

February 2017

Shareholder Update



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Shareholder calendar

Record date for interim dividend	10 March 2017
Payment date for interim dividend	24 March 2017
2016 annual results announcement	31 August 2017
Annual General Meeting (planned)	25 October 2017*

*Date is subject to change

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Managing Director and Chairman's report

Dear shareholder

We are very pleased to provide you with this update on our business for the six months to 31 December 2016.

Our company continues to experience tremendous growth as we head towards \$2 billion in funds under management (FUM). We continue to demonstrate that ethical investing has truly come of age and can deliver strong investment returns while having a positive impact on our planet.

Our ethical leadership continues to be globally recognised. In September, we were again recognised in the top 10% of all Certified B Corps on the global B Impact Assessment list, and in October 2016 the French Government recognised us for our leadership on portfolio decarbonisation.

This leadership and growth has led to strong financial performance.

Key points

(all comparisons to half year ended 31 December 2015)

- Net profit after tax attributable to shareholders of \$0.564m (2015: \$1.501m down 62%)
- Consolidated statutory net profit after tax of \$0.569m
- Underlying profit after tax of \$2.3m (up 52%)
- Revenues of \$13.3 m (up 22%)
- Operating expenses of \$10.1m (up 19%)
- Interim ordinary dividend of 50 cents per share, fully franked

Operating highlights

- Net profit impacted by the \$2.2m cost of remediating unit pricing error
- Group funds under management of \$1.84bn (up 31%)
- Net inflows of \$209m (up 35%)
- Superannuation membership at 30,535 members (up 30%)
- Continued above benchmark performance for our flagship Australian Shares fund

Financial performance

Net profit

The net profit after tax attributable to shareholders for the half year ended 31 December 2016 decreased 62% to \$0.564 million, when compared with \$1.501 million reported for the previous corresponding period.

Revenues

Increased net flows, membership growth and positive performance meant our half year revenue increased 22% to \$13.3 million. This was up from \$10.9 million recorded for the previous corresponding period.

New super fund members

Increasing awareness of ethical investment and targeted marketing helped us set new records in our super fund. In the six months to 31 December 2016, Australian Ethical Super averaged 812 new members per month, approaching double the rate of new membership in the corresponding period in 2015. In November, we set a new monthly record of 993 new members and in December, reached the milestone of over 30,000 members.

Net inflows

For the six months to 31 December 2016, we saw net inflows of \$209 million, up 35% on the previous corresponding period's net inflows of \$155 million.

Funds under management

Funds under management at 31 December 2016 were \$1.84 billion, up 31% from \$1.40 billion at 31 December 2015. FUM growth was driven by a combination of membership growth, net inflows and asset management performance.

Fees

We continued our strategy of progressively reducing fees for super members. In June 2016 we reduced the asset based superannuation administration fees from 0.63% to 0.41%. This was in addition to an earlier reduction of the same fee by 0.3% in July 2015. The accrued impact of these fee reductions was offset by the ongoing growth in funds under management in the period.

Expenses

There were three key expenses in the period that impacted our net profit. These were costs associated with our employment restructure, unit pricing project costs and further provisions for the remediation of the unit pricing error described below.

Total operating expenses for the six months to 31 December 2016 increased by 19% or \$1.6m, when compared with the six months to 31 December 2015. The main drivers were:

- An increase in staff costs of \$0.43m or 10% over the prior corresponding period. This included a restructure expense of \$0.25m.
- External services and fund related expenses increased by 22% in line with revenue and member growth.
- Marketing costs were up by 20% due to increased spend on digital marketing to target new clients.

Unit pricing errors

As we've previously reported, our results for the period were impacted by remediation and project costs relating to unit pricing affecting our superannuation fund.

The error was identified by management in June 2016 and a provision was made in the financial year ended 30 June 2016. Following identification of the error we appointed independent actuaries (Deloitte Consulting Pty Ltd) to investigate the error and its causes.

The investigation was completed at the end of the 2016 calendar year and the remediation of member accounts is on track to be completed by 31 March 2017. Our approach is to put members back into the position that they would have been in had the error not occurred.

The total impact of remediation was:

Item	Year ended 30 June 2016 (\$,000)	This period (\$,000)	Total (\$,000)
Member remediation	900	1,045	1,945
Project costs	-	1,160	1,160
Total	900	2,205	3,105

In order to minimise the chances of such an error reoccurring we have increased our resources in key operational and risk and compliance roles. As a result, shareholders should expect an increase in staff expenses over the coming year. This is a step-change strengthening of our support infrastructure to ensure that we stay ahead of our growth.

Australian Ethical Foundation Limited ('the Foundation')

The Foundation was established in July 2015 as a vehicle to manage the portion of profits to be distributed to charitable benevolent and conservation causes under the Australian Ethical Constitution. Utilising a vehicle such as the Foundation provides more flexibility to support charitable, social enterprise and environmental sectors.

This is the first period in which the Foundation has been consolidated. Prior period balances have been restated accordingly. Net profits within the Foundation are not available to shareholders.

Interim dividend

An interim fully franked dividend of 50 cents per share was declared for the six months to 31 December 2016. The record date for the dividend will be 10 March 2017 with payment due on 24 March 2017.

Financial position

The company retains a strong balance sheet position with no debt and positive headroom over regulatory capital requirements.

Investment performance

Our flagship Australian Shares Fund and Emerging Companies Fund continue to outperform benchmarks. Our Australian Shares Fund returned 10.0% p.a. for the 6 months to 31 December and 8.5% p.a. for past 10 years, outperforming its benchmark (the S&P/ASX Small Industrials) by 4.3% and 6.6% p.a. respectively. It continues to reside in the top quartile of all Australian shares funds over the medium, long and very long term.

Relative performance against peers for the year to 31 December 2016 was impacted by our lack of exposure to resources and underweighting in financials, both of which performed strongly over the period. Our investments in solar in our international portfolio was negatively impacted by the underperformance of that sector. Our bias toward Australian small cap stocks also impacted as they underperformed large cap stocks.

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

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

Based on Morningstar's relevant peer group category as at 31 December 2016.
Source: FactSet, Morningstar, Australian Ethical Investment

Ethical leadership

We continue to lead with our ethical rigour in selecting investments and our influence is growing to drive more responsible behaviour by companies and our investing peers. Some focus areas have been:

Climate performance and advocacy

In October 2016 we won an international award for our transparent investing in line with our climate goals. On the advocacy front:

- We continued to pressure the banking sector to do more to channel capital to renewable energy and other climate friendly businesses, and to reduce lending to the fossil fuel sector. Positively the major Australian banks have said they will support the economic transition needed to limit global warming to two degrees. But banks need to translate their general commitments into specific, actionable lending exclusions and targets. They need to find their public voice for stronger climate policy and business action. For example, they need to rule out support for the proposed Adani Carmichael mine in Queensland. If developed, Carmichael would be one of the world's largest coal mines. Exporting from its remote location and burning the low quality Carmichael coal is clearly inconsistent with the reduction in fossil fuel emissions needed to limit global warming to two degrees. In December 2016 we attended the Westpac Annual General Meeting to press this argument, calling on the bank's Chairman to rule Carmichael out.
- We acknowledged that the insurance sector has an enormous role to play in helping society and the economy transition to a world which limits global warming to well below two degrees. We engaged with insurers about how climate change is considered when they make decisions about what they will insure, and where they will invest.
- We liked the pricing incentives that some insurers now offer to encourage clients to make climate-aware choices such as cheaper car insurance for lower emissions cars and cheaper building insurance when the customer takes action to reduce the impact of extreme weather events. However, insurers also need to restrict offering insurance at all where that insurance will facilitate new fossil fuel projects or infrastructure. We also encouraged more responsible investment through clear limits on investment of insurance reserves in fossil fuel companies, and clear targets for expansion of low carbon investment. We called on them to – like the banks – find their responsible climate voice.

Food

Meat, particularly beef, has many more harmful environmental, social and animal impacts than plants. These impacts include far higher greenhouse gas emissions and water use, adverse health effects and of course widespread animal harm. To highlight this issue, during the period we:

- promoted a global investor initiative to encourage food companies and supermarkets to include more plant based protein in their foods, and reduce reliance on animal protein; and
- supported the Access to Nutrition Index (ATNI) to encourage companies to help address both under-nutrition and obesity by producing healthier foods, making them more accessible and influencing consumer choice by marketing and labeling their products more responsibly. The ATNI scores companies' actions and identifies examples of leading and lagging practice, helping us to assess and influence food companies.

Impact investing

We continued our support for impact investing to help achieve the 2015 Sustainable Development Goals (SDGs) adopted by world leaders 'to end poverty, protect the planet, and ensure prosperity for all'. The SDGs provide a map of the biggest challenges to securing a just and sustainable future, ranging from climate action to reducing inequality to responsible consumption and production.

Australian Ethical's long term, ethical investing approach is strongly aligned with investing for the SDGs. The principles of our Ethical Charter established 30 years ago already reflect many of the SDGs. To further enhance our alignment, we are developing new metrics to measure the social and environmental impacts of our investments to help us allocate capital in a way which maximises positive impact.

We extended our Community Grants program with the Australian Ethical Foundation, to increase our flexibility to commit capital to high impact innovation. We contributed to the work of Impact Investing Australia and the international Positive Impact Working Group, both organisations committed to growing the market for positive impact investments.

New office environment

As we grow we want our working environment to be an inspiring and motivating environment for our people, reflecting who we are as a company. During the period

we expanded our offices in Pitt Street, Sydney and invested in a significant refurbishment.

Throughout the entire project, every material used was sourced with the view of quality, reusability, and supporting community and history in mind. Plants feature throughout, including a living 'green wall' in the central staff collaboration space.

The result is a welcoming environment that promotes collaboration, openness and sense of alignment with our purpose.

Outlook

The past year has seen some extraordinary developments globally including the outcome of the Brexit vote and the new administration in the US. We struggle to reconcile these with what we continue to see as an increasing social consciousness and caring about the future of our planet. Rather than being an impediment to the growth of the ethical investment sector, we believe that conditions are such that people will be galvanised to take more direct action with their consumption and investing choices as they become frustrated and disillusioned with the political situation globally.

We therefore see a continued healthy growth of the sector. We will continue to be a leader in the sector as we offer fully featured, competitive, professionally-managed superannuation and investment products to the socially conscious consumer.



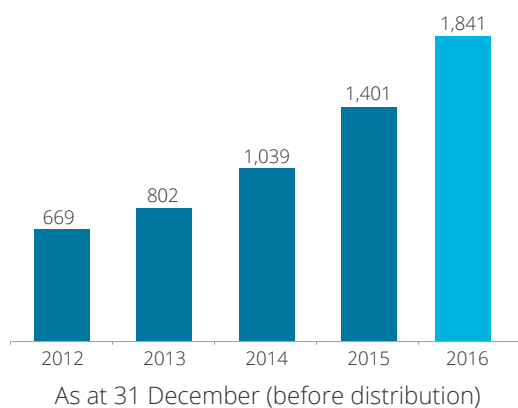
Phillip Vernon
Managing Director



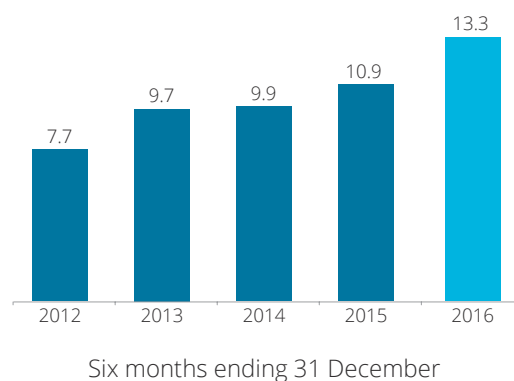
Steve Gibbs
Chairman

Financial summary

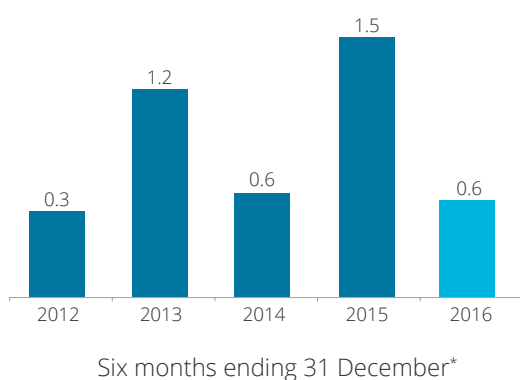
Funds under management (\$m)



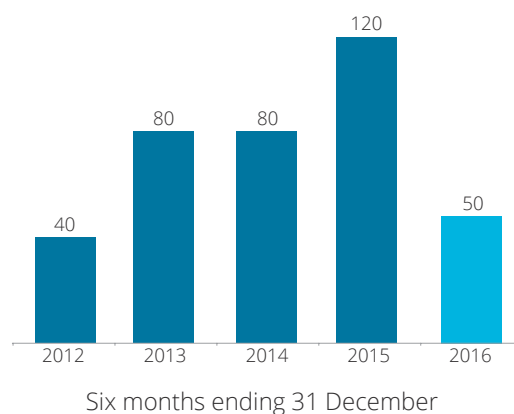
Revenue (\$m)



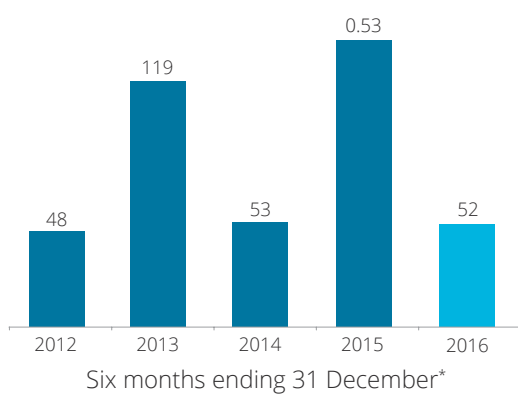
Profit after tax (\$m)



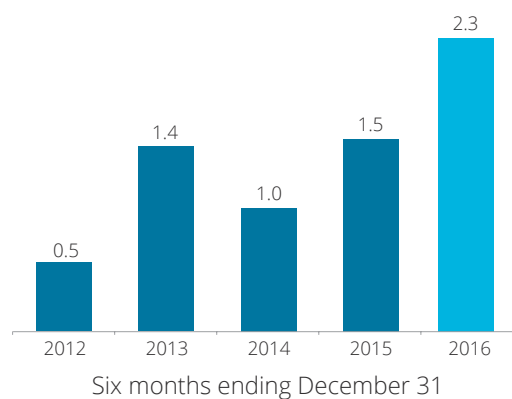
Interim dividend (cps)



Basic earnings per share (cps)



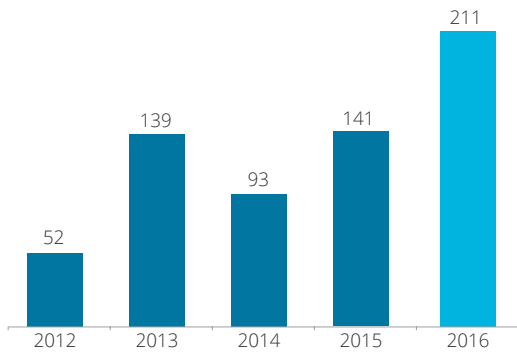
Underlying profit after tax (\$m)



* Profit after tax and basic earnings per share is attributable to shareholders, that is the Foundation result is excluded.

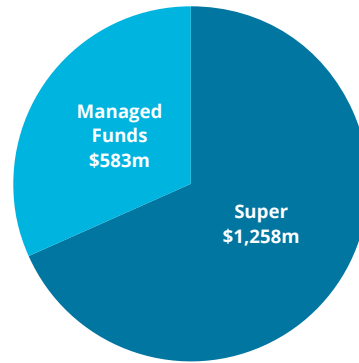


Underlying earnings per share (cps)



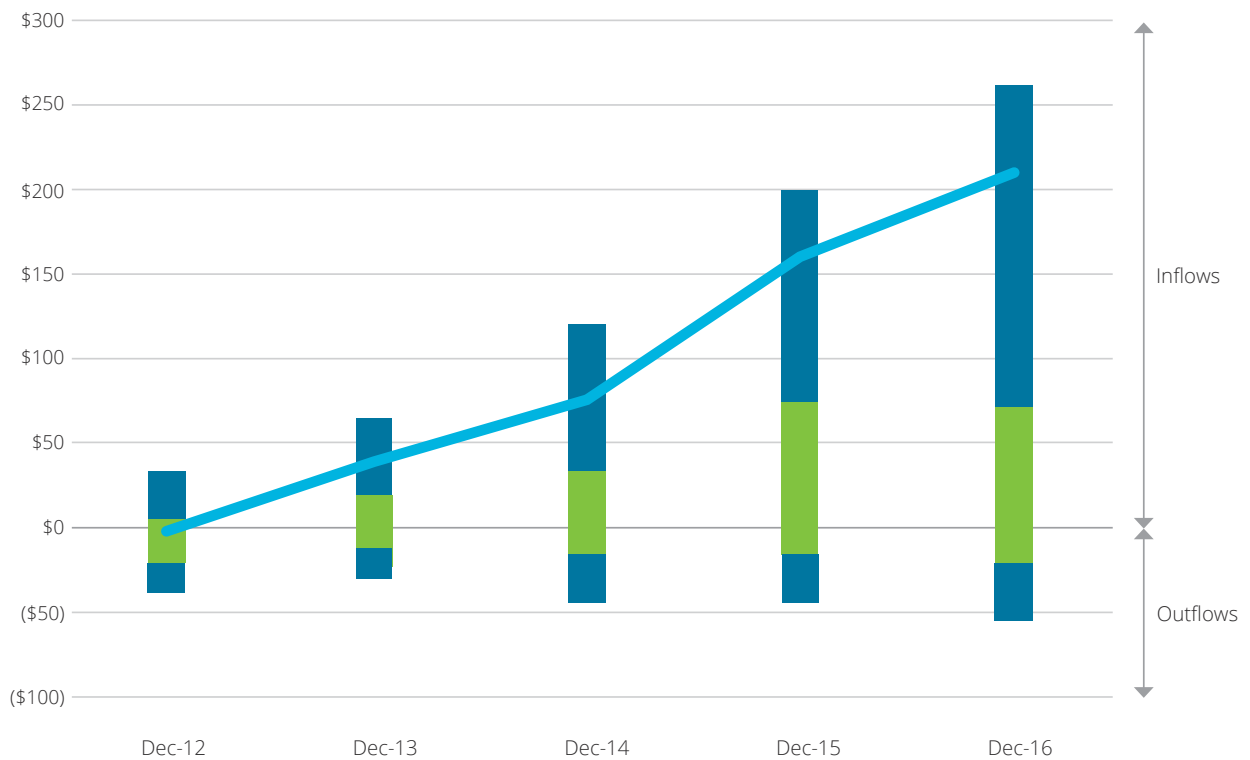
Six months ending 31 December

Funds under management



Half year flow analysis

Managed Funds Super Net Flows



Financial results for the half-year to 31 December 2016

Key financials	Half year to 31 Dec 2015 (\$,000)	Half year to 31 Dec 2016 (\$,000)	% Change
Revenue	10,941	13,328	22%
Operating expenses	(8,475)	(10,114)	(19%)
Non-operating expenses	-	(2,410)	
Income tax expense	(765)	(235)	
Net profit after tax - statutory	1,701	569	
Less Foundation results	200	5	
Net profit after tax - attributable to shareholders	1,501	564	(62%)
Adjustments (gross)			
Add back property restructure	-	250	
Add back unit price remediation expense	-	1,045	
Add back unit price remediation project costs	-	1,160	
Tax on adjustments	-	(737)	
Underlying profit after tax (UPAT)^	1,501	2,282	52%

^ 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 2015 (\$,000)	Half year to 31 Dec 2016 (\$m)	Change %
Opening FUM	1,167	1,557	33%
Super flows (net)	96	155	61%
Managed Funds flow (net)	59	54	(9%)
Net flows	155	209	35%
Market movement and other^	79	76	(4%)
Closing FUM	1,401	1,841	31%

^ Includes changes in asset value due to market movements and net income.

Dividends

Dividends	2015/2016 (cents per share)	2016/2017 (cents per share)	% change
Interim (fully franked)	120	50	(58%)
Final (fully franked)	180	To be declared at August 2017	
Total dividend	300		

Community grants

Our commitment to the community

While ethical investing is our bread and butter, we know there are a lot of projects and organisations doing good that aren't traded on market exchanges. These projects have a vital role to play in achieving a happy, healthy world, so each year we donate 10% of our profits to organisations making a positive difference.

Since our community grants program began in 2000, we have donated over \$2.5 million to charitable organisations. In the 2016 financial year, we received a total of 525 grant applications. These applications were reviewed internally for their ability to deliver tangible outcomes that benefit the planet, people or animals. All our

major stakeholder groups have a say in who receives a grant – employees, members and shareholders vote on the shortlist. This was the first year our members had an opportunity to participate.

In the 2016 financial year, we distributed \$280,000 of community grants to 18 organisations through the Australian Ethical Foundation. The Foundation was granted charity registration with the Australian Charities and Not-for-profits Commission on 12 August 2015.

Grant recipients



Motivation Australia

Providing wheelchairs and support for 20 kids in Fiji enhancing their comfort and ability to participate in school and home life.



OzGREEN Global Rivers Environmental Education Network (Australia)

Bringing clean water and community gardens to two villages in Timor



Where Pigs Fly

Constructing animal shelters at a sanctuary for rescued farm animals in NSW



Animal Aid Abroad

Training and employing local vets to treat injured, abused and overworked animals in New Delhi, India



Taronga Conservation Society Australia

'Plastic Free Oceans' campaign to protect and preserve wildlife and the environment



Centre for Compassionate Conservation, UTS

Prevention of localised extinctions of wombats through early mange treatment



Green Connect

Providing jobs for young people and refugees and improving sustainability in the Illawarra, NSW



Enterprise Learning Projects

Establishing an op-shop in Kalumburu, WA, to promote cultural enterprise



Australian Rainforest Foundation

Purchasing properties for conservation in QLD



Black Cockatoo Preservation Society of Australia

Infrastructure for the critically endangered white-tailed black cockatoo



Orangutan Foundation International

Reforestation of the Orangutan Legacy Forest in Indonesia



RSPCA Brisbane

Installation of a solar system at the Brisbane Animal Care Campus



Enterprise Learning Projects

Establishing Speargrass Bike Tours, a social enterprise run by young Indigenous men in Katherine, NT



The Humanitarian Group

Providing legal assistance for people seeking asylum in WA

For a list of all Community Grants 2016 winners, visit:

www.australianethical.com.au/community-grants-voting-2016/



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