

Appendix 4D (Rule 4.2A.3)

for the half-year ended 31 December 2019

 Australian Ethical Investment Limited and Controlled Entities
 ABN 47 003 188 930

Results for announcement to the market

(All comparisons to half-year ended 31 December 2018)

	\$ '000	up / down	% movement
Revenues from ordinary activities	23,322	up	18%
Net Profit after tax	4,741	up	39%
Deduct net profit after tax attributable to The Foundation	(304)		
Net profit attributable to shareholders	4,437	up	40%
Deduct revaluation of investment property held for sale	(66)		
Underlying net profit after tax	4,371	up	38%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Final 2019 dividend per share (paid 18 September 2019)	3.00	3.00	100.0%
Interim 2020 dividend per share (to be paid 19 March 2020)	2.50	2.50	100.0%

Interim dividend dates

Ex-dividend date	4 March 2020
Record date	5 March 2020
Payment date	19 March 2020

The Company's Dividend Reinvestment (DRP) will not operate in respect to the interim dividend.

	31 December 2019	31 December 2018
Net tangible assets per security *	\$0.14	\$0.13
Net asset value per security *	\$0.16	\$0.14

* NTA includes the Right-of-use asset and Lease liability in accordance with AASB 16

This information should be read in conjunction with the 2019 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4E disclosure requirements can be found in the Directors' Report and the Annual Financial report for the year ended 30 June 2019.

This report is based on the consolidated 2019 interim financial statements of Australian Ethical Investment Limited which have been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the Interim Financial Report for the period ended 31 December 2019.

Australian Ethical Investment Limited and its Controlled Entities

ABN 47 003 188 930

Interim Report - 31 December 2019

Australian Ethical Investment Limited and its Controlled Entities
Directors' report
31 December 2019

The directors present their report, together with the consolidated interim financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Australian Ethical Investment Limited (referred to hereafter as the 'Company' or 'Parent Entity') and its Controlled Entities for the half-year ended 31 December 2019 (the interim period).

Directors

The following persons were directors of Australian Ethical Investment Limited during or since the end of the interim period:

Stephen Gibbs	Acting CEO from 1 September 2019
John McMurdo	Managing Director and CEO, appointed 10 February 2020
Mara Bun	Non-Executive Director
Kate Greenhill	Non-Executive Director
Michael Monaghan	Acting Chairman from 1 September 2019
Phillip Vernon	Managing Director and CEO, resigned 31 August 2019
Julie Orr	Non-Executive Director

On 31 August 2019, Phil Vernon resigned from his role as Managing Director and Chief Executive Officer. Mr Steve Gibbs, Chair of the Australian Ethical Group stepped in as Acting CEO following Mr Vernon's departure. During this period, the Acting Chair has been Mr Michael Monaghan.

On 10 February 2020, John McMurdo was appointed as Chief Executive Officer and Managing Director. On this date, Acting CEO Steve Gibbs resumed his position as Chair of the Board, replacing Acting Chairman Michael Monaghan, who remains on the Board of Directors.

Principal activities

The Group's principal activities during the interim period were to act as the responsible entity for a range of public offer ethically managed investment schemes and act as the Trustee of the Australian Ethical Retail Superannuation Fund. Other than what is described in this report, there were no significant changes in the nature of the Group's activities during the interim period.

Review of operations

The profit for the Group after providing for income tax amounted to \$4,741,000 (31 December 2018: \$3,404,000).

This net profit is apportioned as follows:

- profit attributable to shareholders \$4.437m (2018: \$3.173m)
- profit attributable to The Foundation \$0.304m (2018: \$0.231m)

During the period, funds under management (FUM) increased significantly to \$3.87 billion, up 36% from \$2.85 billion as at 31 December 2018. This growth was underpinned by strong net flows and positive investment performance.

Net flows for the period were up 100% to \$295.8m (compared with 6 months to December 2018).

This was driven primarily by an 82% increase in super net flows to \$199.4m, reflecting solid growth in our super member numbers as well as increased member engagement and industry-leading member retention. Funded super member numbers increased 13% to 43,264 members.

Pleasingly, we have also seen growth in our managed funds (including institutional) where net flows were up 150% from the prior corresponding period to \$96.4m.

This has allowed us to pass on benefits to our customers with further fee reductions applied in December 2019.

Australian Ethical expects to see ongoing growth across both super and managed fund products as more Australians understand the positive impact they can make in the world through ethical investing. We are seeing record numbers of new member signups as well as deeper engagement across all our distribution channels.

We remain committed to maintaining this momentum and driving sustainable growth through continued investment in strengthening our platform and enhancing our customer experience.

Australian Ethical Investment Limited and its Controlled Entities
Directors' report
31 December 2019

Management analysis – financial performance

	31 December 2019 \$'000	31 December 2018 \$'000	Change \$'000	Change %
Net profit after tax (NPAT)	4,741	3,404	1,337	39%
Less: Net (profit)/loss after tax attributable to The Foundation*	<u>(304)</u>	<u>(231)</u>	<u>(73)</u>	32%
Net profit attributable to shareholders	<u>4,437</u>	<u>3,173</u>	<u>1,264</u>	40%
- Revaluation of investment property held for sale	<u>(66)</u>	<u>-</u>	<u>(66)</u>	-
Underlying profit after tax (UPAT)	<u>4,371</u>	<u>3,173</u>	<u>1,198</u>	38%
Basic EPS on NPAT (cents per share)	4.32	3.11	1.21	39%
Basic EPS on NPAT attributable to shareholders (cents per share)	4.05	2.90	1.15	40%
Basic EPS on UPAT attributable to shareholders (cents per share)	3.99	2.90	1.09	38%
Diluted EPS on NPAT attributable to shareholders (cents per share)	3.95	2.84	1.11	39%
Diluted EPS on UPAT attributable to shareholders (cents per share)	3.89	2.84	1.05	37%

*Refer to Note 17 for additional details in relation to The Foundation's financial results.

This is the first set of the Group's financial statements in which AASB 16 Leases has been applied. The 31 December 2019 interim results are therefore not directly comparable to prior years. Changes to significant accounting policies and the impact of applying the new standards is described in Note 3.

Dividends

Dividends paid during the financial half-year were as follows:

	31 December 2019 \$'000	31 December 2018 \$'000
Final dividend for the year ended 30 June 2019 of 3.00 cents (2018: 2.35 cents) per ordinary share	<u>3,363</u>	<u>2,634</u>

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 2.50 cents per fully paid ordinary share (2018: 2.00 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 19 March 2020 out of profits for the half-year ended 31 December 2019, but not recognised as a liability is \$2,810,000 (2018: \$2,242,000).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the interim period.

Matters subsequent to the end of the financial half-year

Apart from the appointment of John McMurdo as CEO, exchange of contracts in Note 13, dividend declared as disclosed in Note 15, and share issue in Note 18 no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Australian Ethical Investment Limited and its Controlled Entities
Directors' report
31 December 2019

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report and forms part of the Director's Report for the interim period ended 31 December 2019.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'S. P. Gibbs', written over a horizontal line.

Steve Gibbs
Chairman

25 February 2020
Sydney



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Ethical Investment Limited for the half year ended 31 December 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Karen Hopkins
Partner

Sydney
25 February 2020

Australian Ethical Investment Limited and its Controlled Entities
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Australian Ethical Investment Limited and its Controlled Entities
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

		Consolidated	
	Note	31 December 2019	31 December 2018
		\$'000	\$'000
Revenue	6	23,322	19,753
Expenses			
Operating expenses			
Employee benefits	7	(8,538)	(7,522)
Fund related expenses	8	(3,377)	(2,845)
Marketing		(1,819)	(1,573)
External services	9	(1,089)	(1,249)
Depreciation and amortisation	11	(401)	(179)
Community grants		(304)	(231)
Occupancy		(216)	(415)
Other operating expenses	10	(1,305)	(1,140)
Total operating expenses		<u>(17,049)</u>	<u>(15,154)</u>
Non-operating expenses			
Revaluation of investment property held for sale	13	66	-
Total non-operating expenses		<u>66</u>	<u>-</u>
Total expenses		<u>(16,983)</u>	<u>(15,154)</u>
Profit before income tax expense		6,339	4,599
Income tax expense	12	<u>(1,598)</u>	<u>(1,195)</u>
Net profit for the half-year		4,741	3,404
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Loss on revaluation of investments		<u>(1)</u>	<u>(2)</u>
Other comprehensive income, net of tax		<u>(1)</u>	<u>(2)</u>
Total comprehensive income for the half-year ¹		<u><u>4,740</u></u>	<u><u>3,402</u></u>
		Cents	Cents
Basic earnings per share		4.32	3.11
Diluted earnings per share		4.22	3.04

¹ Comprehensive income includes the results of The Foundation (refer to Note 17).

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited and its Controlled Entities
Statement of financial position
As at 31 December 2019

		Consolidated	
	Note	31 December 2019 \$'000	30 June 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		18,295	18,825
Trade and other receivables		1,381	2,375
Right-of use assets	3	451	-
Other		829	447
		<u>20,956</u>	<u>21,647</u>
Investment property held for sale	13	1,625	1,535
Total current assets		<u>22,581</u>	<u>23,182</u>
Non-current assets			
Investments		76	78
Property, plant and equipment		1,786	1,753
Right-of-use assets	3	1,070	-
Deferred tax asset	12	1,648	1,805
Term deposit		504	504
Total non-current assets		<u>5,084</u>	<u>4,140</u>
Total assets		<u>27,665</u>	<u>27,322</u>
Liabilities			
Current liabilities			
Trade and other payables		4,710	5,052
Lease liabilities	3	536	-
Income tax payable	12	12	808
Employee benefits		2,145	3,608
Total current liabilities		<u>7,403</u>	<u>9,468</u>
Non-current liabilities			
Trade and other payables		-	328
Lease liabilities	3	1,349	-
Employee benefits		340	272
Provisions		243	240
Total non-current liabilities		<u>1,932</u>	<u>840</u>
Total liabilities		<u>9,335</u>	<u>10,308</u>
Net assets		<u>18,330</u>	<u>17,014</u>
Equity			
Issued capital	14	11,191	10,634
Reserves		204	788
Retained profits		6,935	5,592
Total equity		<u>18,330</u>	<u>17,014</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited and its Controlled Entities
Statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Issued capital \$'000	Employee share plan reserve \$'000	FVOCI² reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2018	10,204	1,253	(2)	3,854	15,309
Profit after income tax expense for the half-year	-	-	-	3,404	3,404
Other comprehensive income for the half-year, net of tax	-	-	(2)	-	(2)
Total comprehensive income for the half-year	-	-	(2)	3,404	3,402
<i>Transactions with owners in their capacity as owners:</i>					
Shares vested under deferred shares plan during the year	430	(430)	-	-	-
Dividends provided for or paid	-	-	-	(2,634)	(2,634)
Employee share plan - deferred shares	-	551	-	-	551
Employee share plan - shares purchased on-market	-	(855)	-	-	(855)
Balance at 31 December 2018	<u>10,634</u>	<u>519</u>	<u>(4)</u>	<u>4,624</u>	<u>15,773</u>

Consolidated	Issued capital \$'000	Employee share plan reserve \$'000	FVOCI reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 30 June 2019	10,634	792	(4)	5,592	17,014
Adjustment arising from transition to AASB 16	-	-	-	(35)	(35)
Balance at 1 July 2019	10,634	792	(4)	5,557	16,979
Profit after income tax expense for the half-year	-	-	-	4,741	4,741
Other comprehensive income for the half-year, net of tax	-	-	-	(1)	(1)
Total comprehensive income for the half-year	-	-	-	4,740	4,740
<i>Transactions with owners in their capacity as owners:</i>					
Shares vested under deferred shares plan during the year	557	(557)	-	-	-
Dividends provided for or paid	-	-	-	(3,363)	(3,363)
Employee share plan - deferred shares	-	531	-	-	531
Employee share plan - shares purchased on-market	-	(557)	-	-	(557)
Revaluation of investments	-	-	(1)	1	-
Balance at 31 December 2019	<u>11,191</u>	<u>209</u>	<u>(5)</u>	<u>6,935</u>	<u>18,330</u>

² 'Fair Value through Other Comprehensive Income' (FVOCI)

The above statement of changes in equity should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited and its Controlled Entities
Statement of cash flows
For the half-year ended 31 December 2019

	Consolidated	
Note	31 December 2019	31 December 2018
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	24,106	18,702
Payments to suppliers and employees	(17,541)	(14,488)
Rental and other income received	99	86
Interest received	110	138
Community grants paid	(750)	(620)
Income taxes paid	(2,272)	(1,560)
	<u>3,752</u>	<u>2,258</u>
Net cash from operating activities		
Cash flows from investing activities		
Payments for property, plant and equipment	(362)	(9)
	<u>(362)</u>	<u>(9)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Purchase of employees deferred shares	(557)	(855)
Dividends paid	(3,363)	(2,634)
15	<u>(3,920)</u>	<u>(3,489)</u>
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(530)	(1,240)
Cash and cash equivalents at the beginning of the financial half-year	18,825	16,484
	<u>18,295</u>	<u>15,244</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>18,295</u></u>	<u><u>15,244</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 1. General information

The consolidated interim financial statements are comprised of Australian Ethical Investment Limited (referred to as the 'Company' or 'Parent Entity'), and its wholly owned subsidiaries (together referred to as the 'Group'). Australian Ethical Investment Limited is a listed company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Group is a for-profit entity for the purposes of preparing financial statements.

The interim financial statements were authorised for issue, in accordance with a resolution of directors, on 25 February 2020.

The directors have the power to amend and reissue the interim financial statements.

Note 2. Basis of preparation

Statement of compliance

The consolidated interim financial statements are general purpose which have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes normally required in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Basis of measurement

The consolidated interim financial statements have been prepared on an accrual basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Rounding of amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

Note 3. Significant accounting policies

New Accounting Standards and Interpretations adopted

The Group has adopted all of the new Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. These include:

- IFRS 16 Leases
- Annual improvements to IFRSs 2015 – 2017 Cycle

The Group had initially adopted AASB 16 Leases from 1 July 2019. Other amendments effective from 1 July 2019 do not have a material effect on the Group's financial statements.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 3. Significant accounting policies (continued)

AASB 16 Leases

The Group has applied AASB 16 'Leases' from 1 July 2019 under the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for the year ended 30 June 2019 is not restated - i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information.

As a lessee, the Group leases many assets including property and IT cloud and service space and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. Under AASB 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Previously, the Group classified property leases as operating leases under AASB 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value asset (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of the initial application;
- used hindsight when determining the lease term; and
- elected to apply the practical expedient to grandfather the assessment of which contracts are leases. The Group applies AASB 16 only to contracts that were previously identified as leases.

On transition to AASB 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

	1 July 2019 \$'000
Impact on transition	
Lease liabilities at 1 July 2019	(2,091)
Right-of-use asset – Pitt St Office lease (opening):	2,091
<i>Adjustments to right-of-use asset:</i>	
Straight lining of rent expense	(98)
Unamortised lease incentives	(438)
Make-good asset	127
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Right-of use asset at 1 July 2019	1,682
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Net impact on retained earnings including restatement of Deferred Tax Assets on transition	(35)
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Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 3. Significant accounting policies (continued)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 2.8%.

	1 July 2019 \$'000
Total commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	3,355
Non-lease related commitments	(1,103)
Lease commitments at 30 June 2019	2,252
Discounted using the incremental borrowing rate at 1 July 2019	2,102
Less: exemption for leases of low value assets	(11)
Lease liability at 1 July 2019	<u>2,091</u>

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the interim financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new judgements and key sources of estimation uncertainty related to the application of AASB 16, which is described in Note 3.

Note 5. Business segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. The Group comprises one main operating segment being Funds Management.

Note 6. Revenue

	31 December 2019 \$'000	31 December 2018 \$'000
Management and performance fees	16,873	14,248
Administration fees (net of Operational Risk Financial Reserve contributions)	4,646	3,435
Member and withdrawal fees (net of rebates)	1,603	1,817
Rental income	102	113
Interest income	98	140
	<u>23,322</u>	<u>19,753</u>

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 7. Employee benefits

	31 December 2019 \$'000	31 December 2018 \$'000
Employee remuneration	8,132	7,159
Directors fees	250	221
Other employment costs	156	142
	<u>8,538</u>	<u>7,522</u>

Note 8. Fund related expenses

	31 December 2019 \$'000	31 December 2018 \$'000
Administration and custody fees	3,029	2,422
Licence fees	218	196
Ethical research and other fund related	130	227
	<u>3,377</u>	<u>2,845</u>

Note 9. External services

	31 December 2019 \$'000	31 December 2018 \$'000
Audit and accounting	418	483
Consultants	231	308
Legal services	111	134
Other	329	324
	<u>1,089</u>	<u>1,249</u>

Note 10. Other operating expenses

	31 December 2019 \$'000	31 December 2018 \$'000
Insurance	154	116
IT	811	707
Travel	152	144
Subscriptions and listing	85	55
Other expenses	103	118
	<u>1,305</u>	<u>1,140</u>

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 11. Depreciation and amortisation

	31 December 2019 \$'000	31 December 2018 \$'000
Depreciation of property, plant and equipment	181	179
Amortisation of right of use asset - Sydney office lease	210	-
Amortisation of right of use asset - IT infrastructure	10	-
	<u>401</u>	<u>179</u>

Note 12. Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2019 was 25.2% (for the six months ended 31 December 2018: 26.0%), driven by adjustments for tax depreciation and non-assessable revaluation of the Canberra property (refer Note 13), the tax exempt status of the Foundation, and a prior year tax adjustment.

The effective tax rate with respect to profit attributable to shareholders is 26.5% (2018: 27.4%). The difference between the effective tax rate for the Group and for profit attributable to shareholders is due to the tax-exempt status of the Foundation.

Note 13. Current assets - investment property held for sale

As at 31 December 2019, Australian Ethical had entered into Heads of Agreement with four purchasers to sell the Canberra property (Trevor Pearcey House) as separate units. Therefore, management have determined that the classification remains appropriate.

The asset is measured at the lower of carrying amount and fair value less costs of disposal. The assets are not depreciated or amortised while they are classified as held for sale.

As at 30 June 2019, a valuation of the property was conducted in accordance with the Group's policy by Knight Frank (2018: Knight Frank), independent valuers not related to the Group, to determine the fair value. The valuation was determined by reference to capitalisation of market rents and recent market transactions on arms' length terms at \$1.58m (2018: \$1.65m). The asset was recognised at a value of \$1.535m in June 2019 to reflect the value after disposal costs.

As at 31 December 2019, the property was valued at \$1.625m to reflect the market sale prices after disposal costs which management believe to be a reasonable and appropriate valuation.

Subsequent to half-year end, unconditional contracts for 3 of the 4 units were exchanged.

	31 December 2019 \$'000	30 June 2019 \$'000
Investment property held for sale (less cost of disposal)	<u>1,625</u>	<u>1,535</u>

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 14. Equity - issued capital

Movements in share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2019	112,093,000		10,634
Vesting of deferred shares in the Employee Share Trust (747,300 shares)	1 September 2019	-	\$0.68	511
Vesting of deferred shares in the Employee Share Trust (4,050 shares)	23 September 2019	-	\$0.89	4
Vesting of deferred shares in the Employee Share Trust (1,875 shares)	23 September 2019	-	\$1.32	2
Vesting of deferred shares in the Employee Share Trust (46,500 shares)	1 December 2019	-	\$0.86	40
Balance	31 December 2019	<u>112,093,000</u>		<u>11,191</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

On 25 February 2020, 294,138 shares were issued as part of the employee long term incentive compensation plans.

Note 15. Equity - dividends

Dividends paid during the financial half-year were as follows:

	31 December 2019	31 December 2018
	\$'000	\$'000
Final dividend for the year ended 30 June 2019 of 3.00 cents (2018: 2.35 cents) per ordinary share	<u>3,363</u>	<u>2,634</u>

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 2.50 cents per fully paid ordinary share (2018: 2.00 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 19 March 2020 out of profits for the half-year ended 31 December 2019, but not recognised as a liability is \$2,810,000 (2018: \$2,242,000).

Note 16. Fair value measurement

Fair value hierarchy

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 16. Fair value measurement (continued)

The following tables detail the Group's assets and liabilities, measured at fair value, using a three level hierarchy, based on observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2019				
<i>Financial assets measured at fair value</i>				
Investments	2	74	-	76
Total assets	2	74	-	76
Consolidated - 2018				
<i>Financial assets measured at fair value</i>				
Investments	2	76	-	78
Total assets	2	76	-	78

Assets and liabilities held for sale are measured at fair value on a recurring basis.

There were no transfers between levels during the interim period.

Note 17. The Foundation results

All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available for distribution to AEI's shareholders or to settle liabilities of other Group entities.

As at and for the period ended 31 December 2019, the impact of The Foundation before intercompany eliminations is noted below:

	31 December 2019 \$'000	31 December 2018 \$'000
Statement of comprehensive income		
Revenue from parent entity	613	467
Interest income	3	3
Community grants expense	(304)	(231)
Audit fees	(7)	(6)
Other	(1)	-
Profit for the period	304	233
<i>Other comprehensive income:</i>		
Loss on revaluation of investments	(1)	(2)
Total comprehensive income	303	231

Australian Ethical Investment Limited and its Controlled Entities
Notes to the financial statements
31 December 2019

Note 17. The Foundation results (continued)

	31 December 2019 \$'000	30 June 2019 \$'000
Statement of financial position		
<i>Assets:</i>		
Cash and cash equivalents	615	439
Receivables from parent entity	613	937
Investments	74	76
<i>Liabilities:</i>		
Payables	<u>(341)</u>	<u>(793)</u>
Net assets	<u>961</u>	<u>659</u>
<i>Equity:</i>		
Retained earnings	967	663
FVOCI reserve	(6)	(4)
Total equity	<u>961</u>	<u>659</u>

Note 18. Share-based payments

The following share-based payment arrangements existed at 31 December 2019.

Deferred shares

Under the Group's long-term and deferred short-term incentive plans, employees are granted shares subject to meeting specified performance criteria over the performance period. The number of shares that the employee receives is determined at the time of grant with the shares being held in Trust. These shares are granted for nil consideration with the shares having voting rights and employees receive dividends over the vesting period.

During the interim period, 642,745 shares were granted to employees under the long-term incentive plan at an issue price of \$2.15 which is based on a variable weighted average share price for 90 days up to 30 June 2019. A further 88,613 shares were granted to certain employees under the deferred short-term incentive plan for the performance year ended 30 June 2019. These shares were granted with a 3-year vesting term, voting rights and rights to receive dividends. However, unlike shares granted under the long-term incentive plan, these shares are not subject to a performance hurdle.

Included under employee benefits expense in the statement of profit or loss and other comprehensive income is \$519,000 (2018: \$427,000) relating to the deferred shares granted.

From 1 September 2018 onwards, new grants of shares are generally purchased on market by the Trustee. The Board retains the discretion to issue new shares. As a result of the share price increase subsequent to the grant of the shares, 294,138 shares have been issued on 25 February 2020.

As at 31 December 2019, the Employee Share Trust holds 2,282,035 shares (30 June 2019: 2,904,400) on behalf of employees until vesting conditions are met.

Note 19. Events after the reporting period

Apart from the appointment of John McMurdo as CEO, exchange of contracts in Note 13, dividend declared as disclosed in Note 15, and share issue in Note 14 no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Australian Ethical Investment Limited and its Controlled Entities
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached interim financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached interim financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Steve Gibbs
Chairman

25 February 2020
Sydney

Independent Auditor's Review Report

To the shareholders of Australian Ethical Investment Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Australian Ethical Investment Limited (the "Group").

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Australian Ethical Investment Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of its performance for the **half year** ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2019.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half year ended on that date.
- Notes 1 to 19 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Australian Ethical Investment Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Ethical Investment Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*

KPMG

Karen Hopkins
Partner

Sydney
25 February 2020