge base of animal welfare and the needs of the donkeys. Animal Aid Abroad is working with its partner Nowzad to run a 6-month program of 'pop-up' roadside workshops, using qualified vets and farriers to provide vaccinations and hoof repairs, and educate Afghan Muleteers about the importance of basic health checks, feeding, husbandry and care of their animal. Nowzad will also provide animal handling training for veterinarian students at Kabul University. Australian Ethical has provided a \$20,000 grant to Animal Aid Abroad to allow their new project in Afghanistan to hit the ground running.

## Environmental Defenders Office

### Improving access to environmental justice in the Northern Territory

The Angel Place Project aims to open a 100-room not-for-profit social hotel, which will provide more than 18,000 hotel rooms per year to homeless young children and their families. The hotel will provide a safe and welcoming place to stay for newly homeless families while they seek professional support and help to work through their next steps. The Room-for-a-Room business model releases one 'free' room to a newly homeless family as each prepaid room is booked, with the goal of becoming a financially self-sustaining business model. This idea has great potential to help break down the negative perceptions of 'The Homeless' and the dichotomy of 'Them' and 'Us'. As a result of our \$20,000 grant, Angel Place will soon be able to develop a pilot for their innovative approach to crisis accommodation at a mainstream 3-4 star hotel either in Sydney or Melbourne.

## Angel Place

### A social enterprise to support homeless families

The Angel Place Project aims to open a 100-room not-for-profit social hotel, which will provide more than 18,000 hotel rooms per year to homeless young children and their families. The hotel will provide a safe and welcoming place to stay for newly homeless families while they seek professional support and help to work through their next steps. The Room-for-a-Room business model releases one 'free' room to a newly homeless family as each prepaid room is booked, with the goal of becoming a financially self-sustaining business model. This idea has great potential to help break down the negative perceptions of 'The Homeless' and the dichotomy of 'Them' and 'Us'. As a result of our \$20,000 grant, Angel Place will soon be able to develop a pilot for their innovative approach to crisis accommodation at a mainstream 3-4 star hotel either in Sydney or Melbourne.

Organisation name	Project	Amount
Environmental Defenders Office	Improving access to environmental justice in the Northern Territory	\$20,000
Green Connect	Growing sustainable jobs and food in the Illawarra region in NSW	\$20,000
Animal Aid Abroad	Working donkey welfare program in Afghanistan	\$20,000
Angel Place	Providing rooms to homeless young children and their families	\$20,000
Animalia Wildlife Shelter	Emergency care for injured, sick and orphaned Australian wildlife	\$20,000
Abundant Water	Clean water to empower women in Laos	\$15,000
East Gippsland Rainforest Conservation Management Network	Rainforest recovery via Indigenous engagement in Victoria	\$15,000
Australian Red Cross with the Royal Flying Doctors Service	The healthy living outreach program for Aboriginal communities	\$10,000
Alternative Technology Association	Solar electrician for Atauro Island East Timor	\$10,000
Assisi Aid Projects	Financial independence for widowed women in rural India	\$10,000
Sleepy Burrows	Expanding wombat manor for injured wombats in NSW	\$10,000
Indigo Foundation	Cooperative gardens in Indonesia to see women's empowerment	\$10,000
Free to Shine	Scholarship program for girls at risk of sex-trafficking in Cambodia	\$10,000
The Orangutan Project	Wildlife protection units in Sumatra, Indonesia	\$10,000
With Compassion and Soul	Sun Bear sanctuary in Borneo	\$10,000
Wildlife Asia	Protecting the critically endangered Sumatran Rhino	\$10,000
A Girl & Her World	Income-generating project for women in Fiji	\$5,000
The Incredible Tip Shop	Stable jobs for the marginalized in Mackay, Queensland	\$5,000



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