Australian Ethical

ASX Announcement

Appendix 4D (Rule 4.2A.3)

for the half-year ended 31 December 2021

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 2020)

	$ '000	up / down	% movement
Revenues from ordinary activities	**35,225**	**up**	**35%**
Net Profit after tax	**5,506**	**up**	**3%**
Deduct net profit after tax attributable to The Foundation	(82)		
Net profit attributable to shareholders	**5,424**	**up**	**5%**
Underlying net profit after tax	5,424	up	12%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Final 2021 dividend per share (paid 16 September 2021)	4.00	4.00	100.0%
Special performance fee dividend per share (paid 16 September 2021)	1.00	1.00	100.0%
Interim 2022 dividend per share (to be paid 17 March 2022)	3.00	3.00	100.0%

Interim dividend dates	
Ex-dividend date	**2 March 2022**
Record date	**3 March 2022**
Payment date	**17 March 2022**

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

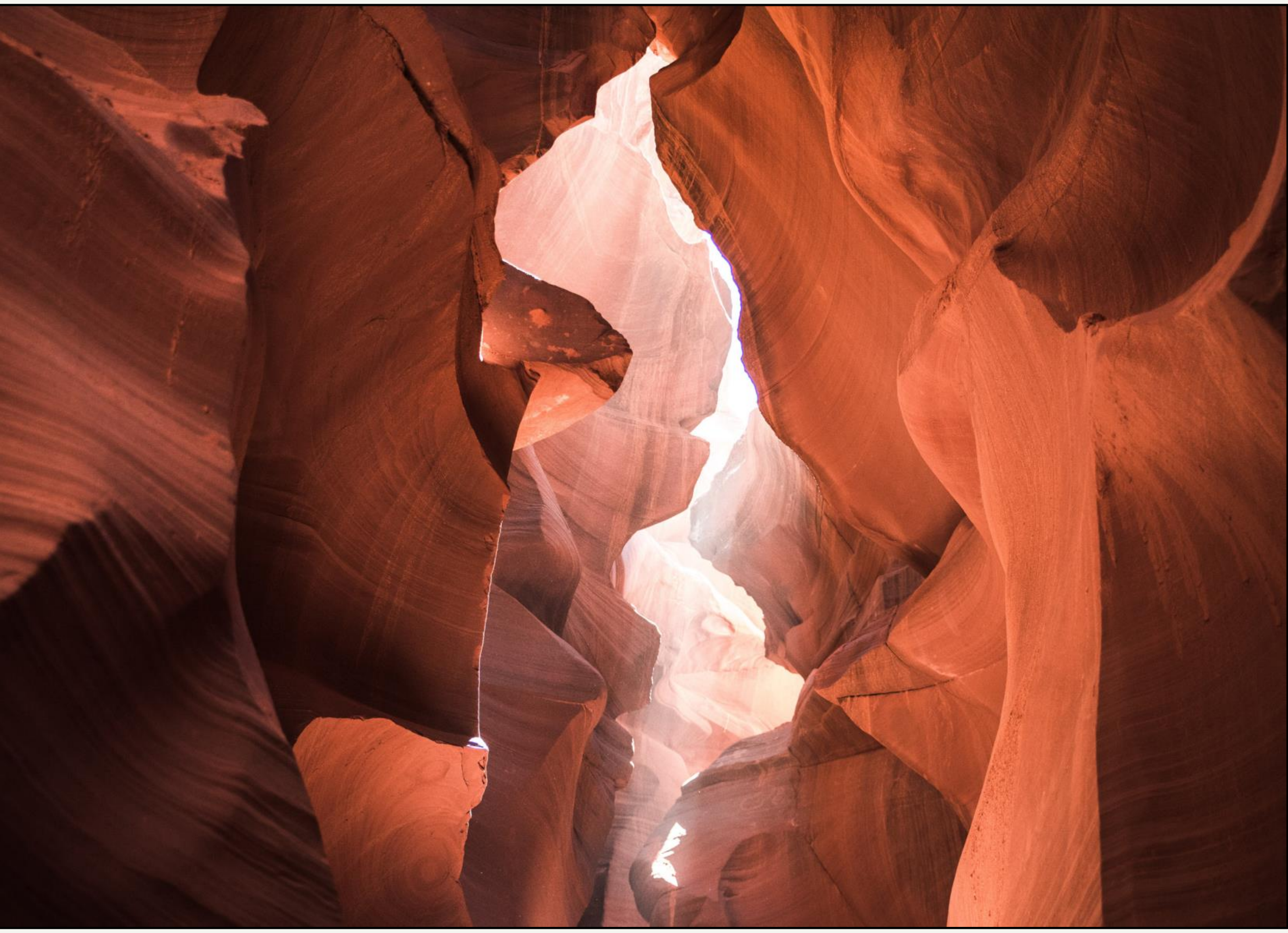
	31 December 2021	31 December 2020
Net tangible assets per security *	**$0.18**	**$0.16**
Net asset value per security *	**$0.21**	**$0.19**

This information should be read in conjunction with the 2021 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.

This report is based on the Consolidated Interim Financial Report of Australian Ethical Investment Limited for the period ended 31 December 2021 which has been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the Interim Financial Report.

Australian Ethical Investment Limited and its Controlled Entities

Interim Financial Report
31 December 2021



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Directors' Report

Directors' Report

For the half-year ended 31 December 2021

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 2021, (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 and 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

In many ways, 2021 was like a sequel to 2020 as Covid continued to dominate our daily lives, with extended lockdowns and closed borders hurting people and businesses alike. While the shadow of the pandemic loomed over the Australian economy for a second consecutive year, federal and state government support helped mitigate the worst impacts with the focus on getting the nation vaccinated leading to a gradual easing of restrictions.

But despite signs that we are transitioning to living with Covid as vaccines and treatments get the upper hand, the sweeping impact of Omicron shows that sentiment around the pandemic can still shift quickly.

For those of us in the responsible investment sector, the pandemic has continued to shine a spotlight on the relationship between sustainable business practices and economic resilience. The last six months have seen monumental changes in how investors tackle sustainable investing – with what was once a 'nice-to-have' becoming a 'must-have' for many.

Much of this momentum was catalysed by the COP26 climate summit in Glasgow, which was preceded by a succession of net-zero commitments from corporates and policymakers.

And while there were disappointments - including less ambitious outcomes from our federal government than other leading nations - the emergence at Glasgow of coalitions around single issues like coal power, deforestation and methane emissions was promising with business and finance making meaningful commitments.

The Australian Ethical team deserve praise for continuing to work tirelessly over the past six months in often less than straightforward circumstances. On behalf of the Board, I would like to thank them for their dedication and resilience during lockdowns and the many other curve balls thrown up by the virus.

First half overview

It's been a busy and productive first half for Australian Ethical. We have seen our positive momentum continue and finished 2021 in strong shape, having reached important milestones in our high growth strategy including completing complex operational projects, launching new products and further digitising the customer experience.

We have continued to offer our growing customer base competitive returns., In addition, we also took a minority stake in Sentient Impact Group, accelerating our strategic plans through M&A and extending our own impact investing capabilities.

Our expertise and sector leadership were acknowledged through numerous industry awards, and we announced a more ambitious 2040 net zero emissions target for our private sector investments. Meanwhile we continue to find that our clear mission as a purpose-driven organisation remains a key differentiator as we hire, and then retain, talent in a competitive market with our most recent employee engagement survey revealing a top quartile score of 82%.

We were also proud to create the Visionary Grant program via the Australian Ethical Foundation which allocated early-stage funding to support innovative climate solutions and launch Australia's first evidence-based climate action giving guide with Giving Green.

Over the coming pages we will expand on the many successes of the past six months and give an update on our ambitious high growth strategy.

Profit

The net profit after tax for the Group was $5.5 million, compared with $5.3 million in the prior corresponding period. The net profit attributable to shareholders amounted to $5.4 million, compared with $5.2 million for the 6 months ended 31 December 2020. Underlying profit after tax was $5.4 million, up 12% compared with the prior corresponding period.

Headline growth remains strong - operating revenue increased 38% to $35.2 million, up from $25.6 million for the 6 months ended 31 December 2020. This increase was driven by strong average FUM growth of 47%, partially offset by the impact of fee reductions. The FUM based fee margin reduced from 1.05% at 31 December 2020 to 0.99% at 31 December 2021.

Expenses

Operating expenses increased by 45% during the period. The expense growth reflects both the growth in the business compared to the prior corresponding period and continued investment in our high growth strategy, as laid out in our FY21 full year results. Key drivers include:

Employee benefits

- Employee benefits increased 40% following strategic hires in our investment team, sales team, data and technology team and innovation team to enhance capability within the business (including 5 strategic project contractors). Hires were also made in our in-house contact centre and finance team to support the already strong growth in the business.
- Headcount increased from 72 at 31 December 2020 to 92 at 31 December 2021.
- The increase in employee costs reflects both new hires during the period as well as the run rate of hires in FY21.
- Remuneration expenses also increased to ensure market alignment following a full remuneration review

Fund related expenses

- Fund related expenses increase was driven by higher FUM and customer numbers, as well as investment in enhancing our strategic asset allocation approach
- The expense increase of 23% was lower than growth in FUM mainly due to a reduction in the administration fee rate payable to Mercer following the insourcing of the contact centre

Marketing

- The first half saw a significant increase in brand and marketing spend to grow brand awareness and raise Australian Ethical's profile in the intermediated channel with advisers. Various strategic brand campaigns have been executed during the period including a successful campaign run during COP26.

External services

- An increase in external services was driven by investment in strategic initiatives including work on a new customer app, a new back office 'cloud-based' technology platform, launch of new products, and M&A due diligence costs.

IT expenses

IT expenses increased in line with headcount increase as well as new licences for strategic technology initiatives.

The Foundation

Pleasingly, we have accrued $0.7 million for the Australian Ethical Foundation during the period, which will further bolster its impact through grant making programs.

Funds Under Management

During the period, we have seen net inflows of $0.6 billion, 42% above the prior corresponding period. These strong flows, together with an uplift in FUM of $0.27 billion due to net investment performance during the period, have resulted in positive FUM growth of 38% to $6.94 billion at 31 December 2021.

	31 December 2021	31 December 2020	% change
	$bn	$bn	
Opening FUM	6.07	4.05	50%
Super flows (net)	0.37	0.25	45%
Managed Funds flows (net)	0.23	0.17	37%
Total net flows	0.60	0.42	42%
Investment performance (net of fees)	0.27	0.57	(52%)
Closing FUM	6.94	5.05	38%
Average 1H FUM	6.53	4.45	47%

Investment performance

The past six months have seen no shortage of headlines that have contributed to the volatility seen in markets around the world. While global markets performed strongly through the six months, with the MSCI World Index delivering a return of 8.9% as measured in local currency, volatility was at elevated levels as the persistence of Covid-19, emerging inflationary pressures and escalating political tensions continue to present headwinds for investors.

We remain focused on our ethical investment philosophy, looking beyond short-term volatility and maintaining a long-term outlook. It is an approach that has continued to deliver strong long-term returns for our customers.

For our managed fund customers, over the six months our Balanced Fund (Wholesale) returned 5.6% (outperforming its benchmark by 1 percentage point (ppt)), our Australian Shares Fund (Wholesale) returned 5.3% (outperforming its benchmark by 1.3ppts) and our Emerging Companies Fund (Wholesale) returned 7.7% (outperforming its benchmark by 5.2ppts)[1].

For our super customers our MySuper Option returned 5.2% (outperforming its benchmark by 1ppt), and ranked 2nd against its peers over the 3-year period[2], our High Growth option returned 7.8% (outperforming the benchmark by 2.2ppt) and ranked 4th against its peers over the 12-month period[3], while our Australian Shares option returned 5.3% (outperforming its benchmark by 1.9ppt) and ranks 1st against its peers over the 3, 5, 7 and 10-year periods[4].In December, our MySuper option was the second best-scoring option for investment performance in APRA's MySuper Heatmap tool over a seven year period, and the only retail fund to make the top 10.

Awards and accolades

Awards, accolades and recognition over the past six months have been many and varied.

In September, we were recognised as a Responsible Investment Leader by RIAA in the 2021 Responsible Investment Benchmark Report Australia which showed how Australia's market for responsible investments has continued to soar in popularity. In December, we were one of just 13 super funds singled out as a leader in RIAA's Responsible Investment Super Study 2021, which also found how super funds demonstrating leading practice responsible investment are taking a bigger share of the market and financially outperforming their peers.

In October, we were particularly proud to win the SuperRatings Infinity Award - which recognises the Australian super fund leading the industry in sustainable behaviour - for the third time. We also received a SuperRatings Gold rating for our MySuper, Personal and Pension products. In December, we were delighted to be acknowledged by Money Magazine for doing the right thing by our customers and the planet when our Diversified Shares Fund was named Best Australian Equities ESG Fund in the Best of the Best Awards.

Pleasingly, we have also been winning awards beyond financial services. In August, we were particularly delighted to be named among Australia's Top 100 most trusted brands by Roy Morgan, and number 5 among non-bank financial services companies. And in November our new brand identity was awarded a Distinction in the Brand and Identity Category in the AGDA Design Awards 2021, which recognise the very best work in Australia across a range of creative disciplines. These awards are run by the Australian Graphic Design Association (AGDA), the peak national organisation representing the Australian communication design industry.

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[1] Benchmarks for the managed funds are as follows: Balanced Fund: SAA Weighted Benchmark; Australian Shares Fund: S&P/ASX 300 Accumulation Index; Emerging Companies Fund: S&P ASX Small Industrials Index

[2] SR50 Balanced (60-76) Index - SuperRatings December 2021 survey

[3] SR25 High Growth (91-100) Index - SuperRatings December 2021 survey

[4] SR50 Australian Shares Index - SuperRatings December 2021 survey

Strategic update

At our full year results to 30 June 2021, we announced an aggressive growth strategy to expand our market share where we see the most potential. Our goal remains to build a much bigger, more impactful Australian Ethical.

In our strategy we identified four key pillars that we are investing in and pursuing in tandem to strengthen our business for impact and leadership. Progress against our strategy is outlined below.

Strong delivery of strategy in the first half of FY22

01	Principled investment leadership	Market leading returns	Momentum in product development: High Growth & High Conviction incl first ETF to reach new segments	New capability: Investment Director & minority stake in Sentient Impact Group
02	Advocates for a better world	Announced a more ambitious net zero target of 2040 for our private sector investments	Strong visibility through COP26 with 7,500 investors profiled on front page of Financial Times	$500k allocated to new Visionary Grants supporting innovative climate solutions
03	Compelling client experience	Maintained top NPS for HNW investors with a score of +51~	Commenced build of AE App & Portal to digitise and personalise investor experience	Maintained industry leading retention rates in super^
04	Impactful business	42% uplift in overall net flows H1 FY22 vs 1H FY21	Adviser channel gaining momentum with flows in the 1H equal to 85% of full FY21. Strong growth in direct HNW client number	Commenced digital transformation of back-office systems to cloud based, scalable technologies
+	Leadership & innovation	Strategic Capability headcount increase of 12 in H1^^	New performance & remuneration framework aligned to high performance culture	Design led approach to product development pipeline & creation of new incubator team

~ Investment Trends HNW Investor Report – November 2021
^ KPMG 2021 Super Insights Report – published May 2021, using statistics published by APRA and ATO as at 30 June 2020. 1H22 super outflows were 4.2% of FUM
^^ This includes 5 contractors to support strategic initiatives

Australian Ethical

Going forward, we are continuing to challenge ourselves to be more efficient and effective through innovation, collaborating in new and different ways. We will allocate resources to those areas that will enable us to differentiate ourselves in the eyes of our customers and extend our leadership.

As important as these new initiatives are, we remain fixated on our long-held purpose of investing for a better world. This includes continuing to reinvest in our existing business while accelerating our objectives through M&A. And while such investments do come at a cost, we do so with the conviction that it will deliver better outcomes for all our stakeholders.

COVID-19 update

Around the world, companies are reconfiguring their operations in response to Covid. That the pandemic continues to test many companies is an important reminder of the importance of having a robust business to be able to manage through unpredictable circumstances. Australian Ethical has remained strong throughout thanks to our resilient business structure and thorough business continuity plan.

The knock-on effects of reduced employee availability during the most recent Omicron wave have not radically impacted Australian Ethical, where our pre-pandemic flexible work policy and existing bench strength in key areas have helped us continue relatively unaffected.

And while employees have been able to transition seamlessly between lockdowns, we are looking forward to seeing each other in person more in 2022. We will revert to a hybrid working model when it is safe to do so, benefiting from teams working together face-to-face as well as the many advantages flexible working has created in terms of work / life balance.

The impact of Covid on the companies we invest in is reflected in the fair value of liquid FUM on a daily basis. Illiquid alternative and property assets have been actively monitored throughout the period, with external specialist asset managers ensuring these assets have been subject to more frequent fair valuations. We will continue to monitor the impact of Covid on our portfolio and remain committed to investing through the volatility for a better world.

While we now have a far greater understanding of Covid than we did in 2020 or even early 2021, it's clear that people and businesses continue to be affected by the pandemic. Even with restrictions easing, many of the longer-term impacts are still uncertain. As such, the board and senior leadership team remain alert to the situation as it evolves and continue to monitor any strategic risks and horizon threats, as well as the principal risks more directly associated with our business activities.

Climate update

2021 saw increasing momentum around consensus on reducing emissions, which was highlighted on a global stage at the COP26 conference in Glasgow. We're hopeful that this public demand and bottom-up pressure from the broader investor community will help accelerate Australia's green transition, together with the expectation that all ASX-listed corporates will soon commit to net zero.

At our AGM in October 2021, we announced that our own more ambitious 2040 net zero target for our investment portfolio, bringing forward the 2050 target we set in 2015. Our net zero target is for our investment in the private sector, not for our investment in government bonds and other public sector investments.

For global emissions to reach net zero by 2050, the world will need diverse successful zero emissions businesses operating across the economy by 2040. These businesses which are leading in the management of climate risk and opportunity are the businesses we want to invest in, so that by 2040 we can offer our investors high performing, zero emissions portfolios.

Setting a net zero 2040 target helps drive capacity and innovation to make this a reality. We also continue to enhance our interim targets to ensure we are on path.

Outlook

Australian Ethical has strong momentum as we head into the second half of the year. And while any outlook is subject to economic and market conditions arising from the pandemic recovery and ongoing impact of Covid and its variants, we have every confidence to continue with our high growth strategy.

While we are mindful of likely continued volatility in market conditions, we remain focussed on capturing the significant medium-term opportunity ahead, as the market switch to responsible investing accelerates. We anticipate continuing our pace of new investment into the business during the second half of the financial year with resources deployed in growth areas including;

- expanding our investment capabilities
- further developing our product pipeline
- continuing to make digital and technology improvements
- enhancing the customer experience
- growing brand awareness
- managing and implementing regulatory change
- searching for strategic inorganic opportunities

As such, expenses in the second half are expected to increase compared to the first half FY22.

As an investment business, we are of course closely leveraged to the markets. And as economies recover and confidence resumes, inflationary concerns remain. We expect continued short-term volatility as the challenges and uncertainty emanating from the Covid pandemic continue.

But as Australia's original ethical investor, we remain well-positioned to benefit from regulatory, policy, market, and investor tailwinds. Our confidence to succeed comes from the quality of our people, our ethical investing pedigree, and our financial strength.

As ever, we are committed to our purpose of investing for a better world and the impact this generates for our customers, as well as people, planet and animals.

FINANCIAL PERFORMANCE – MANAGEMENT ANALYSIS

	31 December 2021 $'000	31 December 2020 $'000	% Increase
Net profit after tax (NPAT)	5,506	5,341	3%
Less: Net profit after tax attributable to The Foundation*	(82)	(169)	
Net profit after tax attributable to shareholders	**5,424**	**5,172**	**5%**
Adjustments:			
Government grant income	-	(100)	
Net proceeds from insurance settlement	-	(299)	
Tax on above adjustments	-	90	
Underlying profit after tax (UPAT)	**5,424**	**4,863**	**12%**
Basic EPS on NPAT (cents per share)	4.96	4.84	
Basic EPS on NPAT attributable to shareholders (cents per share)	4.89	4.68	
Diluted EPS on NPAT attributable to shareholders (cents per share)	4.83	4.60	
Basic EPS on UPAT attributable to shareholders (cents per share)	4.89	4.40	
Diluted EPS on UPAT attributable to shareholders (cents per share)	4.83	4.32	

*Refer to Note 18 for additional details in relation to The Foundation's financial results. All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available to AEI's shareholders.

DIVIDENDS

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

	2021 $'000	2020 $'000
Final dividend for year ended 30 June 2021 of 4.00 cents (2020: 2.50 cents) per ordinary share	4,495	2,810
Special performance dividend for the year ended 30 June 2021 of 1.00 cents (2020: 1.00 cents) per ordinary share	1,124	1,124
	5,619	3,934

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 (2020: 3.00 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 17 March 2022 out of profits for the half-year ended 31 December 2021, but not recognised as a liability is $3,372,000 (2020: $3,372,000).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 9 December 2021, AEI acquired a minority equity stake (10%) in Sentient Impact Group Pty Ltd. The investment is $5.2 million, payable in three instalments, with the first $2.6m paid from cash reserves. The stake is part of Australian Ethical's high growth strategy by extending our capability in the impact investing arena and to drive further organic growth in our existing investment strategy

Sentient is a Melbourne based impact investment manager. Australian Ethical is a strategic investor and has taken up a non-executive seat on the Sentient board from February 2022.

There were no other 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 2021 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 2021.

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

22 February 2022
Sydney

Lead Auditor's Independence Declaration

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 2021 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

Karen Hopkins
Partner

Sydney
22 February 2022

Financial Statements

Financial Statements

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2021

	Note	**2021 $'000**	2020 $'000
Revenue			
Operating revenue	6	35,225	25,609
Other income	6	-	399
Total revenue		35,225	26,008
Operating expenses			
Employee benefits	7	(12,434)	(8,877)
Fund related expenses	8	(5,577)	(4,519)
Marketing		(3,851)	(1,704)
External services	9	(1,785)	(874)
IT expenses	10	(1,524)	(1,091)
Depreciation – property, plant & equipment	11	(282)	(330)
Depreciation – right of use assets	11	(314)	(305)
Community grants		(741)	(530)
Occupancy		(147)	(119)
Finance charges		(20)	(29)
Other operating expenses	12	(720)	(521)
Total operating expenses		(27,395)	(18,899)
Profit before income tax expenses		7,830	7,109
Income tax expenses	13	(2,324)	(1,768)
Net profit for the half-year		5,506	5,341
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain/(loss) on revaluation or investments		(2)	1
Other comprehensive income, net of tax		(2)	1
Total comprehensive income for the half-year [5]		5,504	5,342
		Cents	Cents
Basic earnings per share		4.96	4.84
Diluted earnings per share		4.90	4.75

[5] Comprehensive income includes the results of the Foundation (refer to Note 18)

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 2021

	Note	**31 December 2021 $'000**	30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		**25,370**	27,813
Trade and other receivables		**2,679**	4,217
Right-of-use assets		**627**	626
Prepayments		**1,275**	909
Other receivables		**485**	465
Total current assets		**30,436**	34,030
Non-current assets			
Deferred tax		**2,700**	2,900
Property, plant and equipment		**1,263**	1,219
Right-of-use assets		**359**	672
Term deposit		**504**	504
Financial assets through other comprehensive income	17	**5,328**	141
Total non-current assets		**10,154**	5,436
Total assets		**40,590**	39,466
Liabilities			
Current liabilities			
Trade and other payables		**8,264**	7,250
Employee benefits		**4,073**	4,593
Deferred consideration	17	**2,600**	-
Income tax payable		**8**	1,364
Lease liabilities		**764**	740
Total current liabilities		**15,709**	13,947
Non-current liabilities			
Lease liabilities		**440**	834
Employee benefits		**283**	218
Provisions		**255**	252
Deferred tax		**34**	35
Total non-current liabilities		**1,012**	1,339
Total liabilities		**16,721**	15,286
Net assets		**23,869**	24,180
Equity			
Issued capital	14	**10,066**	10,676
Reserves		**1,446**	1,034
Retained profits		**12,357**	12,470
Total equity		**23,869**	24,180

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 2021

	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
Adjustment arising from IFRIC guidance on AASB 138	-	-	-	(185)	(185)
Balance at 1 July 2020 - restated	11,191	791	(7)	8,657	20,632
Profits after income tax expense for the half-year	-	-	-	5,341	5,341
Other comprehensive income for the half-year, net of tax	-	-	-	1	1
Total comprehensive income for the half-year	-	-	-	5,342	5,342
Transactions with owners in their capacity as owners:					
Shares vested under deferred shares plan during the year	1,025	(1,025)	-	-	-
Dividends provided or paid	-	-	-	(3,934)	(3,934)
Employee share plan – deferred shares in ESP and Deferred STI	-	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)**	**10,064**	**21,358**

	Issued capital $'000	Employee Share Plan reserve $'000	FVOCI reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2021	10,676	1,033	1	12,470	24,180
Profits after income tax expense for the half-year	-	-	-	5,506	5,506
Other comprehensive income for the half-year, net of tax	-	-	-	(2)	(2)
Total comprehensive income for the half-year	-	-	-	5,504	5,504
Transactions with owners in their capacity as owners:					
Shares vested under deferred shares plan during the year	985	(985)	-	-	-
Dividends provided or paid	-	-	-	(5,619)	(5,619)
Employee share plan – deferred shares in ESP, Executive LTI and Deferred STI	-	1,399	-	-	1,399
Employee share plan – shares purchased on-market	(1,595)	-	-	-	(1,595)
Revaluation of investments	-	-	(2)	2	-
Balance at 31 December 2021	**10,066**	**1,447**	**(1)**	**12,357**	**23,869**

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

CONDENSED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		36,744	27,776
Payments to suppliers and employees		(24,593)	(19,481)
Interest received		15	38
Community grants paid		(1,060)	(830)
Net proceeds from insurance settlement		-	299
Government grant income		-	100
Income tax paid		(3,396)	(1,768)
Net cash from operating activities		7,710	6,134
Cash flows from investing activities			
Payments for property, plant and equipment		(331)	(205)
Purchase of investment in Sentient Impact Group		(2,600)	-
Return on investment in SVA		12	-
Purchase of investment in August Investment Pty Limited		-	(28)
Net cash used in investing activities		(2,919)	(233)
Cash flows from financing activities			
Purchase of employees deferred shares		(1,595)	(1,635)
Interest on lease liabilities		(20)	(28)
Dividend paid	15	(5,619)	(3,934)
Net cash used in financing activities		(7,234)	(5,597)
Net increase/(decrease) in cash and cash equivalents		(2,443)	304
Cash and cash equivalents at the beginning of the financial half-year		27,813	21,427
Cash and cash equivalents at the end of financial half-year		25,370	21,731

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

Notes to the Financial Statements

Notes to the Condensed Financial Statements

For the half-year ended 31 December 2021

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 22 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 2021 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.

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 2021, 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 2021 $'000	31 December 2020 $'000
Operating revenue		
Management fees	27,690	19,573
Administration fees (net of Operational Risk Financial Reserve contributions)	5,174	3,927
Member fees (net of rebates)	2,339	2,075
Interest income	19	30
Other income	3	4
	35,225	25,609
Other income		
Government grant income	-	100
Net proceeds from insurance settlement	-	299
	-	399

In the prior comparative period, 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. The Group donated the entire grant income to The Foundation which in turn donated the funds to the Pollinate Group.

Also in the prior comparative 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 2021 $'000	31 December 2020 $'000
Employee remuneration	11,671	8,394
Directors' fees	318	286
Strategic project contractors	286	-
Other employment costs	159	197
	12,434	8,877

Strategic project contractors relate to specific projects focused on executing the Company's high growth strategy.

NOTE 8. FUND RELATED EXPENSES

	31 December 2021 $'000	31 December 2020 $'000
Administration and custody fees	3,958	3,570
Licence, ratings and platform fees	652	332
Industry and regulatory body fees	219	167
Regulatory compliance initiatives	375	-
Strategic projects	346	400
Ethical research	27	50
	5,577	4,519

Regulatory compliance initiatives include costs incurred to implement regulatory changes in the superannuation industry. Strategic projects include a range of works including the redesign of our retirement offering for members and enhanced annual distributions and statements processes. In the prior year, this related to the redesign of our insurance offering within the super fund.

NOTE 9. EXTERNAL SERVICES

	31 December 2021 $'000	31 December 2020 $'000
External and internal audit	481	391
Consultants	660	284
Legal services	446	106
Other	198	93
	1,785	874

Consultants includes advisory work in relation to strategic project in progress. These included a holistic review of the remuneration framework, GS007 certification, implementation of new general ledger and financial reporting systems, and M&A due diligence costs.

NOTE 10. IT EXPENSES

	31 December 2021 $'000	31 December 2020 $'000
Front office IT systems	795	601
Support systems, infrastructure and security	526	490
Strategic IT projects	203	-
	1,524	1,091

Strategic IT projects includes upgrades to the company website and customer engagement strategic projects.

NOTE 11. DEPRECIATION AND AMORTISATION

	31 December 2021 $'000	31 December 2020 $'000
Depreciation of property, plant and equipment	234	226
Amortisation of intangible assets	48	104
	282	330
Depreciation of right of use asset – Sydney office lease	290	290
Depreciation of right of use assets – IT infrastructure	24	15
	314	305
	596	635

NOTE 12. OTHER OPERATING EXPENSES

	31 December 2021 $'000	31 December 2020 $'000
Insurance	335	195
Travel and entertainment	53	59
Listing fees	157	113
Printing and subscriptions	109	68
Other expenses	66	86
	720	521

NOTE 13. INCOME TAX

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2021 was 29.7% (for the six months ended 31 December 2020: 24.9%). The effective tax rate with respect to profit attributable to shareholders is 30.0% (2020: 25.5%). 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. The Group's corporate tax rate increased from 26% to 30% in accordance with applicable tax rates for entities with revenue greater than $50m in the prior year. Accordingly, deferred tax balances were restated in the prior year.

	31 December 2021 $'000	31 December 2020 $'000
Current tax	2,124	1,466
Deferred tax – origination and reversal of temporary differences	200	594
Adjustment due to change in income tax rate	-	(292)
Aggregate income tax expense	2,324	1,768

NOTE 14. EQUITY - ISSUED CAPITAL

Movements in share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2021	112,387,138		10,676
Vesting of deferred share in the Employee Share Plan (730,200 shares)	1 September 2021	-	$1.32	962
Vesting of deferred STI shares (5,193 shares)	1 September 2021	-	$4.53	23
Purchase of deferred shares in the Employee Share Plan – on-market	16 September to 13 October 2021	-	$10.34	(1,595)
		112,387,138		10,066

On 1 September 2021, 730,200 shares that were granted to employees on 1 September 2018 vested as the performance hurdle had been met. Additionally, 5,193 shares that were a deferred component of short-term incentives granted to the CEO on 1 September 2020 vested.

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 2021 $'000	31 December 2020 $'000
Final dividend for the year ended 30 June 2021 of 4.00 cents (2020: 2.50 cents) per ordinary share	4,495	2,810
Special performance dividend for the year ended 30 June 2021 of 1.00 cents (2020: 1.00 cents) per ordinary share	1,124	1,124
	5,619	3,934

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 (2020: 3.00 cents), fully franked. The aggregate amount of the declared interim dividend expected to be paid on 17 March 2022 out of profits for the half-year ended 31 December 2021, but not recognised as a liability is $3,372,000 (2020: $3,372,000).

NOTE 16. SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 31 December 2021.

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 participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration with the shares having voting rights and employees receive dividends over the vesting period. For certain employees a portion of their short-term incentive is also paid in deferred shares which vest subject to meeting service conditions. Refer to the Annual Report 2021 for further details of these employee incentive plans.

During the interim period, $1,595,475 (2020: 1,635,000) was paid to purchase shares on-market, to be granted to employees. The Board continues to retain discretion to decide whether to issue new shares or purchase shares.

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $749,000 (2020: $552,000) relating to the deferred shares granted under the long-term employee share plan, and $422,000 (2020: $82,000) relating to the deferred portion of the short-term incentive plans.

Executive long-term incentives (ELTI)

A new long term incentive plan was introduced to retain key senior talent and provide reward for future outstanding performance to the period ending 30 June 2025. Under the plan, the CEO and select senior executives invited to participate are issued with Hurdled Performance Share Rights that represent the number of AEI shares that will vest subject to the achievement of certain performance hurdles. If all minimum company performance hurdles are met at vesting date, then the base level award will vest.

The hurdles are measured in the year ending and as at 30 June 2025 with vesting after the release of the FY25 annual results, scheduled for 1 September 2025. The minimum performance hurdle is set at achieving all the following Performance conditions:

- $15Bn of FUM as at 30 June 2025;
- Cost to income ratio of no more than 75%;
- Median NPS score for Financial Services companies in Australia;
- Median employee engagement score for financial services companies in Australia; and
- Continued compliance with our Ethical Charter.

The aggregate base hurdled performance share rights issued at 1 December 2021 was 136,510 rights. The ELTI expense is based on the grant date of 1 December 2021. Each share right was fair valued at $13.54, being the share price on 1 December 2021 discounted for forecast dividend yield. These share rights will be equity settled at the end of the vesting period.

The FUM target includes a multiplier mechanism that provides a stretch target for AEI's leadership team. If the stretch FUM target of $30bn (along with other KPIs) is achieved, then the maximum multiplier of 7 times the base award will apply.

In the event that any of these hurdles are not met, the Hurdled Performance Share Rights will not vest, and Ordinary Shares will not be delivered. During the vesting period, employees are not entitled to receive dividends nor hold voting rights.

Included under employee benefits expense in the Condensed Statement of Profit or Loss and Other Comprehensive Income is $142,000 (2020: nil) under the executive long-term incentives plan.

Employee unvested shares

As at 31 December 2021, the Employee Share Trust holds 1,227,556 shares (30 June 2021: 1,808,695 shares) on behalf of employees until vesting conditions are met.

NOTE 17. 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.

Consolidated – 31 December 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	1	127	5,200	5,328
Total assets	1	127	5,200	5,328

Consolidated – 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
Investments	2	139	-	141
Total assets	2	139	-	141

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.

Level 1 assets relate to the Company's nominal holdings of shares in listed entities held for advocacy purposes.

Level 2 assets relate to the Foundation's investment in the Social Ventures Australia (SVA) Diversified Impact Fund (DIF) unlisted unit trusts.

Level 3 assets relate to the Company's investment in Sentient Impact Group.

Sentient Impact Group

On 9 December 2021, AEI acquired a minority equity stake (10%) in Sentient Impact Group Pty Ltd. The investment is $5.2 million, payable in three instalments, with the first $2.6m settled at completion date. The remaining two instalments will be paid in June 2022 ($1.3m) and December 2022 ($1.3m). In addition, Australian Ethical has three future dated call options equating to an additional 30% of the equity. The stake is part of Australian Ethical's high growth strategy by extending our capability in the impact investing arena.

Sentient is a Melbourne based impact investment manager. Australian Ethical is a strategic investor and has taken up a non-executive seat on the Sentient board from 7 February 2022.

The investment has been recognised as a Financial Asset at Fair Value through Profit & Loss.

NOTE 18. 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 2021, the impact of The Foundation before intercompany eliminations is noted below:

	31 December 2021 $'000	31 December 2020 $'000
Statement of comprehensive income		
Revenue from parent entity	831	705
Interest income	1	2
Community grants expense	(741)	(530)
Audit fees	(8)	(7)
Other	(1)	(1)
Profit for the period	82	169
Other comprehensive income:		
Gain/(Loss) on revaluation of investments	(1)	1
Total comprehensive income	81	170

	31 December 2021 $'000	30 June 2021 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	991	534
Receivables from parent entity	831	1,519
Other receivables	1	1
Financial assets at fair value through profit or loss	127	139
Liabilities:		
Payables	(1,349)	(1,674)
Net assets	601	519
Equity:		
Retained earnings	602	520
FVOCI reserve	(1)	(1)
Total equity	601	519

NOTE 19. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 31 December 2021 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 continues 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

Directors' Declaration

In the directors' opinion:

a) The annual 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;

b) The attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and

c) There are reasonable grounds to believe that the Company will be able to pay its debts 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
Australian Ethical Investment Limited
22 February 2022

Independent Auditor's Report

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 2021 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 2021;
- 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 19 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)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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 2021 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*.

A review of an 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.

KPMG

KPMG

Hopkins

Karen Hopkins
Partner

Sydney
22 February 2022