

# Australian Ethical Investment Ltd FY19 Half Year Results

Phil Vernon | Managing Director and CEO  
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February 2019

# Highlights



# First half highlights

## CONTINUED GROWTH IN A CHALLENGING OPERATING ENVIRONMENT



### Growth

Continued growth across the business%

Over <b>45,000</b> super members	<b>↑ 20%</b>
Net inflows <b>\$155.5m</b> <sup>~</sup>	<b>↓ 23%</b>
Funds under management	<b>↑ 10%</b>
NPAT attributable to shareholders* <b>\$3.2m</b>	<b>↑ 47%</b>
Revenue of <b>\$19.8m</b>	<b>↑ 14%</b>
Dividend <b>2c</b>	<b>↑ 21%</b>



### Investment performance

- **Australian Shares Fund outperformed the benchmark<sup>#</sup> over the 6 month period;** continued outperformance over the long term
- **MySuper met 5 year investment objective and outperformed benchmark<sup>^</sup>**



### Continuing to invest in growth and sustainability

- Operating expenses up **7%**
- FUM per FTE up **24%**
- Investment in new **Customer Experience Initiatives** commenced

### Awards



**Winner – Financial Standard Investment Leadership Award – ESG** for the Australian Shares Fund

**Money Magazine ‘Best Green Super Fund’** in ‘Best of the Best’ December 2018 issue



**Winner – SuperRatings Infinity Award 2019**

% All percentages refer to movement against first half FY18

<sup>~</sup> Excluding institutional

\* This excludes the results for the Australian Ethical Foundation Limited (‘The Foundation’)

<sup>#</sup> S&P/ASX 200 Accum Index and S&P/ASX Small Industrials Accum Index

<sup>^</sup> Benchmark changed from Morningstar Multi-sector Balanced – Superannuation Fund peer group index to Morningstar Multi-sector Growth, effective 1 March 2015. The historical returns are calculated by combining the two indices.

# Impact Highlights



## Investment Portfolio

Share investments produced **66% less CO2** than benchmark<sup>1</sup>



Nil investment in fossil fuels<sup>2</sup>



Nil investment in nuclear<sup>3</sup>



**Best for the World** status by B Corps<sup>4</sup>

**3.4X** more impact to achieve the Sustainable Development Goals than market<sup>1,7</sup>

**6x more** investment in renewable power generation than the global share market<sup>5</sup>



## Our Foundation

**10%** of AEI profits<sup>6</sup> donated to not-for-profit organisations

**\$620k** grants distributed in September 2018



**Multi-year partnership** arrangements:

- Empowering women with **Human Rights Watch**
- Protecting Australia's forests with **The Wilderness Society**
- Developing the market for plant based meats with **Food Frontier**



Grants have contributed to:

- **743 Cambodian girls** now protected from sex trafficking
- Mobilising communities and councils to protect the Great Australian Bight from oil drilling
- **38,000 hectares** of rainforest and **1,600 Orangutans** protected in Indonesia

1. Emissions of Australia Ethical share investments compared to benchmark of S&P ASX 200 Index (for Australian shareholdings) and MSCI World ex Australia Index (for international shareholdings). Calculated as at 31 December 2017
2. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). Assured by KPMG
3. A report by PAX and the International Campaign to Abolish Nuclear Weapons (ICAN) noted Australian Ethical as the only Australian firm to make it on the 'Hall of Fame' list. (Do not invest in any nuclear associated companies and applied no revenue threshold for companies for manufacture of weapons, uranium mining, and nuclear generation)
4. Recognised by B Lab as Best for the World (top 10%) of companies in the category of Governance (2018)
5. Proportion of our share investments in renewable power generation compared to the global share market
6. Before deducting bonus and grant expense
7. Based on value of selected 'sustainable impact' products and services produced annually by companies we invest in

# Financials

# Key financials

Key financials^ (\$'000)	1H2018	1H2019	Change (YoY)
<b>Revenue</b>	<b>17,400</b>	<b>19,753</b>	<b>14%</b>
Operating expenses	(14,173)	(15,154)	7%
<b>Total expenses</b>	<b>(14,173)</b>	<b>(15,154)</b>	<b>7%</b>
<b>Profit before tax</b>	<b>3,227</b>	<b>4,599</b>	<b>43%</b>
Income tax expense	(909)	(1,195)	31%
<b>Net profit after tax</b>	<b>2,318</b>	<b>3,404</b>	<b>47%</b>
Less Foundation profit	(161)	(231)	43%
<b>Net profit after tax attributable to shareholders</b>	<b>2,157</b>	<b>3,173</b>	<b>47%</b>
<b>Underlying profit after tax (UPAT) attributable to shareholders</b>	<b>2,157</b>	<b>3,173</b>	<b>47%</b>
Diluted earnings per share – attributable to shareholders	1.93 cents	2.84 cents	47%
Diluted earnings per share 3-year CAGR	32.0%	26.5%	
<b>Dividend per share</b>	<b>1.65 cents</b>	<b>2.00 cents</b>	<b>21%</b>



## Key themes

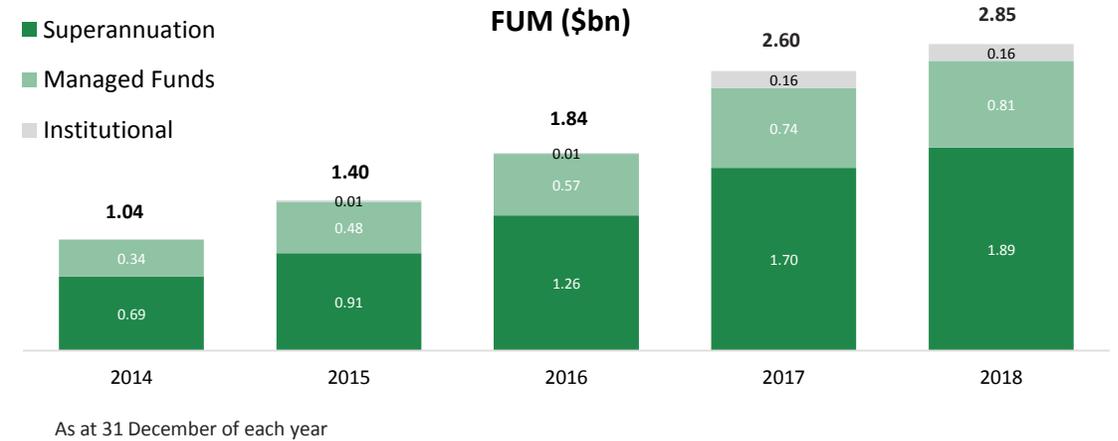
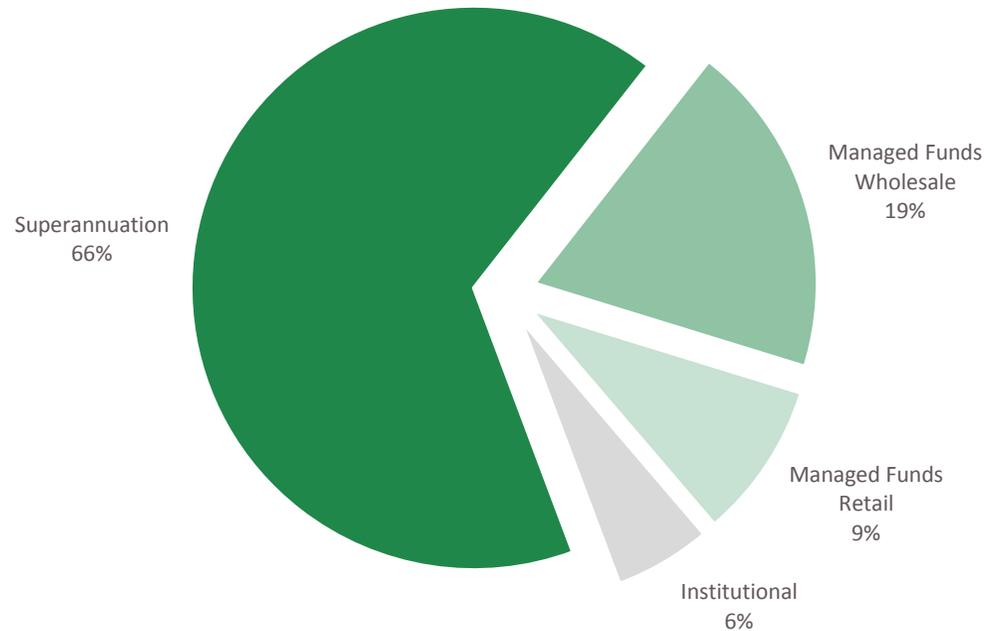
- Continued FUM growth driving higher revenues
- Fee reductions in October 18 driving lower average FUM based fee margins of 1.22% (1.28% for 1H18)
- Solid revenue growth and lower expense growth driving strong NPAT growth of 47%
- Focused investment in brand awareness and customer engagement platform - majority of impact expected in 2<sup>nd</sup> half 2019
- Dividend up 21%

^This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information.

# Continued growth in FUM

## FUM BY PRODUCT

\$2.85bn as at 31 December 2018

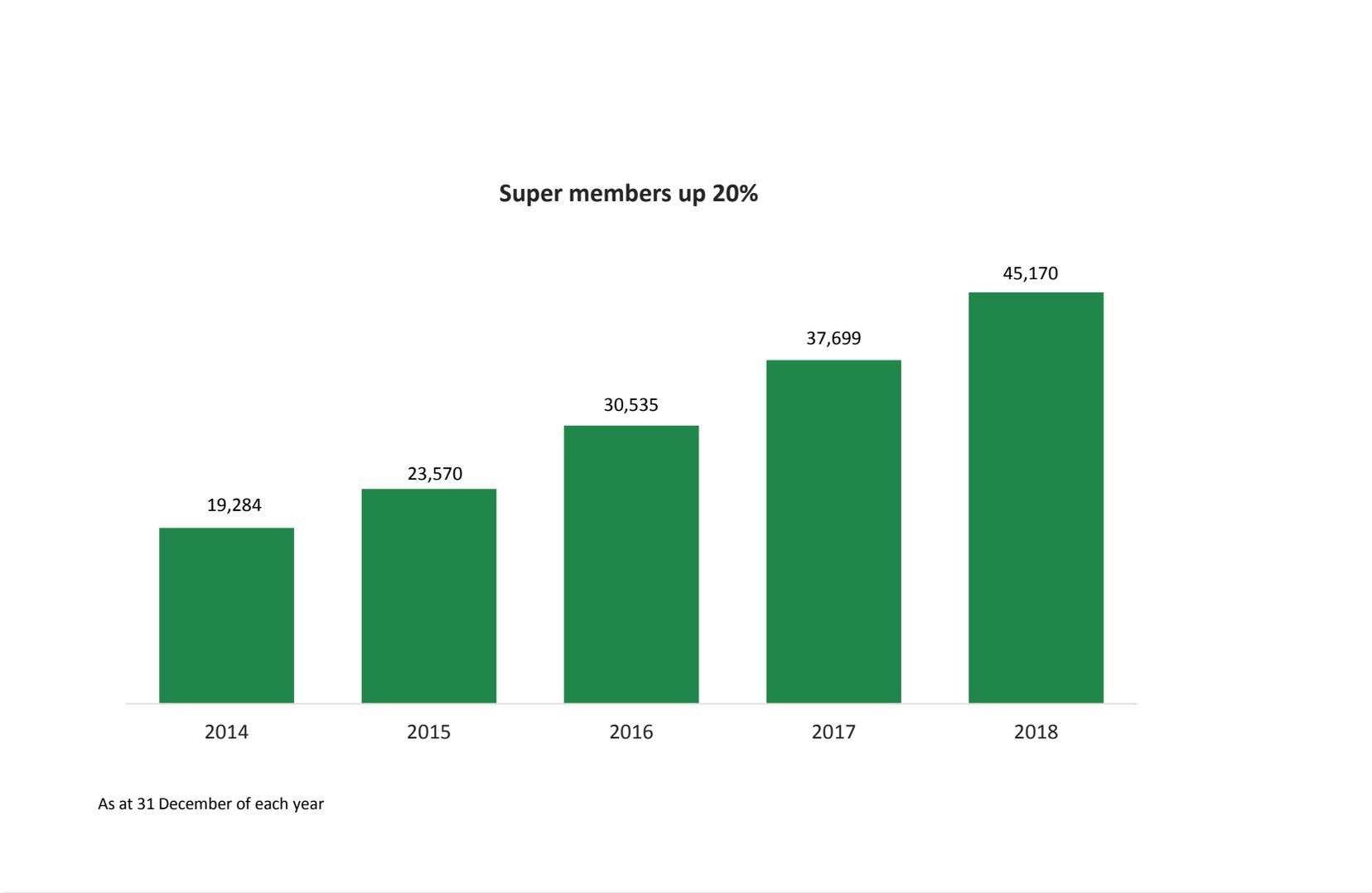


\$bn	1H2018	1H2019	Change (YoY)
Opening FUM	2.15	2.82	32%
Super flows (net)	0.14	0.11	(20%)
Managed Funds Retail flows (net)	0.01	0.01	(8%)
Managed Funds Wholesale flows (net)	0.05	0.03	(32%)
<b>Net Flows (excluding Institutional)</b>	<b>0.20</b>	<b>0.16</b>	<b>(23%)</b>
Institutional flows (net)	0.14	(0.01)	nm*
<b>Net flows</b>	<b>0.34</b>	<b>0.15</b>	<b>(57%)</b>
Market movement and other^	0.11	(0.11)	nm*
<b>Closing FUM</b>	<b>2.60</b>	<b>2.85</b>	<b>10%</b>

^ Includes changes in asset value due to market movements, income, reinvestments and distributions

\* nm = not meaningful

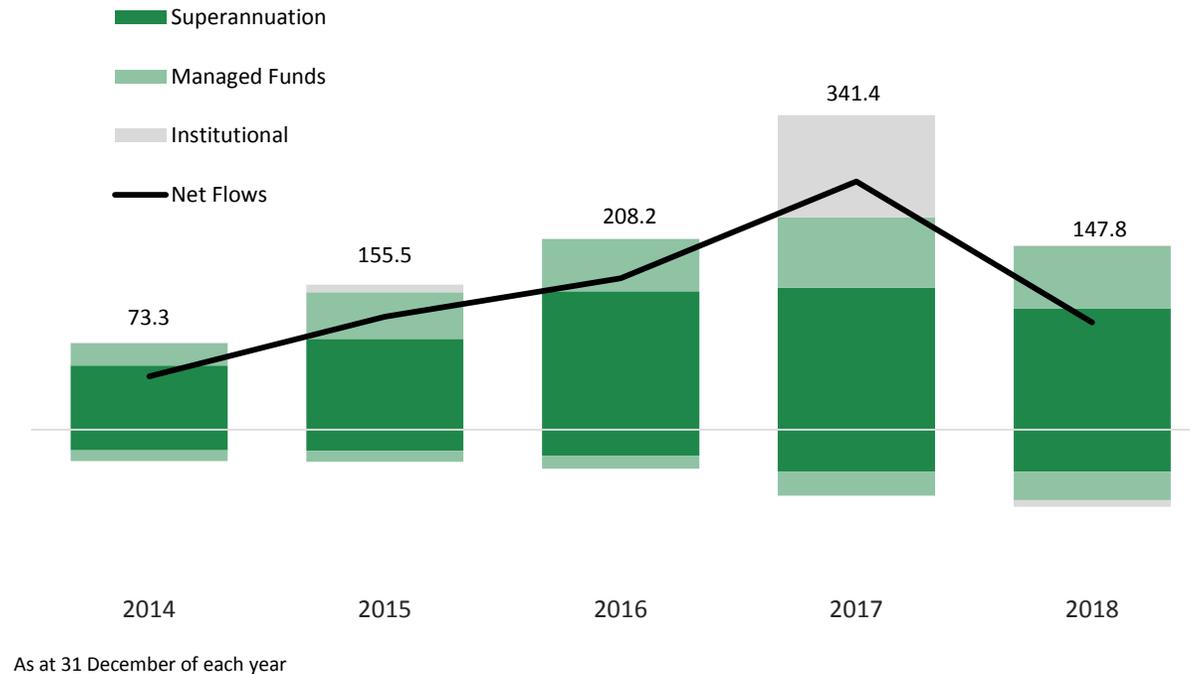
# Strong growth in super membership continues



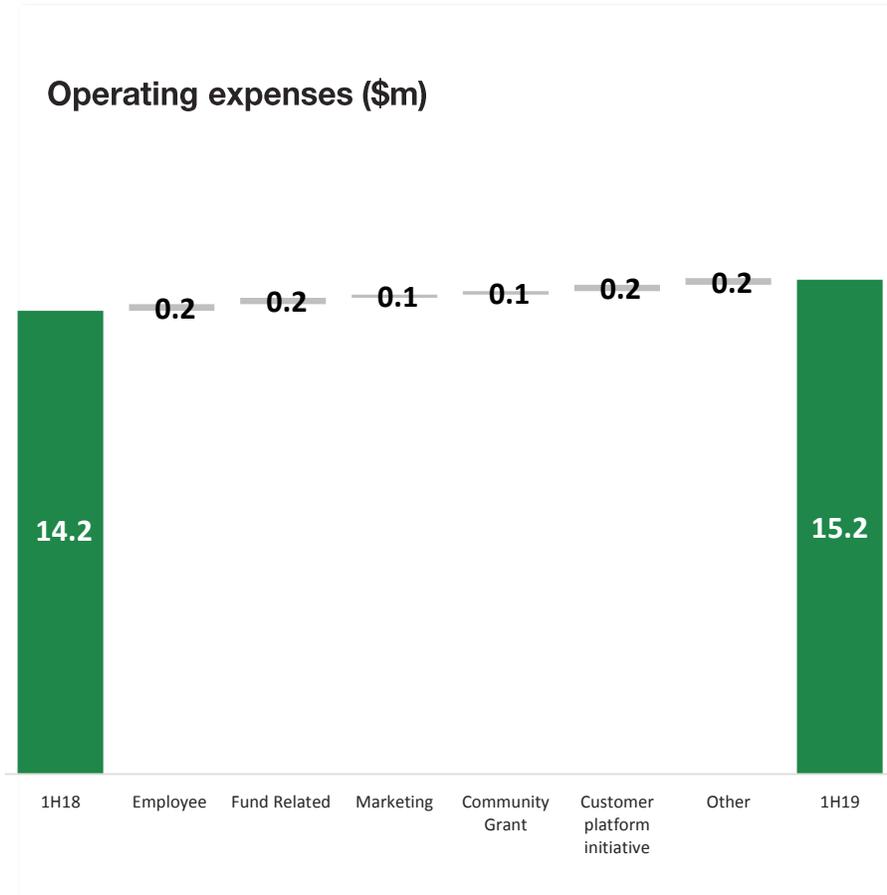
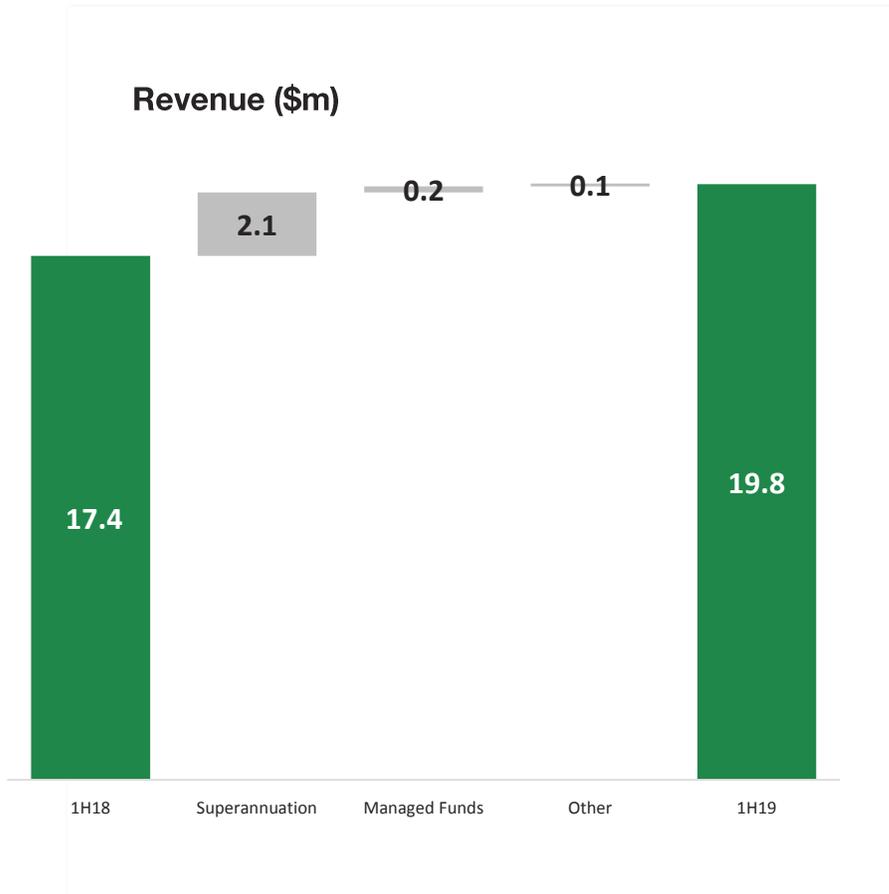
# Positive net flows continue in a challenging market

## Key themes

- Net flows down on prior corresponding period primarily due to large institutional win in 2017
- Super net flows down 20% due to lower rollovers, partially offset by higher SG contributions during the period
- Managed Fund Wholesale flows impacted by volatile market conditions during 1H19 - down 32% on prior corresponding period
- Industry leading retention rates continue, however as FUM grows, absolute value of outflows increases. Outflows as a % of FUM remains constant.



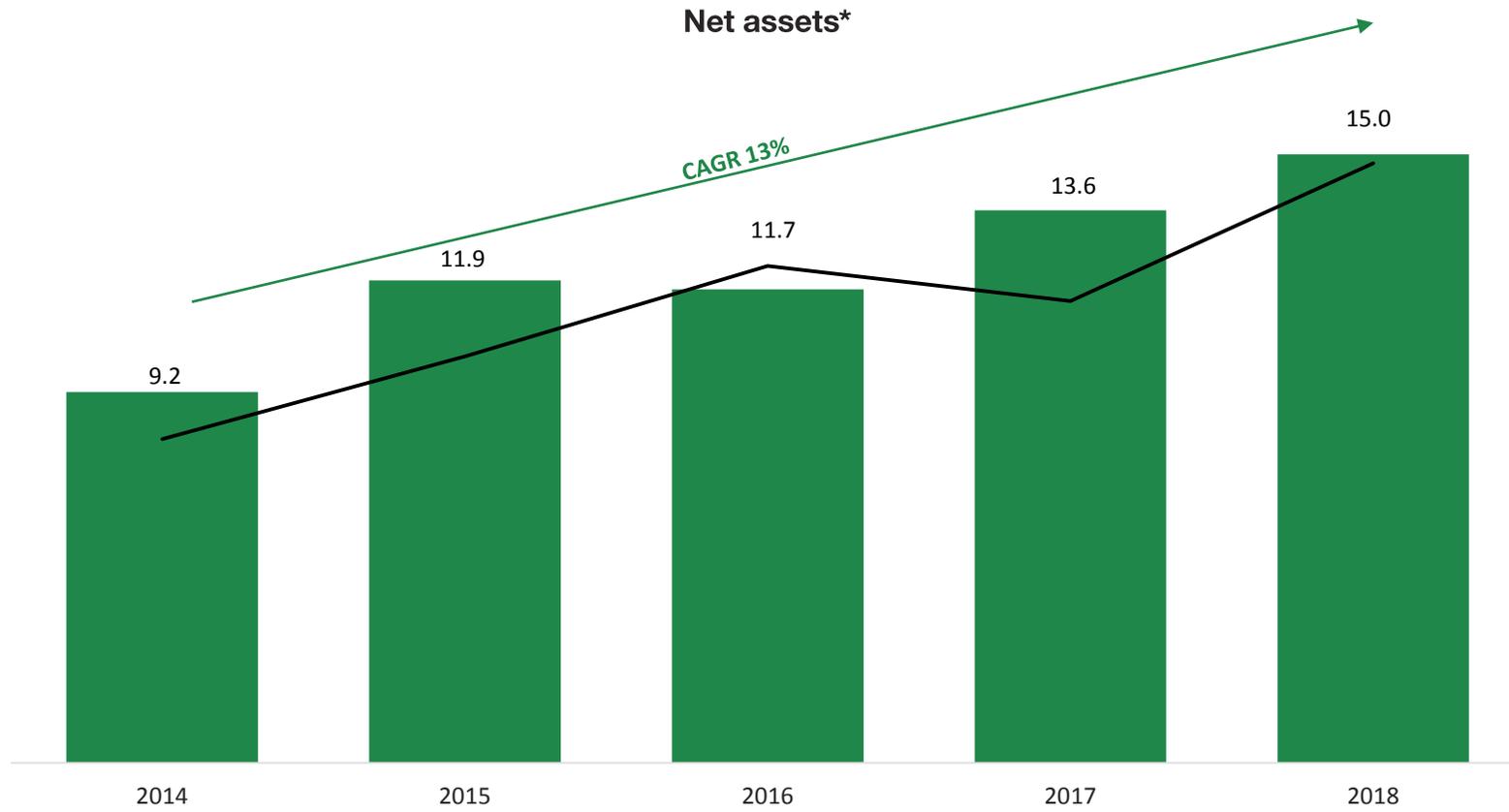
# Revenue and expense drivers



## Key themes

- Super FUM growth of 11% driving strong revenue growth
- Managed Funds FUM tilt to Wholesale, as well as fee and threshold reductions driving lower average fee margins
- Relatively low expense increase due to timing of expenditure in 1H19 and some significant cost items in the prior corresponding period (super fund administrator transition costs, staffing mix)

# Balance sheet strength



As at 31 December of each year

Net Assets

Cash and cash equivalents

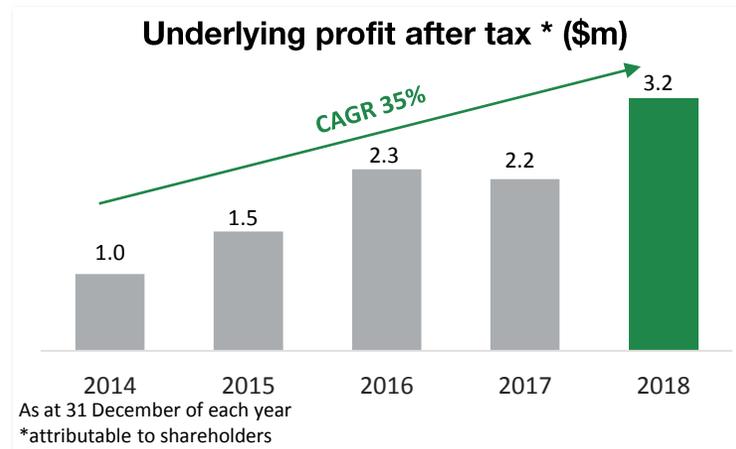
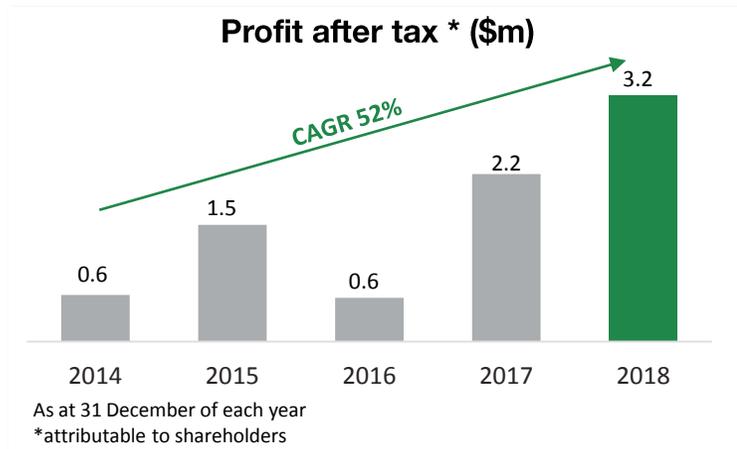
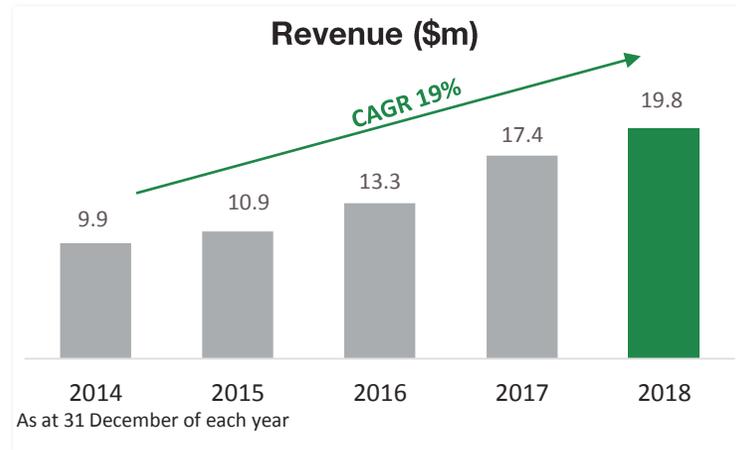
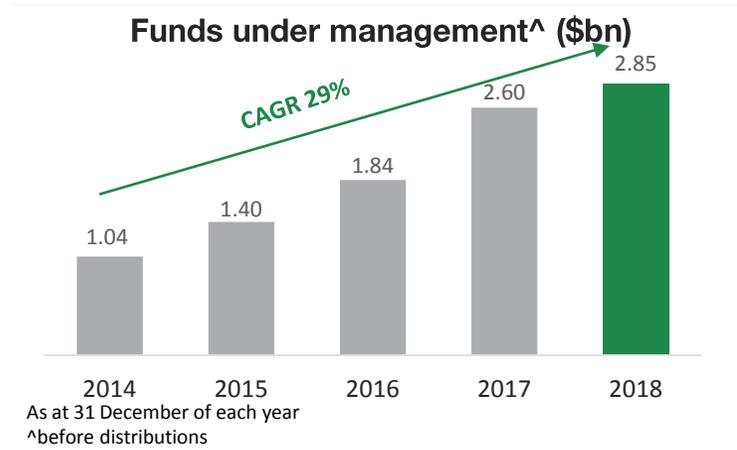
\* Represents total assets less total liabilities attributable to shareholders (excluding Foundation)



## Key themes

- Strong balance sheet with no debt
- Strong cash position
- Parent holds surplus regulatory capital of \$5m

# Key financials

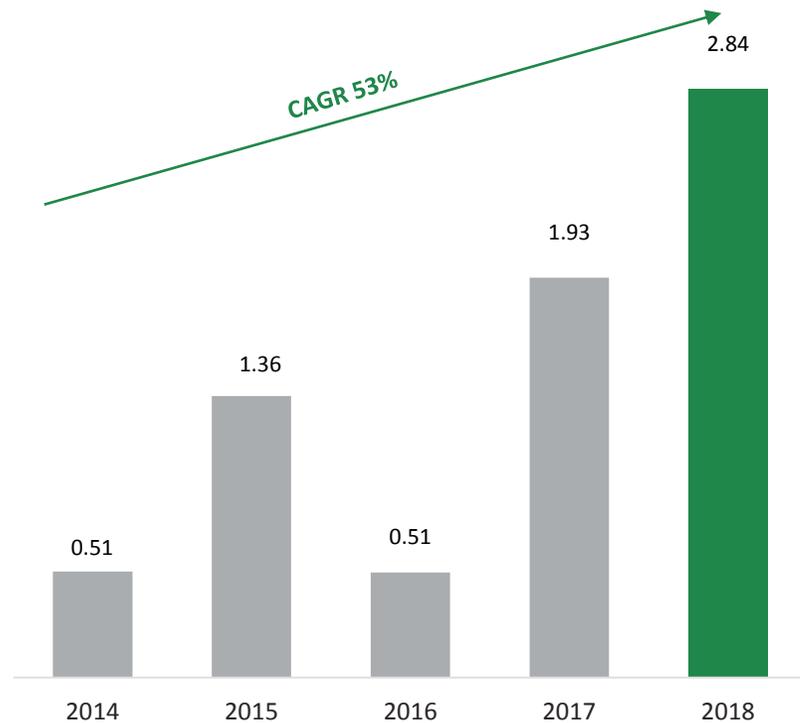


## Key themes

- FUM growth continues despite market volatility
- 1H19 revenue growth impacted by further fee reductions to our customers
- Continuing to invest in growing the business

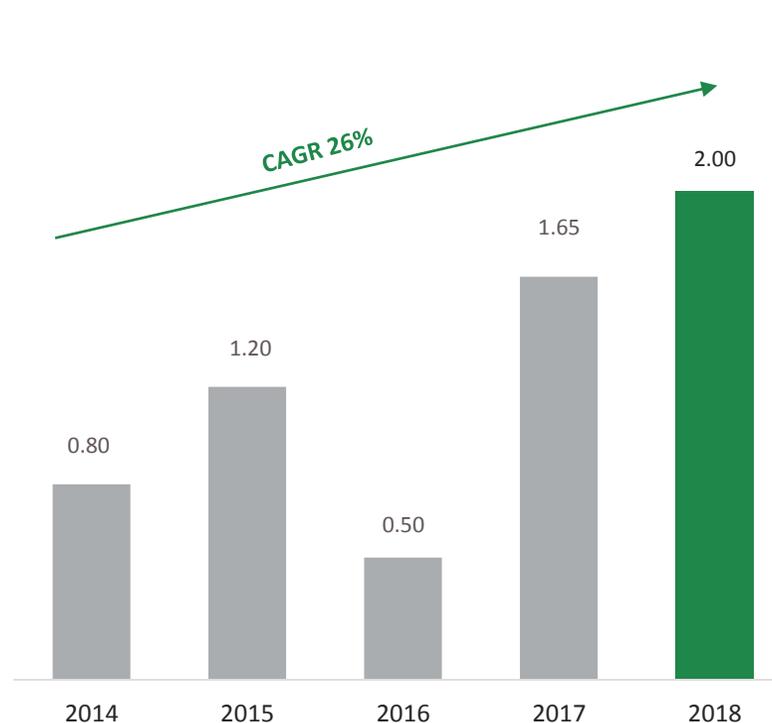
# Key financials

## Diluted earnings per share \* (cps)



\*attributable to shareholders for six months ending 31 December

## Interim dividends (cps)



Six months ending 31 December. Historic data restated for share split.



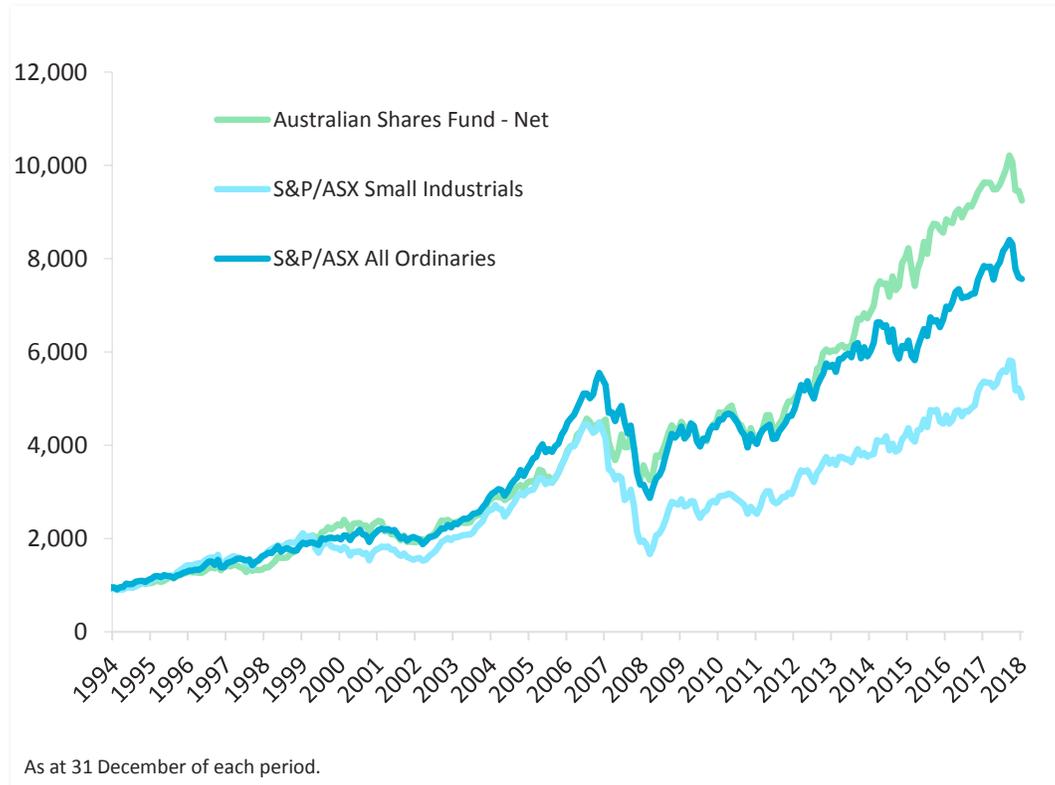
## Key themes

- Continue to deliver value to shareholders
- 1H19 dividend 2c, up 21%

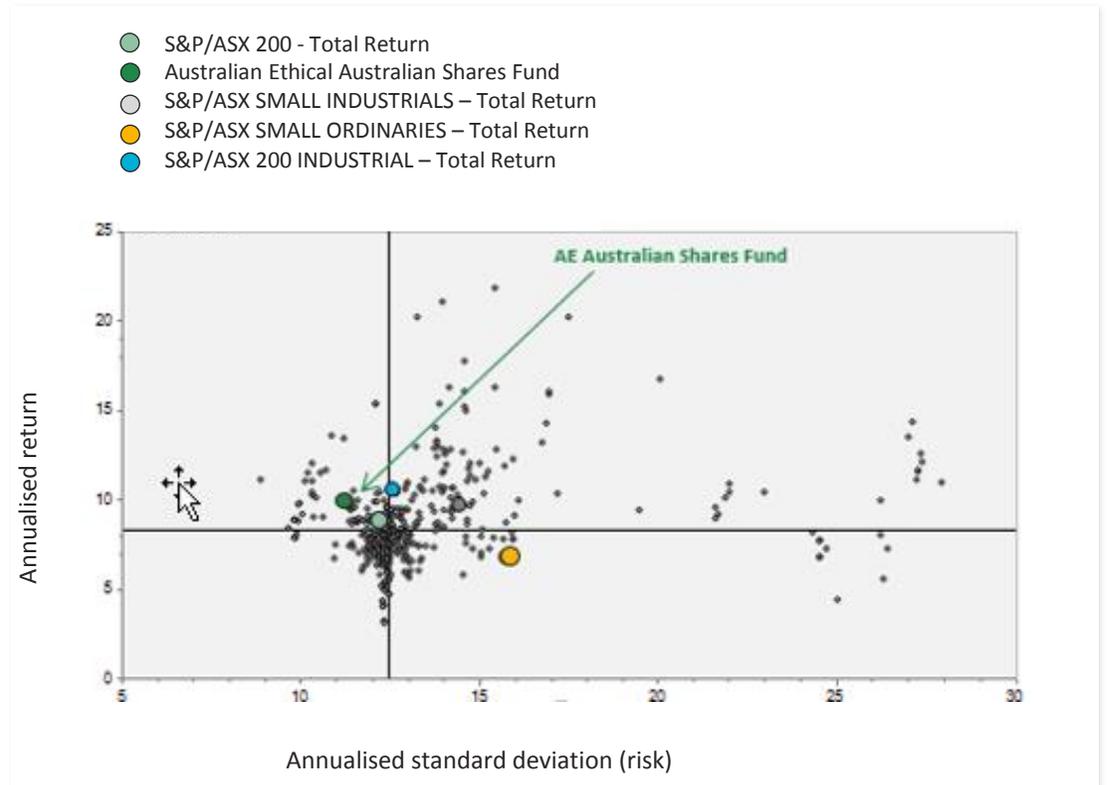
# Investment performance - strong returns, less risk

*ETHICAL INVESTING DOESN'T MEAN MORE RISK*

### Value of \$1000 invested since inception



### Risk/return over ten years to 2018



Source: Morningstar December 2018. Universe includes all trusts in the following Morningstar universes: Australian Large Value, Australian Large Growth, Australian Large Blend, Australian Mid/Small Blend, Australian Mid/Small Value, Australian Mid/Small Growth

# Long track record of outperformance

Australian Shares Fund outperformed the market over the 6 months ending 31 December 2018, despite the large allocation to small caps - once again highlighting its defensive qualities in a down market. Continued outperformance over the long term (5+ years)

	6mths (%)	1Y (%)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	20Y (%p.a.)	Since Incept'n (%p.a.)
<b>Retail*</b>	-5.3	-4.1	4.0	8.9	12.2	10.0	10.0	9.5
S&P/ASX 200 Accum Index	-6.8	-2.8	6.7	5.6	9.6	9.0	8.0	8.8
<i>Relative Performance</i>	+1.5	-1.2	-2.7	+3.3	+2.6	+1.0	+2.0	+0.7
S&P/ASX Small Industrials Accum Index	-10.4	-6.5	4.7	6.3	10.3	9.8	5.7	6.8
<i>Relative Performance</i>	+5.1	+2.4	-0.8	+2.6	+2.0	+0.1	+4.3	+2.7
<b>Wholesale^</b>	-4.7	-2.8	5.5	10.5	-	-	-	13.6
S&P/ASX 200 Accum Index	-6.8	-2.8	6.7	5.6	9.6	9.0	8.0	9.1
<i>Relative Performance</i>	+2.1	0.0	-1.2	+4.9	-	-	-	+4.5
S&P/ASX Small Industrials Accum Index	-10.4	-6.5	4.7	6.3	10.3	9.8	5.7	9.6
<i>Relative Performance</i>	+5.7	+3.7	+0.7	+4.2	-	-	-	+4.0

Table reflects performance after fees for the Australian Shares Fund

\* Inception Date (Retail): 19/09/1994. ^ Inception Date (Wholesale): 23/01/2012

# Long track record of outperformance

Our default MySuper Option, the **Balanced Accumulation option** has met its 5 year investment objective of delivering a return above CPI +3.5%, whilst also outperforming its peer based benchmark

	6mths (%)	1Y (%)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	Since Incept'n* (%p.a.)
<b>Balanced Accumulation Option ~</b>	-1.7	0.5	4.9	6.3	7.5	5.8	5.9
Benchmark#	-3.7	-1.5	4.3	4.5	6.3	5.9	4.6
<i>Relative Performance</i>	+2.0	+2.0	+0.6	+1.8	+1.2	-0.1	+1.3
Investment Return Objective^	2.7	5.3	5.2	5.2	5.4	5.6	6.1
<i>Relative Performance</i>	-4.4	-4.8	-0.3	+1.1	+2.1	+0.2	-0.2

~ After all fees, assuming average \$50k member balance

\* Inception Date: 31/12/1998

# Benchmark changed from Morningstar Multi-sector Balanced – Superannuation Fund peer group index to Morningstar Multi-sector Growth, effective 1 March 2015. The historical returns are calculated by combining the two indices.

^ CPI + 3.5%p.a. over 5 years

# Outlook

## ONGOING INVESTMENT TO SUPPORT OUR STRATEGIC GROWTH INITIATIVES



- Well placed to **capture opportunities for growth** in a sector facing increasing mistrust
- Continued investment in initiatives to support growth in **enhanced customer experience** through new digital platform, product development, increased brand awareness and nurturing intermediated channels
- Alignment of resources to respond to **regulatory change**
- Full revenue impact from **October fee reductions**

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