ASX Code: AEF
22 February 2019

Australian Ethical Investment Limited

Appendix 4D (Rule 4.2A.3)

Financial Statements for the half-year ended 31 December 2018

Results for announcement to the market

(All comparisons to half-year ended 31 December 2017)	$ '000	Up / Down	% Movement
Revenues from ordinary activities	19,753	up	14%
Net Profit after tax	3,404	up	47%
Net (profit) / loss after tax attributable to The Foundation	(231)		
Net profit attributable to shareholders	3,173	up	47%
Underlying net profit after tax	3,173	up	47%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2018 dividend per share (paid 21 September 2018)	2.35	2.35	27.5%
Interim 2019 dividend per share (to be paid 15 March 2019)	2.00	2.00	27.5%

Interim dividend dates	
Ex-dividend date	28 February 2019
Record date	1 March 2019
Payment date	15 March 2019

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

	31-Dec-18	31-Dec-17
Net tangible assets per security	$0.13	$0.12
Net asset value per security	$0.14	$0.13

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Shareholder enquiries Tom May, Company Secretary t 0488 799 474 e tmay@australianethical.com.au
Australian Ethical Investment Ltd ABN 47 003 188 930 AFSL 229949 australianethical.com.au

This information should be read in conjunction with the 2018 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 4D disclosure requirements can be found in the Directors' Report and the Interim Financial Report for the period ended 31 December 2018.

This report is based on the consolidated 2018 half-year 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 2018.

About Australian Ethical

Australian Ethical is Australia's leading ethical wealth manager. Since 1986, Australian Ethical has provided investors with wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which both shapes its ethical approach and underpins the Company's culture and vision.

Media inquiries: Suzanne Dwyer, Honner

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w australianethical.com.au

Australian Ethical Investment Limited

ABN 47 003 188 930

Interim Report - 31 December 2018

Australian Ethical Investment Limited
Directors' report
31 December 2018

The directors present their report, together with the 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 the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

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

Stephen Gibbs (Chairperson and Non-Executive Director, appointed 25 July 2012)
Mara Bun (Non-Executive Director, appointed 4 February 2013)
Kate Greenhill (Non-Executive Director, appointed 22 February 2013)
Michael Monaghan (Non-Executive Director, appointed 22 September 2017)
Phil Vernon (Managing Director and Chief Executive Officer, appointed 27 July 2010)
Julie Orr (Non-Executive Director, appointed 20 February 2018)

Principal activities

The Group's principal activities during the financial year 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 Company's activities during the year.

Review of operations

The profit for the Group after providing for income tax amounted to $3,404,000 (31 December 2017: $2,318,000).

This net profit is apportioned as follows:
- profit attributable to shareholders $3.173m (2017: $2.157m)
- profit attributable to The Foundation $0.231m (2017: $0.161m)

Despite the volatile market conditions, funds under management (FUM) increased to $2.85 billion, up by 10% from $2.60 billion as at 31 December 2017. The recent volatile market conditions have impacted our growth in FUM with first half net flows being offset substantially by negative market movements.

Australian Ethical experienced continued strong growth in our super fund to 45,170 members, with membership increasing 20% compared to the first half of FY18. Net flows for the period were $147.8m across all products, supported by solid inflows and also continued high customer engagement and retention rates. Solid member growth and positive net flows continue, however were offset by negative market performance for the half year. Our continued growth has allowed us to pass benefits onto our customers with further fee reductions taking place in October 2018.

Looking forward, Australian Ethical is continuing to invest in a number of initiatives to support our continued growth in the areas of enhanced customer experience through a new digital platform, product development, increasing brand awareness and nurturing intermediated channels and non-digital marketing. The second half of FY19 will reflect the full impact of these investments, the full impact of fee reductions implemented in October 2018 and the impact on revenue from recent market volatility.

Management Analysis - Financial Performance

At the AGM held on 25 October 2018, a share capital split was approved on the basis of 1 share be subdivided into 100 shares. The share split took effect on 21 December 2018. The share split had no impact on the valuation of each share. Comparative numbers for the earnings and dividend per share have been restated to be comparable to current period disclosure.

	31 December 2018 $'000	31 December 2017 $'000	Change $'000	Change %
Net profit after tax (NPAT)	3,404	2,318	1,086	47%
Less: Net (profit)/loss after tax attributable to The Foundation*	(231)	(161)	(70)	43%
Net profit attributable to shareholders	3,173	2,157	1,016	47%
Underlying profit after tax (UPAT)	3,173	2,157	1,016	47%
Basic EPS on NPAT (cents per share)	3.11	2.13	0.98	46%
Basic EPS on NPAT/UPAT attributable to shareholders (cents per share)	2.90	1.98	0.92	46%
Diluted EPS on NPAT/UPAT attributable to shareholders (cents per share)	2.84	1.93	1.91	47%

*Refer to Note 15 for additional details in relation to The Foundation's financial results.

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

	31 December 2018 $'000	31 December 2017 $'000
Final dividend for the year ended 30 June 2018 of 2.35 cents (2017: 2.10 cents) per ordinary share	2,634	2,354

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 2.00 cents per fully paid ordinary share (2017: 1.65 cents), fully franked. The aggregate amount of the declared dividend expected to be paid on 15 March 2019 out of profits for the half-year ended 31 December 2018, but not recognised as a liability is $2,242,000 (2017: $1,850,000).

Significant changes in the state of affairs
Other than the share split disclosed above, there were no significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year
Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2018 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.

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, or in certain cases, the nearest dollar.

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.

Australian Ethical Investment Limited
Directors' report
31 December 2018

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

Phil Vernon
Managing Director & CEO

21 February 2019
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 interim period ended 31 December 2018 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

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
21 February 2019

Australian Ethical Investment Limited
Contents
31 December 2018

Australian Ethical Investment Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Revenue	5	19,753	17,400
Expenses			
Employee benefits	6	(7,522)	(7,276)
Fund related	7	(2,845)	(2,620)
Marketing		(1,573)	(1,510)
External services	8	(1,249)	(919)
Occupancy		(415)	(406)
Community grants		(231)	(161)
Depreciation and amortisation		(179)	(174)
Other operating expenses	9	(1,140)	(1,107)
Total operating expenses		(15,154)	(14,173)
Profit before income tax expense		4,599	3,227
Income tax expense	10	(1,195)	(909)
Net Profit for the half-year		3,404	2,318
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Loss on revaluation of investments		(2)	-
Other comprehensive income for the half-year, net of tax		(2)	-
Total comprehensive income for the half-year[1]		3,402	2,318
		Cents	**Cents**
Basic earnings per share[2]		3.11	2.13
Diluted earnings per share[2]		3.04	2.07

[1] Comprehensive income includes the results of The Foundation (refer to Note 15).
[2] Comparatives have been restated following the share split (refer to Note 12).

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

Australian Ethical Investment Limited
Statement of financial position
As at 31 December 2018

	Note	31 December 2018 $'000	30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		15,244	16,484
Trade and other receivables		1,676	848
Other		610	372
		17,530	17,704
Investment property held for sale	11	1,610	1,610
Total current assets		19,140	19,314
Non-current assets			
Investments		78	80
Property, plant and equipment		1,628	1,814
Deferred tax asset		1,297	1,449
Term deposit		504	504
Total non-current assets		3,507	3,847
Total assets		22,647	23,161
Liabilities			
Current liabilities			
Trade and other payables		3,440	3,357
Income tax payable		235	752
Employee benefits		2,329	2,855
Total current liabilities		6,004	6,964
Non-current liabilities			
Trade and other payables		383	438
Employee benefits		250	216
Provisions		237	234
Total non-current liabilities		870	888
Total liabilities		6,874	7,852
Net assets		15,773	15,309
Equity			
Issued capital	12	10,634	10,204
Reserves		515	1,251
Retained profits		4,624	3,854
Total equity		15,773	15,309

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

Australian Ethical Investment Limited
Statement of changes in equity
For the half-year ended 31 December 2018

	Issued capital $'000	Employee share plan reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	9,923	1,012	2,978	13,913
Profit after income tax expense for the half-year	-	-	2,318	2,318
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	2,318	2,318
Transactions with owners in their capacity as owners:				
Shares vested under deferred shares plan during the year	222	(222)	-	-
Dividends provided for or paid	-	-	(2,354)	(2,354)
Employee share plan - deferred shares	-	365	-	365
Balance at 31 December 2017	10,145	1,155	2,942	14,242

	Issued capital $'000	Employee share plan reserve $'000	FVOCI reserve[3] $'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
Transactions with owners in their capacity as owners:					
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)
Revaluation of investments	-	-	-	-	-
Balance at 31 December 2018	10,634	519	(4)	4,624	15,773

[3] The 'Fair Value through Other Comprehensive Income' (FVOCI) reserve was previously named 'Available for Sale Reserve' (refer to Note 2).

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

Australian Ethical Investment Limited
Statement of cash flows
For the half-year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		18,702	16,617
Payments to suppliers and employees		(14,488)	(13,611)
Rental income received		86	102
Interest received		138	116
Community grants paid		(620)	(320)
Income taxes paid		(1,560)	(1,217)
Net cash from operating activities		2,258	1,687
Cash flows from investing activities			
Payments for property, plant and equipment		(9)	(82)
Payment for purchase of advocacy shares		-	(1)
Payment for purchase of SVA unit trusts		-	(80)
Net cash used in investing activities		(9)	(163)
Cash flows from financing activities			
Purchase of employees deferred shares		(855)	-
Dividends paid	13	(2,634)	(2,354)
Net cash used in financing activities		(3,489)	(2,354)
Net decrease in cash and cash equivalents		(1,240)	(830)
Cash and cash equivalents at the beginning of the financial half-year		16,484	12,591
Cash and cash equivalents at the end of the financial half-year		15,244	11,761

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

Note 1. General information

The interim financial statements cover the consolidated group of Australian Ethical Investments 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 financial statements were authorised for issue, in accordance with a resolution of directors, on 21 February 2019.

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

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 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 of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 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.

The Consolidated interim financial statements have been prepared on an accruals 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.

Comparatives
Comparative information has been reclassified to be consistent with current reporting period. The reclassifications include impact of share split on comparative earnings and dividends per share calculations and movements between employee benefits, fund related expenses, external services and other expenses.

Fund related expenses increased by $126k
External services decreased by $157k
Marketing expenses decreased by $17k
Occupancy costs increased by $19k
Other operating expenses increased by $29k

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. This is the first set of the Group's financial statements where AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' have been applied.

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

AASB 9 Financial Instruments
AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'.

Note 2. Significant accounting policies (continued)

Classification and measurement of financial assets and financial liabilities
The adoption of AASB 9 'Financial Instruments' from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with transitional provisions in AASB 9, comparative figures have not been restated.

The Company elected to present in Other Comprehensive Income ("OCI") changes in the fair value of its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments. As a result, assets with a fair value of $80,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income (“FVOCI”) and a FVOCI reserve was created on 1 July 2018. Dividends and future distributions are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

The following table and the accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets as at 1 July 2018.

	Classification		Carrying amount	
Financial assets	**Original under AASB 139**	**New under AASB 9**	**Original amount: AASB 139 $'000**	**New amount: AASB 9 $'000**
Unlisted unit trusts acquired by the Group's Foundation	Available for sale, revalued through OCI	FVOCI	78	78
Listed equity shares acquired by the Group for advocacy purposes	Available for sale, revalued through OCI	FVOCI	2	2
Trade and other receivables	Loans and receivables	Amortised cost	848	848
Cash and cash equivalents	Loans and receivables	Amortised cost	16,484	16,484
Total financial assets			17,412	17,412

The impact of these changes on the Group's equity is as follows:

	Effect on Available-for-sale reserve $'000	**Effect on FVOCI reserve $'000**
Opening balance - AASB 139	(2)	-
Reclassify investments in the Foundation from available-for-sale to FVOCI	2	(2)
Reclassify listed equity shares held by the Group for advocacy purposes from available-for-sale to FVOCI	-	-
Total impact	-	(2)
Opening balance - AASB 9	-	(2)

Note 2. Significant accounting policies (continued)

Impairment of financial assets
AASB 9 replaces the 'incurred loss' model in AASB 139 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments in FVOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The financial assets at amortised cost consist of trade receivables, and cash and cash equivalents.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.
The Group considers a financial asset to be in default when:
- the counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Based on historical financial performance and the nature of these financial assets, impairment losses on trade and other receivables are estimated to be nil.

AASB 15 Revenue from Contracts with Customers
AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaced AASB 118 'Revenue', AASB 11 'Construction Contracts' and related interpretations.

The standard has limited impact on the Group as revenues are recognised or accrued when services have been provided and when there is certainty with regards to the recoverability of the fees in the reporting periods. The only revenue to which the standard has a potential impact is the performance fee on the Emerging Companies’ fund where the amount of consideration is variable. AEI does not accrue performance fees throughout the year as the fee receivable fluctuates in line with fund performance and only crystallises at the end of the financial year. Performance fees are therefore variable consideration that has been constrained to nil as it is not until the performance is known at year end that it is highly probable that a significant reversal will not occur.

Note 2. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

AASB 16 Leases
AASB 16 replaces existing leases guidance, including AASB 117 'Leases', Interpretation 4 'Determining whether an arrangement contains a lease', Interpretation 115 'Operating leases - incentives' and Interpretation 127 'Evaluating the substance of transactions involving the legal form of a lease'. The standard is effective for annual reporting periods beginning on or after 1 July 2019. The Group does not intend to adopt the standard before its effective date.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The most significant impact identified is that the Group will recognise new assets and liabilities for its operating lease of the Sydney Office at 130 Pitt St, Sydney.

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to $2,517,000 on an undiscounted basis.

The nature of expenses related to leases will now change because AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the 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 that described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of AASB 9 and AASB 15, which are described in Note 2.

Note 4. Business segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues 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 5. Revenue

	31 December 2018 $'000	31 December 2017 $'000
Management and performance fees (net of rebates)	14,248	12,849
Administration fees (net of Operational Risk Financial Reserve contributions)	3,435	2,707
Member and withdrawal fees	1,817	1,626
Interest income	140	116
Rental income	113	102
Revenue	19,753	17,400

Note 6. Employee benefits

	31 December 2018 $'000	31 December 2017 $'000
Employee remuneration	7,291	7,101
Directors fees	221	163
Other employment costs	10	12
	7,522	7,276

Note 7. Fund related

	31 December 2018 $'000	31 December 2017 $'000
Administration and custody fees	2,422	2,262
Licence fees	196	232
Ethical research and other fund related	227	126
	2,845	2,620

Note 8. External services

	31 December 2018 $'000	31 December 2017 $'000
Audit and accounting	483	271
Consultants	308	146
Legal services	134	100
Other	324	402
	1,249	919

Note 9. Other operating expenses

	31 December 2018 $'000	31 December 2017 $'000
IT	707	731
Insurance	116	97
Travel	144	115
Subscriptions and listing	55	43
Printing and postage	25	48
Other expenses	93	73
	1,140	1,107

Note 10. 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 2018 was 26% (for the six months ended 31 December 2017: 28%). The effective tax rate in respect to profit attributable to shareholders is 27% (2017: 30%). The change in effective tax rate is mainly due to the decrease in the company tax rate in Australia for entities with turnover less than $50 million, effective from 1 July 2018.

Note 11. Current assets - investment property held for sale

On 30 June 2017, the Canberra premises (Trevor Pearcey House) was reclassified from Investment Property to Investment Property Held for Sale as a result of the Group's intention to dispose of the property and the commencement of an active sales campaign. As at 31 December 2018 the property remains unsold, however it continues to be actively marketed for sale and 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 2018, a valuation of the property was conducted in accordance with the Group's policy by Knight Frank (2017: Jones Lang LaSalle), 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. The property was valued at $1.65m (2017: $1.65m) and management believe this remains a reasonable and appropriate valuation as at 31 December 2018.

	31 December 2018 $'000	30 June 2018 $'000
Investment property held for sale (less cost of disposal)	1,610	1,610

Note 12. Equity - issued capital

Movements in spare share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2017	1,115,854		9,923
Vesting of deferred shares in the Employee Share Trust (5,180 shares)	1 September 2017	-	$42.85	222
Shares issued to the Employee Share Trust	8 September 2017	5,076	$0.00	-
Balance	31 December 2017	1,120,930		10,145
Vesting of deferred shares in the Employee Share Trust (766 shares)	24 April 2018	-	$77.60	59
Balance	30 June 2018	1,120,930		10,204
Vesting of deferred shares in the Employee Share Trust (7,967 shares)	1 September 2018	-	$53.98	430
Share split of 1 to 100 shares	21 December 2018	110,972,070	$0.00	-
Balance	31 December 2018	112,093,000		10,634

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.

At the AGM held on 25 October 2018, a share capital split was approved on the basis of 1 share be subdivided into 100 shares. The share split took effect on 21 December 2018. Comparative numbers for the earnings and dividend per share have been restated to be comparable to current period disclosure.

Note 13. Equity - dividends

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

	31 December 2018 $'000	31 December 2017 $'000
Final dividend for the year ended 30 June 2018 of 2.35 cents (2017: 2.10 cents) per ordinary share	2,634	2,354

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 2.00 cents per fully paid ordinary share (2017: 1.65 cents), fully franked. The aggregate amount of the declared dividend expected to be paid on 15 March 2019 out of profits for the half-year ended 31 December 2018, but not recognised as a liability is $2,242,000 (2017: $1,850,000).

Note 13. Equity - dividends (continued)

Franking credits

	31 December 2018 $'000	30 June 2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 27.5%	4,693	4,255

The above amounts represent the balance of the franking account as at the end of the financial half-year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 14. 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.

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Fair value measurements derived from 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). The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm’s length market transactions, referenced to the current fair value of a substantially similar other instrument or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.
Level 3: Fair value measurements are those derived from valuation techniques that include 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.

- 31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	76	-	78
Total assets	2	76	-	78

- 30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	78	-	80
Total assets	2	78	-	80

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

There were no transfers between levels during the financial half-year.

Note 15. 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 2018, the impact of The Foundation before intercompany eliminations is noted below:

Note 15. The Foundation results (continued)

	31 December 2018 $'000	31 December 2017 $'000
Statement of comprehensive income		
Revenue from parent entity	467	326
Interest income	3	2
Community grants expense	(231)	(161)
Audit fees	(6)	(6)
Profit for the period	233	161
Other comprehensive income:		
Loss on revaluation of investments	(2)	-
Total comprehensive income	231	161

	31 December 2018 $'000	30 June 2018 $'000
Statement of financial positions		
Assets:		
Cash and cash equivalents	436	354
Receivables from parent entity	467	710
Investments	76	78
Other	1	-
Liabilities:		
Payables	(237)	(630)
Net assets	743	512
Equity:		
Current year surplus	231	81
FVOCI reserve	(2)	-
Retained earnings	514	431
Total equity	743	512

Note 16. Commitments and contingencies

The nature of the Group's commitments is as disclosed in the Group's consolidated financial statements as at and for the year ended 30 June 2018.

Operating lease commitments relate to the lease of office premises, and the lease of printing and copying equipment for the office.

The 7-year operating lease for the Sydney office, which began on 1 July 2016, does not include an option to purchase the premises at the expiry of the lease period. Lease incentives were received and are recognised in Trade and other payables (unearned income). The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group has provided a bank guarantee of $504,000 (2017: $504,000) over the rental of building premises at 130 Pitt Street, Sydney.

The current lease of printing and copying equipment for the office began on 1 January 2016 for a period of 5 years.

No lease asset or liability has been recognised in the Statement of Financial Position as AASB 16 Leases has not yet been adopted.

Other financial commitments include commitments as part of the social impact program within the Foundation, are as disclosed in the 30 June 2018 finance report.

	31 December 2018 $'000	30 June 2018 $'000
Lease & other financial commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	601	590
One to five years	2,036	2,312
	2,637	2,902
Liabilities recognised in respect of non-cancellable operating leases		
Lease incentives:		
Current	109	109
Non-current	383	438
	492	547

Note 17. Related party transactions

Parent entity
Australian Ethical Investment Limited is the parent entity.

Other related parties
Australian Ethical Superannuation Pty Limited (AES) acts as trustee for Australian Ethical Retail Superannuation Fund (AERSF).

Australian Ethical Investment Limited (AEI) acts as the responsible entity for the following Australian Ethical Trusts (AET's):
- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Income Fund
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Emerging Companies Fund
- Australian Ethical Balanced Fund

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

On 24 October 2018, Rob Plow resigned from his role as Chief Operating Officer. Kim Heng commenced as the new Chief Operating Officer on 14 January 2019.

Note 18. Share-based payments

The following share-based payment arrangements existed at 31 December 2018.

Deferred shares

Under the long term incentive scheme introduced in 2014, 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 an Employee Share Trust until vesting conditions are met. These shares are issued or granted for nil consideration with the shares having voting rights and employees receive dividends over the vesting period.

From 1 September 2018 onwards, new grants of shares are being purchased on market by the Trustee. The Board retains the discretion to issue new shares if required.

Included under employee benefits expense in the consolidated statement of comprehensive income is $427,000 (2017: $329,000) relating to the deferred shares granted.

As at 31 December 2018, the Employee Share Trust holds 2,904,400 shares (30 June 2018: 3,195,300 shares) on behalf of employees until vesting conditions are met.

Note 19. Events after the reporting period

Apart from the dividend declared as disclosed in note 13, no other matter or circumstance has arisen since 31 December 2018 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
Independent auditor's review report to the members of Australian Ethical Investment Limited

In the directors' opinion:

- the attached 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 financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2018 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

Phil Vernon
Managing Director & CEO

21 February 2019
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 2018 and of its performance for the Interim period 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 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim period 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 Interim period's end or from time to time during the Interim period.

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.

KPMG

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 2018 and its performance for the interim period 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 an Interim Period 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

KPMG

KHopkins

Karen Hopkins
Partner

Sydney
21 February 2019