

February 2015

Shareholder Update



Image provided courtesy of Atlantis Resources (a company we invest in). This tidal stream project is the world's biggest, and could power 16% of Scottish households by 2023.

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Shareholder calendar

Record Date for Interim Dividend	13 March 2015
Payment Date for Interim Dividend	27 March 2015
2015 Annual Results Announcement	31 August 2015
Annual General Meeting (planned)	28 October 2015

Contact Us

Phone: 1300 134 337

Fax: 02 9252 1987

Email: enquiries@australianethical.com.au

Web: australianethical.com.au

Post: Australian Ethical Investment Ltd

Reply Paid 3993, Sydney NSW 2001

Registered address: Level 8, 130 Pitt St
Sydney NSW 2000

Dear shareholder,

We are very pleased to write to you with our half yearly update for the six months to 31 December 2014.

The company continues to perform strongly across all aspects of its business 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.

The last six months have seen strong investment performance with outstanding investment returns, reaching \$1 billion in funds under management (FUM) with continued strong inflows into both superannuation and managed funds. A recent SuperRatings report showed Australian Ethical Super topping a number of performance rankings in 2014, beating most well-known super funds.

Financial performance

Our profit result for the first six months of the year is lower than the comparative six months however the underlying business continues to grow and is becoming more sustainable for the long-term.

The lower profit in this period is due to:

Revenues

As we've discussed previously, we have been progressively reducing fees on our superannuation product in order to make it more competitive and to share the increasing scale of the business with our members. A significant fee reduction was made on 30 June 2014. Pleasingly, the impact of this was offset by increased net flows and growth of FUM, resulting in revenue growing by 1%.

Although we have made significant inroads to reducing our fees and becoming more competitive, our superannuation fund continues to have fees that are higher than comparable MySuper products. As we grow we aim to continue to pass on some of the benefits of that growth to our investors and members.

Expenses

Expenses have increased due to the following:

- Property impairment - A further impairment of \$412,500 has been incurred on our property held in Bruce, 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 STI is fully expensed within the financial reporting period to which it relates.

Funds Under Management

Funds under management have grown from \$802m to \$1,039m over the past twelve months (a 30% increase).

\$1 billion milestone passed

During the period we hit a significant milestone in our 28 year history by reaching \$1 billion. 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.

Net inflows

Over the last six months we achieved \$77m in net flows and an increase in of \$74m from market growth. This continues the flows we experienced in the last quarter of 2013/14 (average net flow of \$12m per month) and compares favourably to the flows for the six months to December 2013 (\$35m).

We have focused on increasing existing member rollovers from other super funds which has been very successful in creating greater flows. We will continue to encourage all members to consolidate their super balances into our fund, helping them to save on fees and charges incurred by holding a number of funds.

New clients

Our new super client sign-ups averaged 356 per month for the past 6 months compared to 249 per month for the 6 month period to 31 December 2013.

[^] Funds under management of our super fund grew by 28.1% in the 13-14 financial year versus an industry median of 14.6% (Source: SuperRatings Quarterly Statistics Snapshot - June 2014)

Investment performance

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

Our flagship Australian share fund, the Smaller Companies Trust, recently celebrated its 20th anniversary having delivered regular upper quartile performance over the whole period. Its exceptional track record ranks it first over seven years and second over 10 years in a survey of managed funds published by consulting firm Mercer (based on Mercer's Peer Group Category as at 31 December 2014).

The fund has returned 10% per annum over its 20 year history, far exceeding its benchmark index. Similarly our diversified share fund, the Larger Companies Trust, ranks first over the 1, 2 and 3 year periods, and third over 7 years.

Fund	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Balanced	1st	3rd	3rd	2nd	2nd
Smaller companies	1st	1st	3rd	1st	1st
Larger companies	1st	1st	1st	1st	1st
Advocacy	1st	1st	-	-	-
International equities	4th	2nd	4th	3rd	-
Cash	2nd	2nd	1st	1st	1st
Fixed Interest	2nd	-	-	-	-

Launch of Emerging Companies Fund

We plan to launch a new fund in the coming months, the Australian Ethical Emerging Companies Fund which will invest in a diversified portfolio of domestic shares in small capitalisation companies on the basis of their social, environmental and financial credentials. The Fund will utilise a 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 year after year. This will be the first small cap ethical fund in the market and we have received solid interest in the Fund from advisors and clients.

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.

Advocacy initiatives

We continue to exert influence to encourage change through our engagement and advocacy activities with companies.

Our activities throughout the year included:

- Better carbon disclosure from the big banks. We worked with other domestic and institutional investors and not for profit organisations to advocate for the banks to improve their disclosure around the emissions intensity of their lending portfolios
- We co-filed shareholder resolutions put to BP and Shell requiring them to disclose their management of carbon emissions, the testing of their resilience to different climate scenarios and their work on low carbon energy R&D and investment. Both BP and Shell recommended that shareholders vote in favour of the resolutions
- We were proud to nominate Ian Dunlop, an experienced company Director and climate action advocate, to be Director of BHP Billiton. Ian has extensive experience in the oil, gas and coal sectors alongside a deep understanding of climate science. Ian's insight into the urgency of the warming challenge equips him to make a powerful contribution to the BHPB board. Unfortunately Ian was unsuccessful but the profile raised the profile of climate challenges and keeps pressure on BHPB to address them.

Decarbonisation pledge

As we grow our funds under management our ethical approach has come under closer scrutiny. In the current climate we're often asked about our approach to fossil fuels and whether we are "fossil fuel free". We had such a question posed to us from a shareholder in the lead up to the Annual General Meeting.

We have always invested our clients' savings in accordance with our Ethical Charter, which has not changed since the company began. We analyse our ethics in a holistic fashion taking into account social impacts as well as environmental. Thus we consider the social impact of a failure to supply stable and reliable energy as well as issues such as the threat to human society of nuclear energy despite its potential to reduce emissions.

We also do not focus on single sectors but believe that the entire economy should "decarbonise" in a timeframe consistent with addressing global warming. In particular, we believe that every player in the market – governments, corporations and investment markets – should set target dates by which to be a zero emissions producer.

Our position with regard fossil fuels is:

- We are substantial investors in renewable energy and energy efficiency companies.
- We do not invest in oil or coal.
- We do not invest in unconventional gas.
- We support conventional gas as a transitional fuel because it allows us to displace coal without disruption to the stable energy supply. However our support of gas is low, transitional and conditional.

As a result:

- We are already far further ahead in decarbonising our portfolio than the rest of the market. For example, our Australian company investments have a carbon footprint 73% lower than the ASX 200, as assessed by Trucost, an international leader in carbon footprint analysis. This is described on p.34 of our 2014 Annual and Sustainability Report.
- From this very low base, we are committed to decarbonising the remainder of our portfolio within a timeframe consistent with addressing global warming. Based on the current science we have currently committed to a date of 2050. We will reduce our exposure progressively over time and will report on our progress and methodologies of measurement each year in our annual sustainability report. The target date will also be reassessed annually for its appropriateness. No other public offer superannuation fund in Australia has made such a commitment.
- We will encourage and work with the global investment community to do the same. Two recent initiatives were launched which we will be supporting in this regard:
 - the Montreal Pledge – a pledge by institutional investors to disclose the carbon footprint of their portfolio; and
 - the Portfolio De-carbonisation Coalition – a coalition of global institutional investors agreeing to work together to decarbonize their portfolios.

- This approach has obvious investment implications and will be done in the context of our obligations under the superannuation legislative regime.
- We consider ourselves leaders in the field and the fact that we are not labelling our investments as "fossil fuel free" does not mean that we are not in the vanguard of responding to the climate change emergency. We are far in advance of any credible alternative.

Our People

Our people are our greatest asset. Their experience, knowledge and skill are our competitive advantage. We want to attract and retain the best providing them with encouragement and stimulus to 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.

We are extremely pleased with where we are as a company. We have passed a significant milestone in reaching \$1 billion and are now a substantial player in the financial services landscape. Despite some impacts on the current period's profits described above, the underlying business is strong.

We wish to continue to grow to have greater impact and to demonstrate by example that people can invest for performance and have positive impact. Our strong track record demonstrates that they can.



Phillip Vernon
Managing Director

24 February 2015

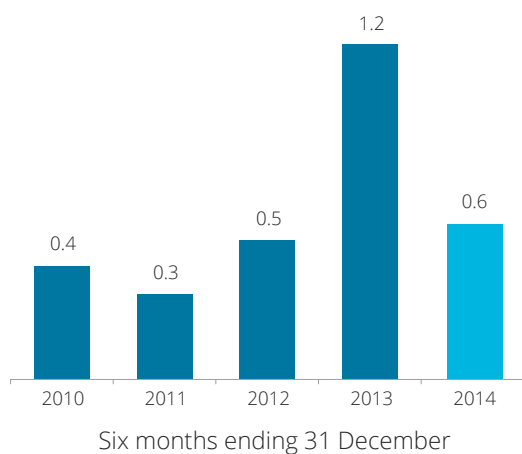


Steve Gibbs
Chairman

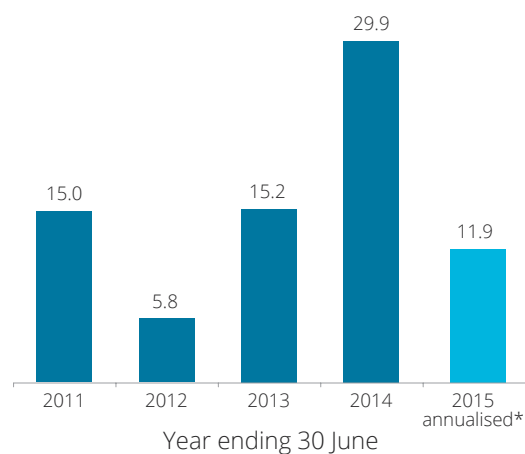
24 February 2015

Financial Summary

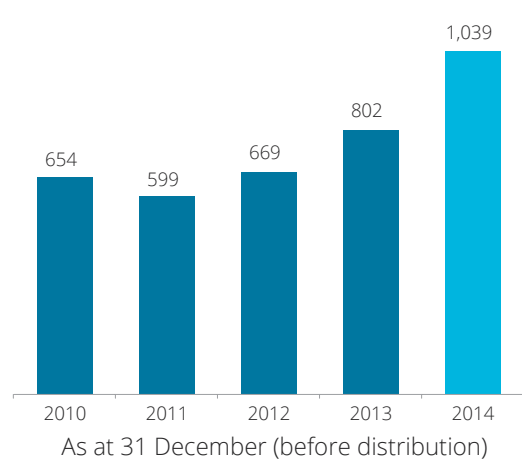
Profit After Tax (\$m)



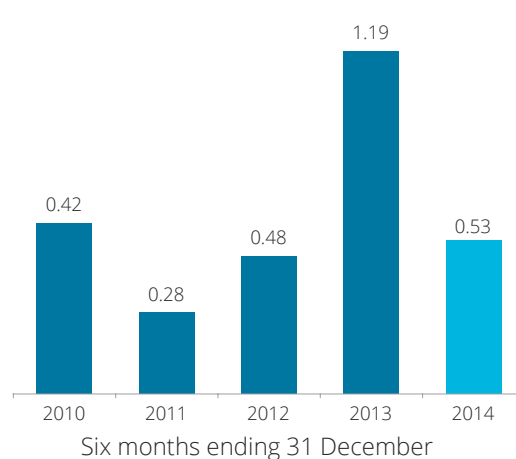
Return On Equity (%)



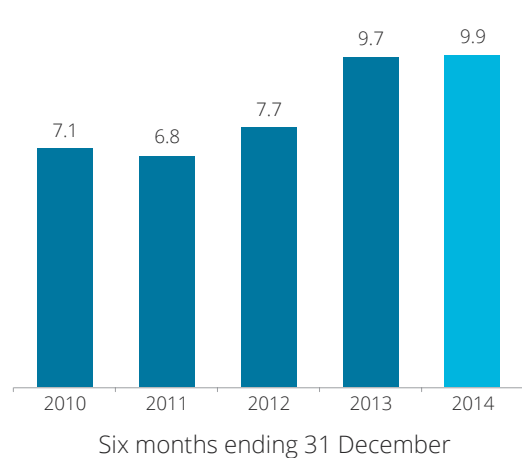
Funds Under Management (\$m)



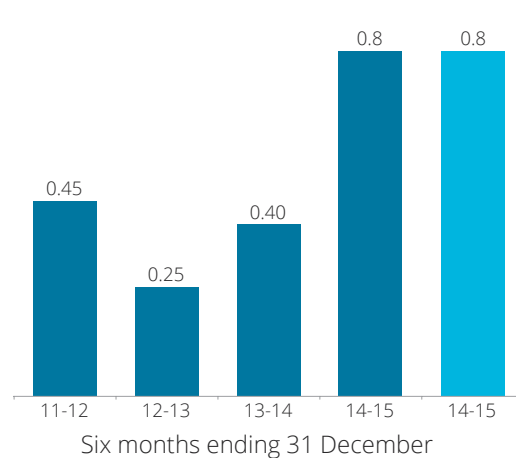
Basic Earnings Per Share (\$)



Revenue (\$m)

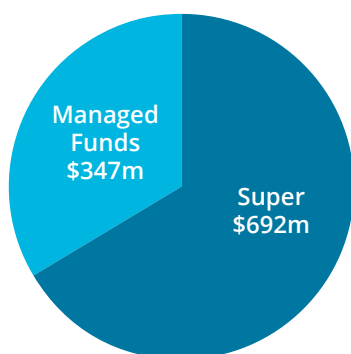


Interim Dividend (\$)

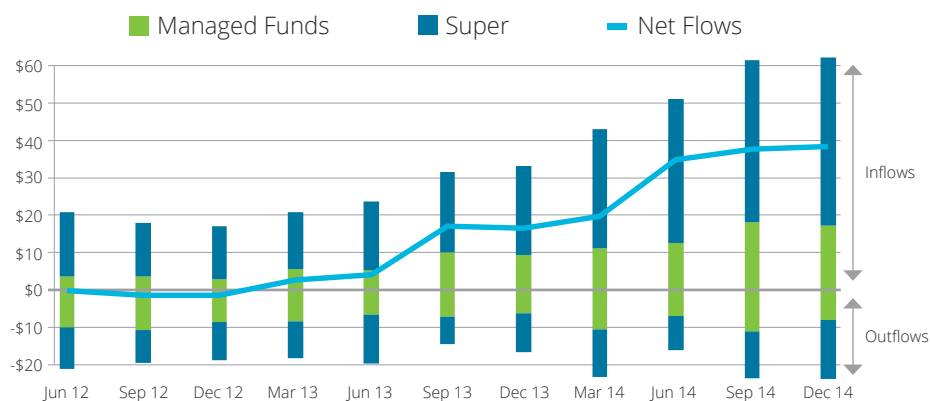


* Return on Equity quoted for 2015 is an annualised ROE of the half year. This does not represent a forecast of full year results in respect of the 2015 financial year.

Funds under Management



Quarterly Flow Analysis



Financial results for the half-year to 31 December 2014

Profit	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%)
Depreciation, amortisation, community grants and tax	(1,483)	(1,167)	21%
Net profit after tax	1,216	553	(55%)
Adjustments (gross)			
Add back employment restructure expenses	296	-	
Add back property impairment		412	
Tax on adjustments	(89)	-	
Underlying Net Profit After Tax (UPAT)[^]	1,423	965	(32%)

[^] 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.

Financial Summary

Funds under management

Funds under management	Half year to 31 Dec 2013 (\$m)	Half year to 31 Dec 2014 (\$m)	Change %
Opening FUM	708	887	25%
Super flows (net)	28	60	115%
Managed Funds flow (net)	7	17	137%
Net flows	35	77	119%
Market movement	59	75	27%
Closing FUM	802	1,039	30%

Dividends

Dividends	2013/2014 (cents per share)	2014/2015 (cents per share)
Interim (fully franked)	80	80
Final (fully franked)	120	To be declared in August 2015
Total dividend	200	

Community Grants

We recently announced the grant recipients for this year's Community Grants program. 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 is in line with our Ethical Charter and represents one of the highest percentages of a listed company's profits donated to charity in Australia.

It was a difficult process to award the final 17 grants, from a pool of almost 400 applications. Thanks to the voting input of shareholders and staff, we have now distributed grants to a total value of \$200,000 across three monetary categories (\$20,000, \$10,000 and \$5,000).

This year there were two major grant recipients who also benefited from a grant last year: Free to Shine and The Orangutan Project. We are pleased to be able to continue supporting these great organisations across multiple years. A full list of the recipients appears on the following page.

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



Up-skilling Unemployed Indigenous Youth for Environmental Outcomes

Mungalla Aboriginal Corporation for Business

Mungalla Aboriginal Corporation has an active revegetation program for Mungalla wetlands, which engages unemployed Indigenous trainees. At the completion of the training period, participants are skilled in Land Management techniques that will assist with future employment in the region.

As well as providing program participants with valuable skills, a second aim of the project is to revegetate a corridor along a culturally significant creek line that flows into the Great Barrier Reef.

This creek contains Indigenous burial sites and forms part of an Indigenous protected area based in the Wet Tropics region of northern Australia. It is currently invaded by Weeds of National Significance which compromise the ecology, hydrology and water quality of the creek line.

The community grant will provide Mungalla with funds to help maintain continuity of this scheme and achieve these two important outcomes of upskilling unemployed youth, and protecting the environment in this culturally significant area.



Wildlife Protection Units to Prevent Poaching The Orangutan Project

The Orangutan Project has received its second community grant from Australian Ethical this year.

This grant will fund Wildlife Protection Units (WPU), which will protect orangutans in the Bukit Tigapuluh National Park and buffer zone, where over 165 Sumatran orangutans have been released.

The main aims of the WPUs are:

- Establish, train and maintain ranger units to secure wildlife populations and their habitat at Bukit Tigapuluh
- Prevent illegal logging, which is the major threat to wildlife habitat
- Actively assist the reintroduction/translocation of orangutans at Bukit Tigapuluh
- Collect wildlife data in order to produce baseline data for a buffer zone management plan and a wildlife data base as an evaluation tool for ecosystem conditions at Bukit Tigapuluh.

Local people are employed as members of the WPUs, providing employment opportunities to local people and increasing the profile of the Sumatran orangutan and its importance in the area.

Community Grants

Organisation name	Project	Amount
Free To Shine	Girls scholarship program to prevent sex trafficking	\$20,000
Mungalla Aboriginal Corporation for Business	Up-skilling unemployed Indigenous youth for environmental outcomes	\$20,000
The Orangutan Project	Funding Wildlife Protection Units of local people to patrol the national park and prevent poaching	\$20,000
Port Phillip Housing Association	Community garden project designed to build social connection and skills among rooming house tenants	\$20,000
Tennant Creek Transport Inc.	Providing much-needed transport for one of the most socially-disadvantaged communities in Australia	\$20,000
Kokoda Track Foundation	Microfunding program for women to address poverty and provide clean energy alternatives	\$10,000
Timor Leste Vision	Project to install a reliable water system to deliver clean water to the remote village of Hatete	\$10,000
Australian Cervical Cancer Foundation	HPV vaccination program to protect women in Kiribati against cervical cancer	\$10,000
Kids Under Cover	Scholarships for youth at risk of homelessness to complete their secondary education	\$10,000
The Exodus Foundation	Sustainable Communities project to reduce the environmental impact of Exodus' food programs for the homeless	\$10,000
The Pyjama Foundation	Funding Pyjama Angels who provide individual attention and support to children in foster care	\$10,000
Sir David Martin Foundation	Contributing to 12 week rehabilitation programs for youth fighting addiction, mental health issues and homelessness	\$10,000
Jewish House	Refurbishment of the homeless shelter to accommodate pets of the homeless	\$10,000
Delivery Cycles	A social enterprise providing employment opportunities for marginalised groups, especially refugees, through the establishment of a food delivery business	\$5,000
The Deli Women & Children's Centre	Safe Healing project for women who have suffered domestic violence and abuse, especially those from Aboriginal or CALD backgrounds	\$5,000
Liberian Community Action for Unity, Social & Economic Development	Establishment of a 'Newlife Restaurant' social enterprise to provide skills training and employment opportunities for the West African community	\$5,000
Animal Aid Abroad	Revitalisation of the Port Said Equine clinic and training a local team to treat working equines	\$5,000



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Street Address: Level 8, 130 Pitt St, Sydney NSW 2000