

Appendix 4D (Rule 4.2A.3)

for the half-year ended 31 December 2020

 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 2019)

	\$ '000	up / down	% movement
Revenues from ordinary activities	26,008	up	11%
Net Profit after tax	5,341	up	13%
Deduct net profit after tax attributable to The Foundation	(169)		
Net profit attributable to shareholders	5,172	up	17%
Government grant income	(100)		
Proceeds from insurance settlement	(299)		
Tax on adjustments	90		
Underlying net profit after tax	4,863	up	11%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Final 2020 dividend per share (paid 16 September 2020)	2.50	2.50	100.0%
Special performance fee dividend per share (paid 16 September 2020)	1.00	1.00	100.0%
Interim 2021 dividend per share (to be paid 23 March 2021)	3.00	3.00	100.0%

Interim dividend dates

Ex-dividend date	3 March 2021
Record date	4 March 2021
Payment date	23 March 2021

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

	31 December 2020	31 December 2019
Net tangible assets per security *	\$0.16	\$0.14
Net asset value per security *	\$0.19	\$0.16

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

This information should be read in conjunction with the 2020 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 2020.

This report is based on the consolidated 2020 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 2020.

Interim Report

31 DECEMBER 2020

**Australian Ethical Investment Limited
and its Controlled Entities**

ABN 47 003 188 930



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 2020, (the interim period).

Directors

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

Steve Gibbs	Chair
John McMurdo	Managing Director & CEO
Mara Bun	Non-Executive Director
Kate Greenhill	Non-Executive Director
Michael Monaghan	Non-Executive Director
Julie Orr	Non-Executive Director

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

Australian Ethical has seen excellent momentum in the first half of this financial year, despite the ongoing challenges of COVID-19, increasing unemployment and uncertain economic outlook.

In many ways, the pandemic has reinforced our investment philosophy. It has shown that ethical investing can deliver strong investment outcomes while shaping a better future. As a result, we're now seeing strong signs that institutional investors, consumers and even governments are becoming much more discerning about where they allocate their capital and are seeking sustainable, resilient investment opportunities.

As a growing number of Australians embrace ethical investing in their pursuit of a more sustainable and equitable future for themselves and their families, we have seen customer joins increase in momentum. The number of our managed fund investors and super members have increased by 22% (from 31 December 2019) as they realised that good does better. And they've been rewarded with exceptional investment performance across most of our managed funds and superannuation investment options.

However, the COVID-19 clusters across Sydney at the end of 2020 were an important reminder of the unpredictability of these times. What the post-pandemic landscape will look like and when the world will recover from the economic impact are still unknown. And so, until the roadmap out of the current situation becomes clear, we're likely to see continuing volatility in financial markets and uncertainty across the economy.

But what is clear is that Australians are continuing to open their eyes to the many opportunities for growth and returns from the transition to a more sustainable future and this is a key driver of our growth.

PROFIT

The net profit for the Group amounted to \$5.3 million. The net profit attributable to shareholders amounted to \$5.2 million, compared with \$4.4 million for the 6 months ended 31 December 2019. Underlying profit after tax was \$4.9 million, up 11% compared with the prior corresponding period.

Operating revenue increased 10% to \$25.6 million, up from \$23.3 million for the 6 months ended 31 December 2019. This increase was driven by strong FUM growth, partially offset by the impact of superannuation fee reductions (including those implemented in the second half of FY20¹) and fee and threshold reductions across some managed funds in October 2020². During the period the average FUM based fee margin reduced from 1.17%* to 1.07%*.

* As compared to the same period last year

Operating expenses increased by 11% as we continue to invest in our brand, capability, customer experience, and deliver our regulatory projects. Key drivers of the cost increases include:

- Higher fund-related costs predominantly from the increase in customer numbers and FUM, as well as investment in strategic initiatives including the implementation of the redesign of our insurance offering within super, costs incurred in preparation for insourcing our super member contact centre, and launch of a member education tool.
- Other cost increases relate to improvements to our technology platform including implementation of a data warehouse and an upgrade to our IT security.

Other income included net settlement of an insurance claim for \$0.3 million, lodged in the 2017 year in relation to an historical unit price matter (refer Note 6).

In addition, we received \$0.1 million from the Federal Government's cash flow boost COVID-19 stimulus package³. Australian Ethical will be allocating these funds to be distributed by the Australian Ethical Foundation.

Pleasingly, we have allocated \$0.7 million to the Australian Ethical Foundation during the period, which will further bolster its impact through community grants, multi-year grant programs and impact investments.

FUM

During the period, we have seen record net inflows of \$422 million, 43% above the prior corresponding period. These strong flows, together with an uplift in FUM of \$573 million due to net investment performance during the period, have resulted in excellent FUM growth of 30% to \$5.05 billion at 31 December 2020. It is particularly encouraging to see FUM recover so quickly from the initial COVID-triggered economic downturn and continuing to grow.

	31 December 2020 \$m	31 December 2019 \$m	% Change
Opening FUM	4,051	3,416	19%
Super flows (net)	254	200	27%
Managed Funds flows (net)	120	66	82%
Institutional flows (net)	48	30	58%
Net flows	422	296	43%
Investment performance (net of fees)	573	159	259%
Closing FUM	5,046	3,871	30%

¹ The percentage-based administration fee was reduced from 0.41% to 0.29% on 1 April 2020 across all superannuation and pension options. The defensive superannuation option management fee was reduced from 0.40% to 0.20% on 1 October 2020.

² On 1 October 2020: the Balanced Fund wholesale investment threshold was reduced from \$500k to \$200k; the Income Fund management fee was reduced from 0.35% to 0.20% (wholesale) and 0.50% to 0.20% (retail); and the Fixed Interest Fund management fee was reduced from 0.45% to 0.30% (wholesale) and 1.00% to 0.50% (retail).

³ Paid to small to medium sized entities with less than \$50m in group revenue in the 30 June 2020 financial year.

INVESTMENT PERFORMANCE

During the period, our funds have delivered exceptional investment performance across most of our managed funds and superannuation investment options. In fact, many of the sectors we select to invest in have been boosted by the changing circumstances arising from COVID-19 such as technology and e-commerce, and healthcare.

For our managed funds investors, over the 6 months ending 31 December 2020, the Australian Shares Fund (retail) returned 30.4% (outperforming its benchmark by 16.7%)⁴ and the Emerging Companies Fund (retail) returned 41.3% (outperforming its benchmark by 21.4%)⁵.

For members of Australian Ethical Super, the Balanced option (MySuper) ranked second against its peers⁶ over the 12 months ending 31 December 2020, delivering an 8.0% return. Our Australian Shares super option was ranked second over 1 year and 3 years and first over 5, 7 and 10 years⁷.

Awards and industry recognition during the period include an ESG Trailblazer award from Money Magazine and being named a 'Leader' for our ESG commitment by Morningstar, one of only six fund managers globally.

OUTLOOK

We have had a strong first half of FY21 as a growing number of Australians seek to do good and do well with their money. Buoyed by exceptional investment performance, we are well-positioned for future growth.

With the return to normality a long way off, we are committed to growing Australians' awareness of ethical investing as we work through these uncertain times. The societal, policy and economic responses to the pandemic will create a range of investment opportunities consistent with our ethical investing philosophy which we are actively pursuing for the benefit of all our stakeholders.

However, while our people, operations and infrastructure have adapted and responded well to the COVID-19 crisis, like all fund managers we are highly leveraged to the markets at a time when economic uncertainty remains high, interest rates low and COVID-19 still unbeaten. Market volatility is expected to continue into the second half of FY21, with further global lockdowns causing market nerves despite the optimism from the vaccine rollout.

Against a backdrop of increased 'green' investment globally by world leaders and the pandemic accelerating the existing trend towards sustainability, we remain committed to the long-term growth aspirations of our business. We are actively implementing our strategic roadmap to ensure we capture the huge growth opportunity we see ahead of us. This includes further investing in our brand, product development, people capability, technology platform, customer experience and in diversifying our distribution channels to maximise our reach and our impact, while also managing our regulatory change pipeline.

Financials in the second half of the financial year compared with the first half will be impacted by higher operating expenses, due to timing of expenditure, as well as increased investment in strategic and regulatory initiatives as we continue to position our business for success.

Any performance fee on the Emerging Companies Fund will only crystallise on 30 June 2021 if the fund outperforms the Small Industrials Index benchmark. This fee is calculated at 20% of the outperformance.

⁴ Benchmark is the S&P/ASX 300 Accum

⁵ Benchmark is the S&P/ASX Small Industrials

⁶ SuperRatings SR50 Balanced (60-76) Index options for the 12 months to December 2020

⁷ SuperRatings SR50 Australian Shares Index for the periods ending 31 December 2020

Financial Performance – management analysis

	31 December 2020 \$'000	31 December 2019 \$'000	% Increase
Net Profit after tax (NPAT)	5,341	4,741	13%
Less: Net profit after tax attributable to The Foundation*	(169)	(304)	
Net profit after tax attributable to shareholders	5,172	4,437	17%
Adjustments:			
Revaluation of investment property held for sale	-	(66)	
Government grant income	(100)	-	
Net proceeds from insurance settlement	(299)	-	
Tax on adjustments	90	-	
Underlying profit after tax (UPAT)	4,863	4,371	11%
Basic EPS on NPAT (cents per share)	4.84	4.32	
Basic EPS on NPAT attributable to shareholders (cents per share)	4.68	4.05	
Diluted EPS on NPAT attributable to shareholders (cents per share)	4.60	3.95	
Basic EPS on UPAT attributable to shareholders (cents per share)	4.40	3.99	
Diluted EPS on UPAT attributable to shareholders (cents per share)	4.32	3.89	

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

Dividends

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

Details	2020 \$'000	2019 \$'000
Final dividend for the year ended 30 June 2020 of 2.50 cents (2019: 3.00 cents) per ordinary share	2,810	3,363
Special performance dividend for the year ended 30 June 2020 of 1.00 cents (2019: nil) per ordinary share	1,124	-
	3,934	3,363

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 3.00 cents per fully paid ordinary share (2019: 2.50 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 23 March 2021 out of profits for the half-year ended 31 December 2020, but not recognised as a liability is \$3,372,000 (2019: \$2,810,000).

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

No matter or circumstance has arisen since 31 December 2020 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. Management continue to monitor the impact of the ongoing COVID-19 pandemic in Australia and have assessed there are no changes required to the financial statements subsequent to the end of the financial half-year.

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 half-year ended 31 December 2020.

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



JOHN MCMURDO
Managing Director and Chief Executive Officer

23 February 2021

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 2020 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

K Hopkins

Karen Hopkins
Partner

Sydney
23 February 2021

Interim Report 31 December 2020

Australian Ethical Investment Limited and its Controlled Entities

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Condensed statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
Revenue			
Operating revenue	6	25,609	23,322
Other income	6	399	66
Total revenue		26,008	23,388
Operating expenses			
Employee benefits	7	(8,877)	(8,538)
Fund related expenses	8	(4,519)	(3,576)
Marketing		(1,704)	(1,819)
External services	9	(874)	(836)
IT expenses	10	(1,091)	(865)
Depreciation and amortisation	11	(635)	(401)
Community grants		(530)	(304)
Occupancy		(119)	(198)
Finance charges		(29)	(18)
Other operating expenses	12	(521)	(494)
Total operating expenses		(18,899)	(17,049)
Profit before income tax expense		7,109	6,339
Income tax expense	13	(1,768)	(1,598)
Net profit for the half-year		5,341	4,741
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain/(loss) on revaluation of investments		1	(1)
Other comprehensive income, net of tax		1	(1)
Total comprehensive income for the half-year¹		5,342	4,740
		Cents	Cents
Basic earnings per share		4.84	4.32
Diluted earnings per share		4.75	4.22

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

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

Condensed statement of financial position

As at 31 December 2020

		Consolidated	
	Note	31 December 2020 \$'000	30 June 2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		21,731	21,427
Trade and other receivables		2,563	4,771
Right-of-use assets		600	450
Prepayments		631	1,172
Income tax refund due		256	-
Total current assets		25,781	27,820
Non-current assets			
Deferred tax asset	13	1,832	2,134
Property, plant and equipment		1,880	1,938
Right-of-use assets		870	847
Term deposit		504	504
Other receivables		459	440
Financial assets through other comprehensive income	16	134	133
Total non-current assets		5,679	5,996
Total assets		31,460	33,816
Liabilities			
Current liabilities			
Trade and other payables		4,813	6,113
Employee benefits		2,744	3,849
Income tax payable	13	-	852
Lease liabilities		691	529
Total current liabilities		8,248	11,343
Non-current liabilities			
Lease liabilities		1,088	1,112
Employee benefits		314	273
Provisions		249	246
Deferred tax	13	18	25
Total non-current liabilities		1,669	1,656
Total liabilities		9,917	12,999
Net assets		21,543	20,817
Equity			
Issued capital	14	10,581	11,191
Reserves		713	784
Retained profits		10,249	8,842
Total equity		21,543	20,817

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

Condensed statement of changes in equity

For the half-year ended 31 December 2020

Consolidated	Issued capital \$'000	Employee share plan reserve \$'000	FVOCI reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	10,634	792	(4)	5,592	17,014
Adjustment arising from transition to AASB 16	-	-	-	(35)	(35)
Balance at 1 July 2019 – restated	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 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	11,191	209	(5)	6,935	18,330

Consolidated	Issued capital \$'000	Employee share plan reserve \$'000	FVOCI reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	11,191	791	(7)	8,842	20,817
Profit after income tax expense for the half-year	-	-	-	5,341	5,341
Other comprehensive income for the year, net of tax	-	-	-	1	1
Total comprehensive income for the half-year	-	-	-	5,342	5,342
<i>Transactions with owners in their capacity as owners:</i>					
Shares vested under deferred shares plan during the year	1,025	(1,025)	-	-	-
Dividends provided for or paid	-	-	-	(3,934)	(3,934)
Employee share plan - deferred shares	-	953	-	-	953
Employee share plan - shares purchased on-market	(1,635)	-	-	-	(1,635)
Revaluation of investments	-	-	1	(1)	-
Balance at 31 December 2020	10,581	719	(6)	10,249	21,543

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

Condensed statement of cash flows

For the half-year ended 31 December 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
Receipts from customers		27,776	24,106
Payments to suppliers and employees		(19,481)	(17,541)
Rental and other income received		-	99
Interest received		38	110
Community grants paid		(830)	(750)
Net proceeds from insurance settlement		299	-
Government grant income		100	-
Income taxes paid		(1,768)	(2,272)
Net cash from operating activities		6,134	3,752
Cash flows from investing activities			
Payments for property, plant and equipment		(205)	(362)
Purchase of investment in August Investments Pty Limited		(28)	-
Net cash used in investing activities		(233)	(362)
Cash flows from financing activities			
Purchase of employees deferred shares		(1,635)	(557)
Interest on lease liabilities		(28)	-
Dividends paid	18	(3,934)	(3,363)
Net cash used in financing activities		(5,597)	(3,920)
Net increase/(decrease) in cash and cash equivalents		304	(530)
Cash and cash equivalents at the beginning of the financial half-year		21,427	18,825
Cash and cash equivalents at the end of the financial year		21,731	18,295

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

Notes to the condensed financial statements

31 December 2020

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 23 February 2021.

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 condensed 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 2020 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 in the preparation of the interim financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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. Management continue to monitor the impact from the ongoing COVID-19 pandemic and its impact on the financial statements. Despite the volatility in markets and early release of super scheme, the business has continued to experience growth in FUM with positive net inflows and strong investment performance.

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. Since 30 June 2020, our valuation and estimate methodologies have not changed and there have been no significant adjustments as a result of COVID-19.

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 2020 \$'000	31 December 2019 \$'000
Operating revenue		
Management and performance fees	19,573	16,873
Administration fees (net of Operational Risk Financial Reserve contributions)	3,927	4,646
Member fees (net of rebates)	2,075	1,603
Interest income	30	98
Rental and other income	4	102
	25,609	23,322
Other income		
Government grant income	100	-
Net proceeds from insurance settlement	299	-
Revaluation of investment property held for sale	-	66
	399	66

The Group was eligible for and received a grant of \$100,000 under 'Boosting Cash Flow for Employers' which was part of the Australian government's COVID-19 support program for employing entities. This grant was received by all entities with aggregate FY20 revenue of less than \$50m.

During the interim period, the Parent Entity settled the insurance claim in respect of the unit pricing matter first disclosed in the 30 June 2017 annual report for \$525,000. These proceeds were, in turn, paid to its subsidiary, Australian Ethical Superannuation Pty Limited in settlement of a claim the subsidiary had lodged with the Company in relation to the same unit pricing matter. The subsidiary paid \$225,885 of the proceeds to the Operational Risk Financial Reserve of the Australian Ethical Retail Superannuation Fund to return the amount originally paid from reserve.

Note 7. Employee benefits

	31 December 2020 \$'000	31 December 2019 \$'000
Employee remuneration	8,394	8,132
Directors fees	286	250
Other employment costs	197	156
	8,877	8,538

Note 8. Fund related expenses

	31 December 2020 \$'000	31 December 2019 \$'000
Administration and custody fees	3,970	3,088
Licence, ratings and platform fees	332	318
Regulatory and industry body fees	167	139
Ethical research	50	31
	4,519	3,576

From 1 May 2020, the Company outsourced the investment management and general ledger record-keeping to NAB Asset Servicing. This includes the calculation of unit prices for the managed funds, tax calculations for distributions and preparation of monthly accounting reconciliations. The additional administration fees, net of investment management software licence, amount to \$94k. Whilst the outsourcing results in an increase in administration fees, this is partially offset by reduction in employment costs following the implementation.

Administration and custody fees also includes implementation of the redesign of our insurance offering within the super fund of \$400k.

Note 9. External services

	31 December 2020 \$'000	31 December 2019 \$'000
Audit and accounting	391	418
Consultants	284	117
Legal services	106	111
Other	93	190
	874	836

Note 10. IT expenses

	31 December 2020 \$'000	31 December 2019 \$'000
Front office IT systems	601	503
Support systems, infrastructure and security	490	362
	1,091	865

Note 11. Depreciation and amortisation

	31 December 2020 \$'000	31 December 2019 \$'000
Depreciation of property, plant and equipment	226	181
Depreciation of right of use asset - Sydney office lease	290	210
Amortisation of intangible assets	104	-
Depreciation of right of use asset - IT infrastructure	15	10
	635	401

Note 12. Other operating expenses

	31 December 2020 \$'000	31 December 2019 \$'000
Insurance	195	154
Travel and entertainment	59	152
Listing fees	113	56
Printing and subscriptions	68	49
Other expenses	86	83
	521	494

Note 13. Income tax

During the period the Group reviewed its annual revenue and expects it to exceed the \$50m threshold. In turn this has resulted in a change of its corporate tax rate from 26% to 30% in accordance with applicable tax rates for entities with revenue greater than \$50million. The deferred tax balances have been restated resulting in a reduction in income tax expense of \$292K equating to a reduction of the effective tax rate by 4.1%.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2020 was 24.9% (for the six months ended 31 December 2019: 25.2%). The effective tax rate with respect to profit attributable to shareholders is 25.5% (2019: 26.5%). The difference between the effective tax rate for the Group and profit attributable to shareholders is due to the tax-exempt status of the Foundation.

	31 December 2020 \$'000	31 December 2019 \$'000
Current tax	1,466	1,420
Deferred tax – origination and reversal of temporary differences	594	245
Adjustment due to change in income tax rate	(292)	-
Adjustment recognised for prior periods	-	(32)
Deferred tax adjustment on transition to AASB16	-	(35)
Aggregate income tax expense	1,768	1,598

Note 14. Equity - issued capital

Movements in share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2019	112,387,138		11,191
Vesting of deferred shares in the Employee Share Trust (43,466 shares)	17 August 2020	-	\$1.32	57
Vesting of deferred shares in the Employee Share Trust (14,768 shares)	17 August 2020	-	\$2.15	32
Vesting of deferred shares in the Employee Share Trust (109,800 shares)	17 August 2020	-	\$0.88	97
Vesting of deferred shares in the Employee Share Trust (893,900 shares)	1 September 2020	-	\$0.88	793
Vesting of deferred shares in the Employee Share Trust (34,473 shares)	7 September 2020	-	\$1.32	46
Purchase of deferred shares in the Employee share plan - on-market	6 October 2020	-	\$4.53	(1,635)
Balance	31 December 2020	112,387,138		10,581

On 1 September 2020, 893,900 shares that were granted to employees on 1 September 2017 vested to employees as the performance hurdle had been met. On 17 August and 7 September 2020, additional shares were vested to employees impacted by staff restructuring in proportion to the period of employment.

From 1 September 2020, the Company changed its approach to measuring deferred shares from 90-day VWAP price to the price at which the shares were purchased on-market. At the same time, the Company changed its accounting policy to recognise these share purchases as a reduction in Issued Capital as opposed to through the Share Based Payment Reserve.

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.

Note 15. Equity - dividends

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

	31 December 2020 \$'000	31 December 2019 \$'000
Final dividend for the year ended 30 June 2020 of 2.50 cents (2019: 3.00 cents) per ordinary share	2,810	3,363
Special performance dividend for the year ended 30 June 2020 of 1.00 cents (2019: nil) per ordinary share	1,124	-
	3,934	3,363

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 3.00 cents per fully paid ordinary share (2019: 2.50 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 23 March 2021 out of profits for the half-year ended 31 December 2020, but not recognised as a liability is \$3,372,000 (2019: \$2,810,000).

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.

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	Level 2	Level 3	Total
Consolidated – 31 December 2020	\$'000	\$'000	\$'000	\$'000
<i>Financial assets measured at fair value</i>				
Investments	2	132	-	134
Total assets	2	132	-	134

	Level 1	Level 2	Level 3	Total
Consolidated – 30 June 2020	\$'000	\$'000	\$'000	\$'000
<i>Financial assets measured at fair value</i>				
Investments	2	131	-	133
Total assets	2	131	-	133

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 2020, the impact of The Foundation before intercompany eliminations is noted below:

	31 December 2020	31 December 2019
	\$'000	\$'000
Statement of comprehensive income		
Revenue from parent entity	705	613
Interest income	2	3
Community grants expense	(530)	(304)
Audit fees	(7)	(7)
Other	(1)	(1)
Profit for the period	169	304
<i>Other comprehensive income:</i>		
Loss on revaluation of investments	1	(1)
Total comprehensive income	170	303

	31 December 2020 \$'000	30 June 2020 \$'000
Statement of financial position		
<i>Assets:</i>		
Cash and cash equivalents	923	468
Receivables from parent entity	705	1,300
Financial assets at fair value through profit or loss	134	133
<i>Liabilities:</i>		
Payables	(936)	(1,245)
Net assets	826	656
<i>Equity:</i>		
Retained earnings	832	663
FVOCI reserve	(6)	(7)
Total equity	826	656

Note 18. Share-based payments

The following share-based payment arrangements existed at 31 December 2020.

Deferred shares

Under the Group's long-term incentive plan, 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 new issue or following on-market purchase with the shares being held in Trust. These shares are issued to employees for nil consideration with the shares having voting rights and employees receive dividends over the vesting period.

During the interim period, 352,729 shares were granted to employees at an issue price of \$4.53, based on a volume weighted average share price for purchasing the shares on market between September and October 2020. A further 65,881 shares were purchased and granted to certain employees under the deferred short-term incentives plan for the performance year ended 30 June 2020. These shares were granted with the same vesting term, voting rights and rights to receive dividends as the shares granted under the long-term incentive plan, however the performance hurdle for these shares has already been met. A total of 418,610 shares were granted to employees of which 360,728 were purchased on-market and the remainder were granted from forfeited shares.

Included under employee benefits expense in the condensed statement of profit or loss and other comprehensive income is \$660,000 (2019: \$519,000) relating to the deferred shares granted.

New grants of shares are generally purchased on market by the Trustee, however, the Board retains the discretion to issue new shares if required.

As at 31 December 2020, the Employee Share Trust holds 1,858,649 shares (30 June 2020: 2,596,158 shares) on behalf of employees until vesting conditions are met.

Note 19. Related party transactions

There were no changes to related parties from that disclosed in the 2020 Annual Report.

Note 20. Events after the reporting period

No matter or circumstance has arisen since 31 December 2020 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. Management continue to monitor the impact of the ongoing COVID-19 pandemic in Australia and have assessed there are no changes required to the financial statements subsequent to the end of the financial half-year.

Directors' declaration

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 financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 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



JOHN MCMURDO
Managing Director and Chief Executive Officer

23 February 2021

Sydney



Independent Auditor's Review Report

To the shareholders of Australian Ethical Investment Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Australian Ethical Investment Limited.

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2020 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:

- Condensed statement of financial position as at 31 December 2020;
- Condensed statement of profit or loss and other comprehensive income, Condensed statement of changes in equity and Condensed statement of cash flows for the half year ended on that date;
- Notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information; and
- 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.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



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*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and 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. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

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.

KPMG

Karen Hopkins
Partner

Sydney
23 February 2021



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