

Australian Ethical Investment Ltd FY20 Half Year Results

Steve Gibbs | Chair
Mark Simons | CFO

26 February 2020

Should this be Steve and
John's names here?

Highlights

FY20 first half highlights

PEOPLE, PLANET & PERFORMANCE: STRONG RETURNS & POSITIVE IMPACT



Growth

Strong growth across the business[^]

Over 43,000 funded super members	↑ 13%
Net inflows \$295.8m	↑ 100%
Managed fund net inflows \$96.4m	↑ 150%
Funds under management \$3.87bn	↑ 36%
Increase in average funded member balance	↑ 20%
NPAT attributable to shareholders* \$4.4m	↑ 40%
Revenue of \$23.3m	↑ 18%
Dividend 2.5c	↑ 25%

January '20 update:

Net inflows **\$112m**, performance **\$156m**, FUM **\$4.14bn**



Continuing to invest in growth and sustainability

- Operating expenses up **13%**
- **New website & content management system launched** in October 2019
- **Super fee reductions** implemented in December 19
- **Top quartile employee engagement** of 71%
- **Award winner** in the **international climate reporting awards**



Impact through The Foundation

- **10%** of AEI profits allocated to The Foundation⁺
- **\$750k** grants paid during the period (relating to full year FY19 grants), **21% up** from \$620k last year
- **\$60k donated to support victims of the bushfire crisis** in January 2020, together with AEI employee matching donation scheme



Strong investment performance

Multi award winning investment portfolio

Managed Funds:

- **Strong outperformance of Emerging Companies fund with 18.8% return[#]** for the 6 months (14.0ppts above benchmark^{**})
- **Australian Shares fund outperformed benchmark^{**}** returning **11.5%[#]** (8.3ppts above benchmark) for the 6 months

Super:

- **Balanced option (MySuper) outperformed benchmark^{**}** for 1,3 and 5 years, and **ranks 3rd** in SR50 Balanced (60-76) Index for year to December 19
- **Australian Shares option ranks 1st** over 5, 7 and 10 years in SR50 Australian Shares Index, and **2nd** for the year to December 19

[^] All percentages refer to movement against first half FY19

* This excludes the results for the Australian Ethical Foundation Limited ('The Foundation')

Wholesale fund

** Benchmarks as follows: Emerging Companies fund: S&P/ASX Small Industrials Accum Index; Australian Shares fund: Benchmark is composite S&P/ASX Small Industrials Accum Index till 12 August 2019 and S&P/ASX 300 Accum Index thereafter; Balanced option (MySuper: Benchmark changed to SuperRatings SR50 Balanced (60-76) Index, effective 1st of December 2019. The benchmark previously was changed from the Morningstar Multisector Balanced – Superannuation Fund peer group index to Morningstar Multisector Growth, effective 1 March 2015. The historical returns are calculated by combining the three indices.

+ Before deducting bonus and grant expense.

FY20 investment awards

HIGHLY ACCLAIMED, HIGH PERFORMANCE PRODUCT SUITE



Winner of 2 Financial Standard Investment Leadership Awards 2020

- AE Australian Shares Fund was **only fund to win in two categories**
- **AE Australian Shares fund won Australian Equities High Performance Award**
- **AE Australian Shares fund won ESG Australian Equities Award**
- Awards recognises Australian investment managers consistently producing **solid returns** whilst **effectively managing investment risk**
- Competing with other **mainstream funds** in the industry
- **3 Australian Ethical funds** (AE Australian Shares Fund, AE Diversified Shares Fund, AE Emerging Companies Fund) nominated across **multiple categories**



Winner – SuperRatings Infinity Award 2019

- Best sustainable super fund

Financials

Key financials

Key financials^ (\$'000)	1H2020	1H2019	Change (YoY)
Revenue	23,322	19,753	18%
Operating expenses	(17,049)	(15,154)	13%
Non-operating expenses	66	-	-
Total expenses	(16,983)	(15,154)	12%
Profit before tax	6,339	4,599	38%
Income tax expense	(1,598)	(1,195)	34%
Net profit after tax - statutory	4,741	3,404	39%
Less Foundation results	(304)	(231)	32%
Net profit after tax attributable to shareholders	4,437	3,173	40%
Re-valuation of investment property held for sale	(66)	-	-
Underlying profit after tax (UPAT) attributable to shareholders	4,371	3,173	38%
UPAT attributable to shareholders	4,371	3,173	38%
Diluted earnings per share*	3.95 cents	2.84 cents	39%
Diluted earnings per share 3-year CAGR~	54.5%	26.5%	
Dividend per share	2.5 cents	2.0 cents	25%



Key themes

- Increase in revenue driven by continued FUM and member growth partially offset by full impact of October '18 fee reductions and PYS legislation (3% fee capping and removal of exit fees)
- Strong NPAT growth (attributable to shareholders) of 40%
- Operating expenses increase as FUM and member numbers grow, ongoing investment in brand awareness and sustainability of our platform
- Dividend up 25%

^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.

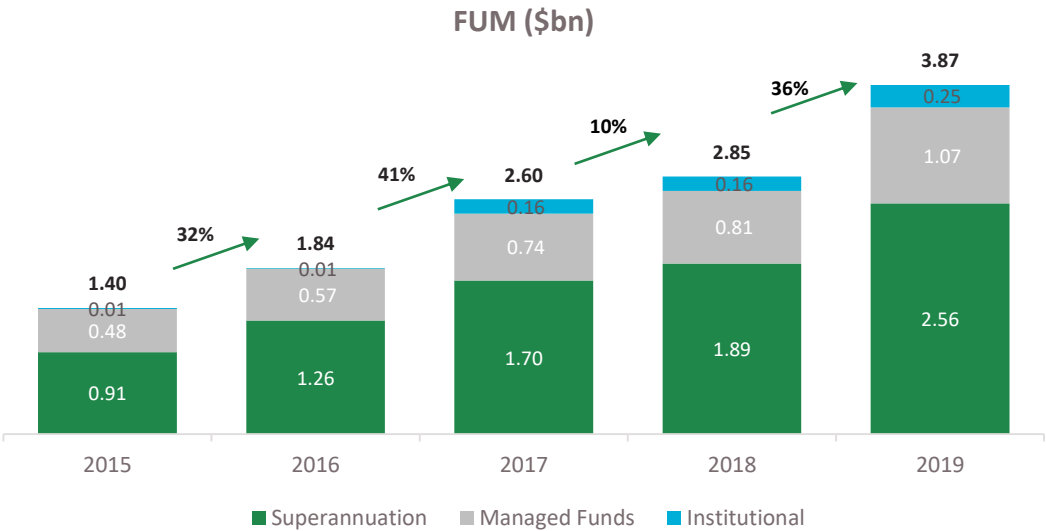
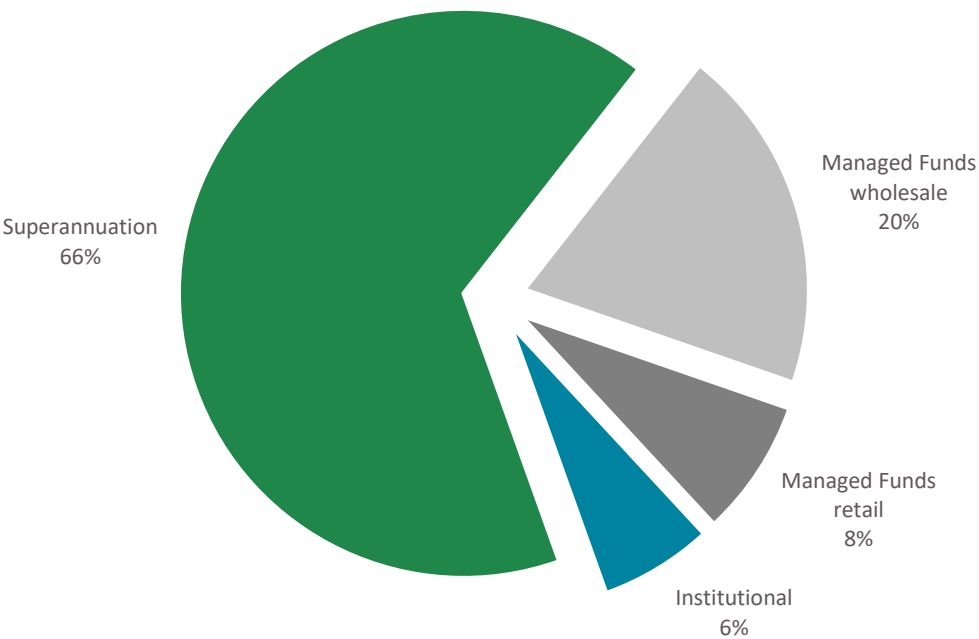
* Diluted earnings per share based on NPAT

~ Based on last twelve months (LTM) diluted EPS

Continued growth in FUM

FUM BY PRODUCT

\$3.87bn as at 31 December 2019



As at 31 December of each year

Funds under management (\$bn)	1H2020	1H2019	Change (YoY)
Opening FUM	3.42	2.82	21%
Super flows (net)	0.20	0.11	82%
Managed Funds flows (net)	0.07	0.05	44%
Institutional flows (net)	0.03	(0.01)	nm*
Net flows	0.30	0.15	100%
Market movement and other^	0.16	(0.11)	nm*
Closing FUM	3.87	2.85	36%

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

* Not meaningful

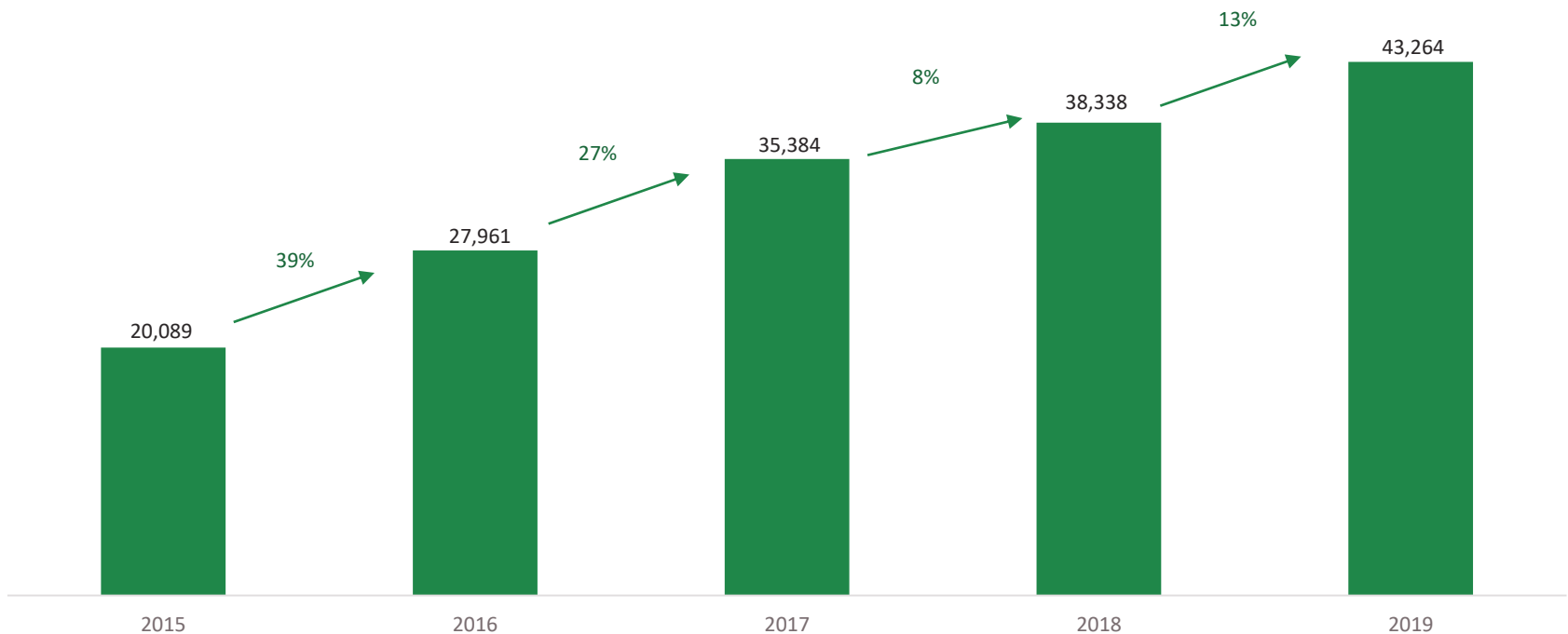
Strong growth in super membership continues



Key themes

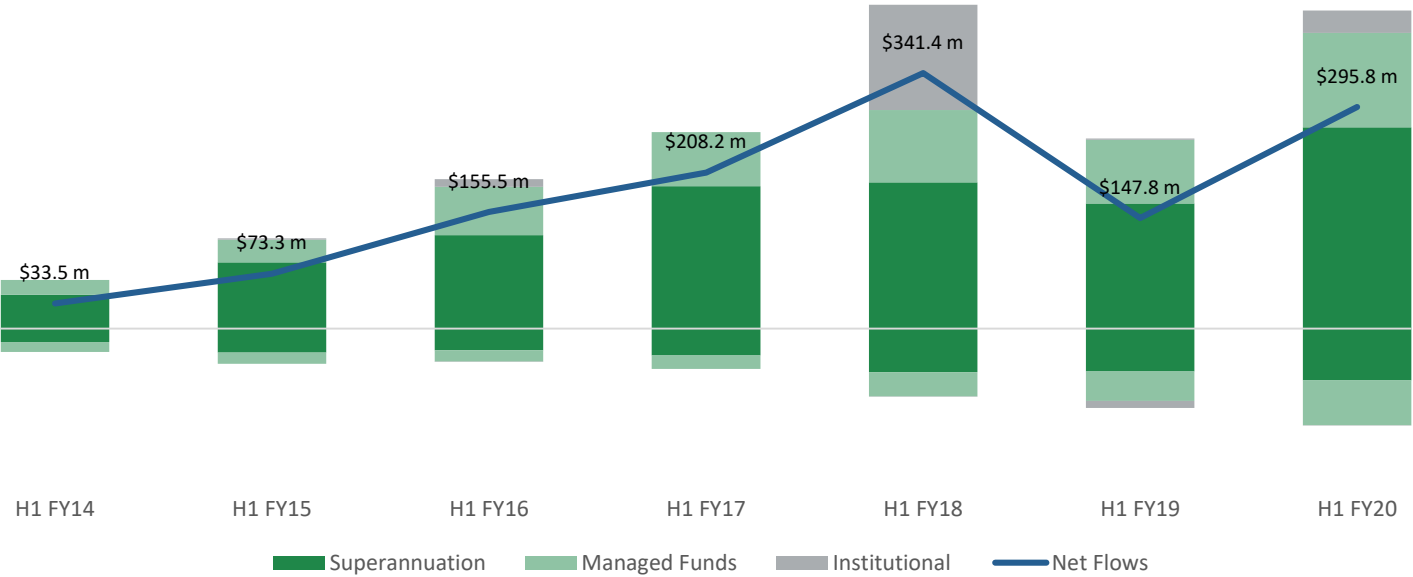
- Super membership continues to grow, primarily in the direct channel
- 45,946 super members at 31 December 2019 – comprising 43,264 funded members and 2,682 yet to be funded
- Funded super members grew 13% since December 2018
- Increasing trend of super contributions following targeted customer engagement activities

Funded super members up 13%



As at 31 December of each year

Increase in net inflows compared to first half FY19



As at 31 December of each year



Key themes

- Net inflows double that of corresponding period
- Super net inflows up 82%* to \$199.4m primarily due to higher rollovers, driven by both increased member numbers and increased rollovers per member
- SG contributions increased 19%* driven by membership growth and an increase in the number of members contributing (contribution rates)
- Managed Fund net inflows (incl institutional) up 150%* to \$96.4m driven by improved investor sentiment and a low interest rate environment
- Industry leading super retention rates continue, however as FUM grows, absolute value of outflows increases

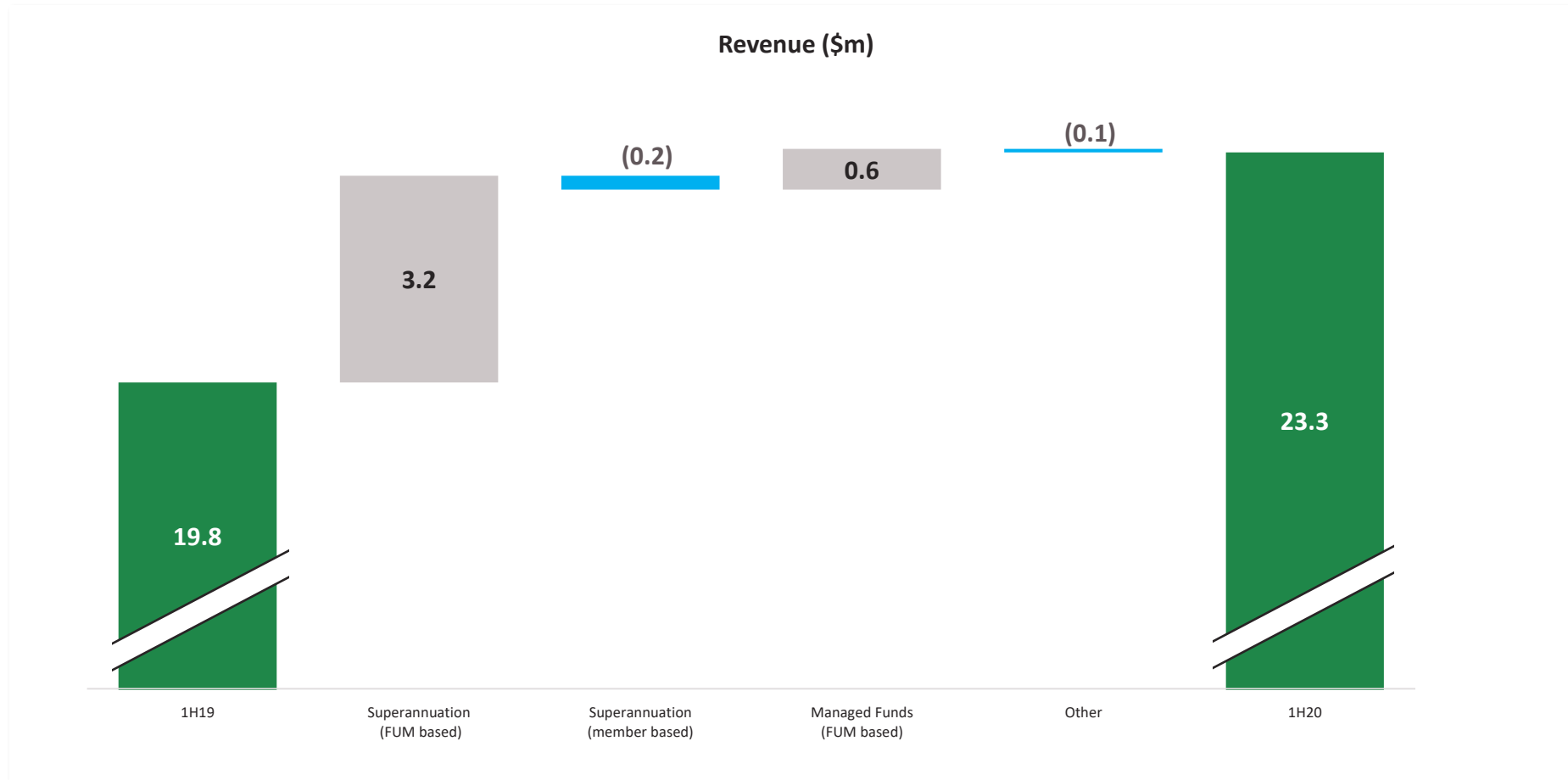
* compared to first half FY19

Revenue



Key themes

- Strong FUM based revenue growth underpinned by strong super and managed fund FUM growth, partially offset by full impact of October '18 fee reductions
- Removal of exit fees and 3% fee capping (PYS legislation) has reduced super member based revenue

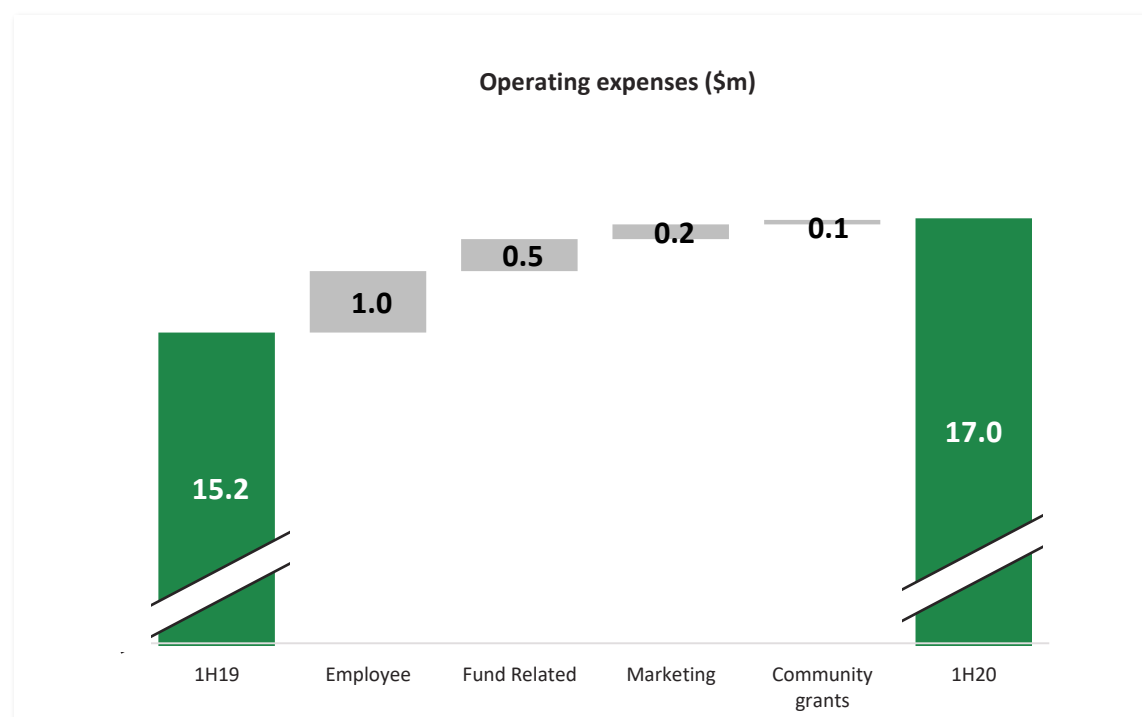
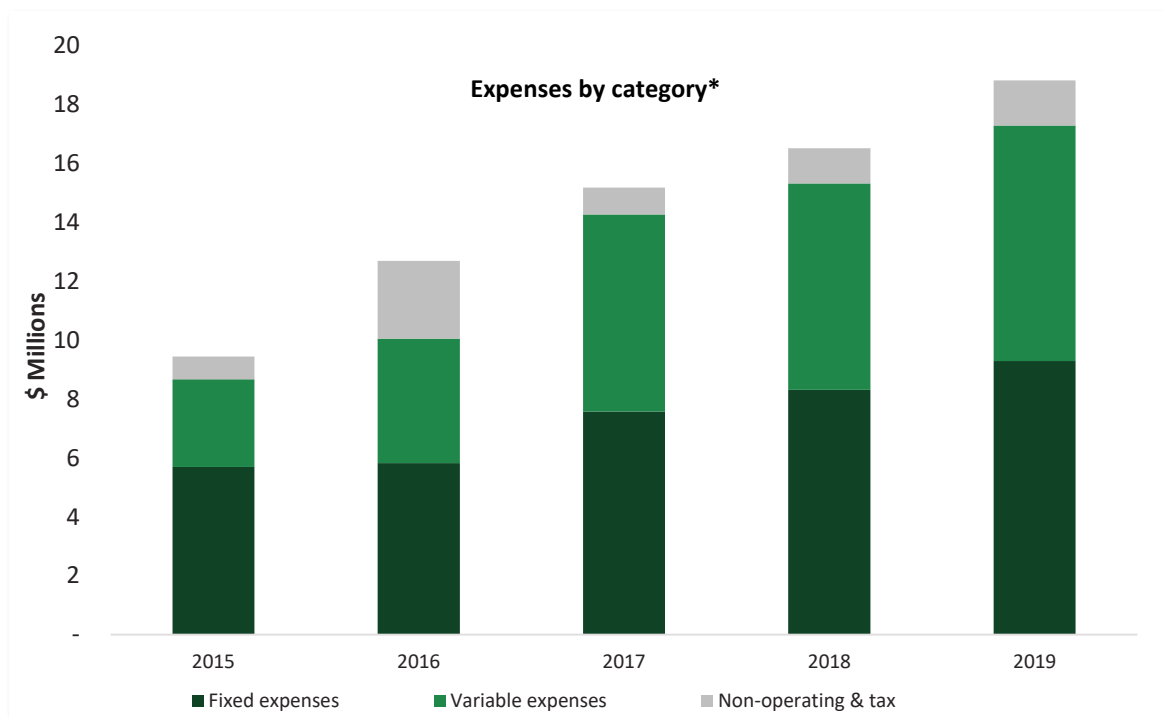


Expenses

BUSINESS GROWING AND SCALE BENEFITS EMERGING

Key themes

- Increase in operating expenses driven by focused investment in the business as we build a sustainable platform to take advantage of growth opportunities, as well as responding to ongoing regulatory change:
 - increased employment costs due to new hires, full year impact of FY19 hires and salary increases as we continue to strengthen capability of our platform
 - Increased fund related costs as FUM and member numbers grow
 - Increased investment in brand and customer engagement (marketing costs)



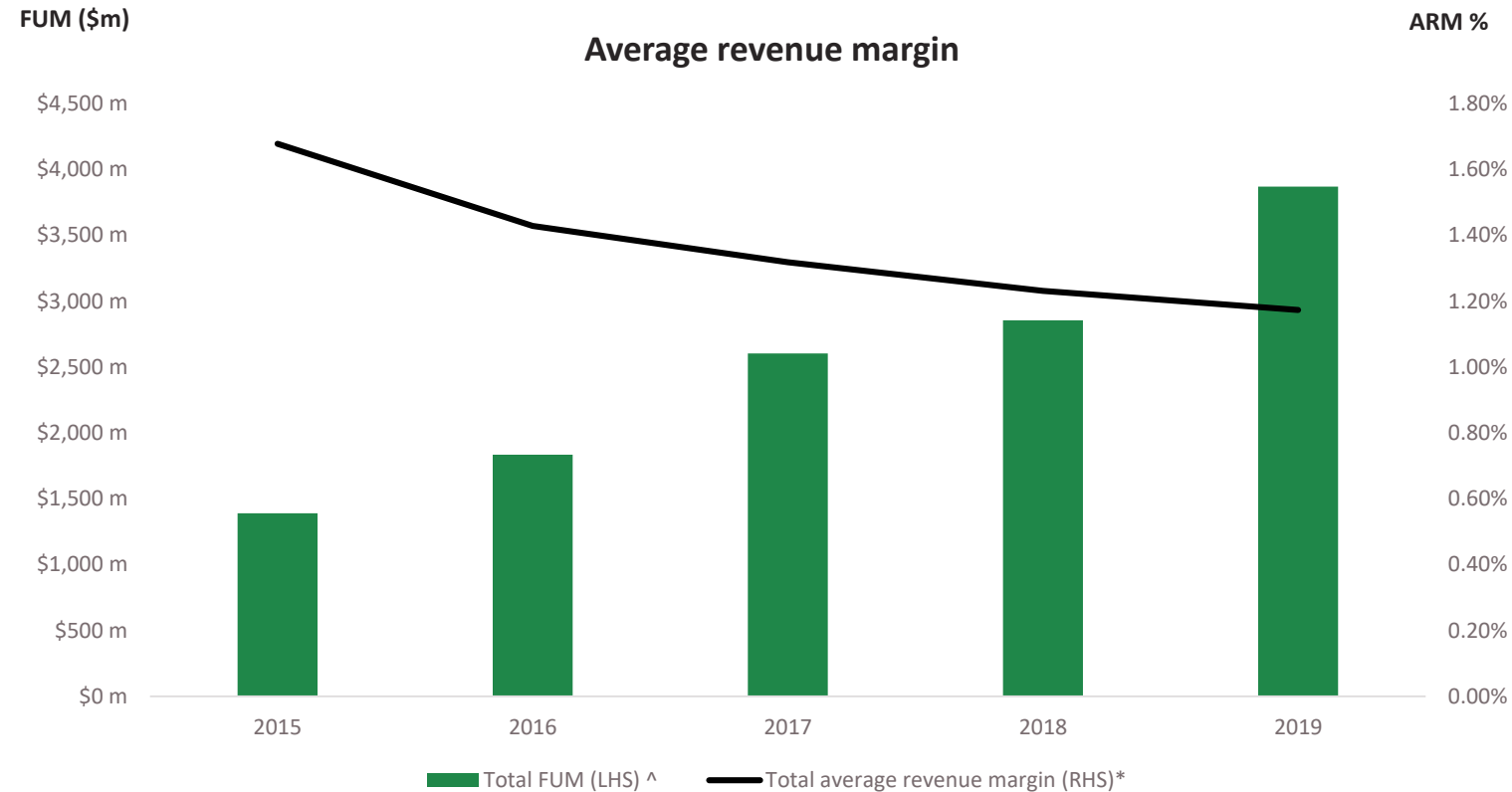
*Represents expenses attributable to shareholders (excluding Foundation) as at 31 December 2019

Revenue margin



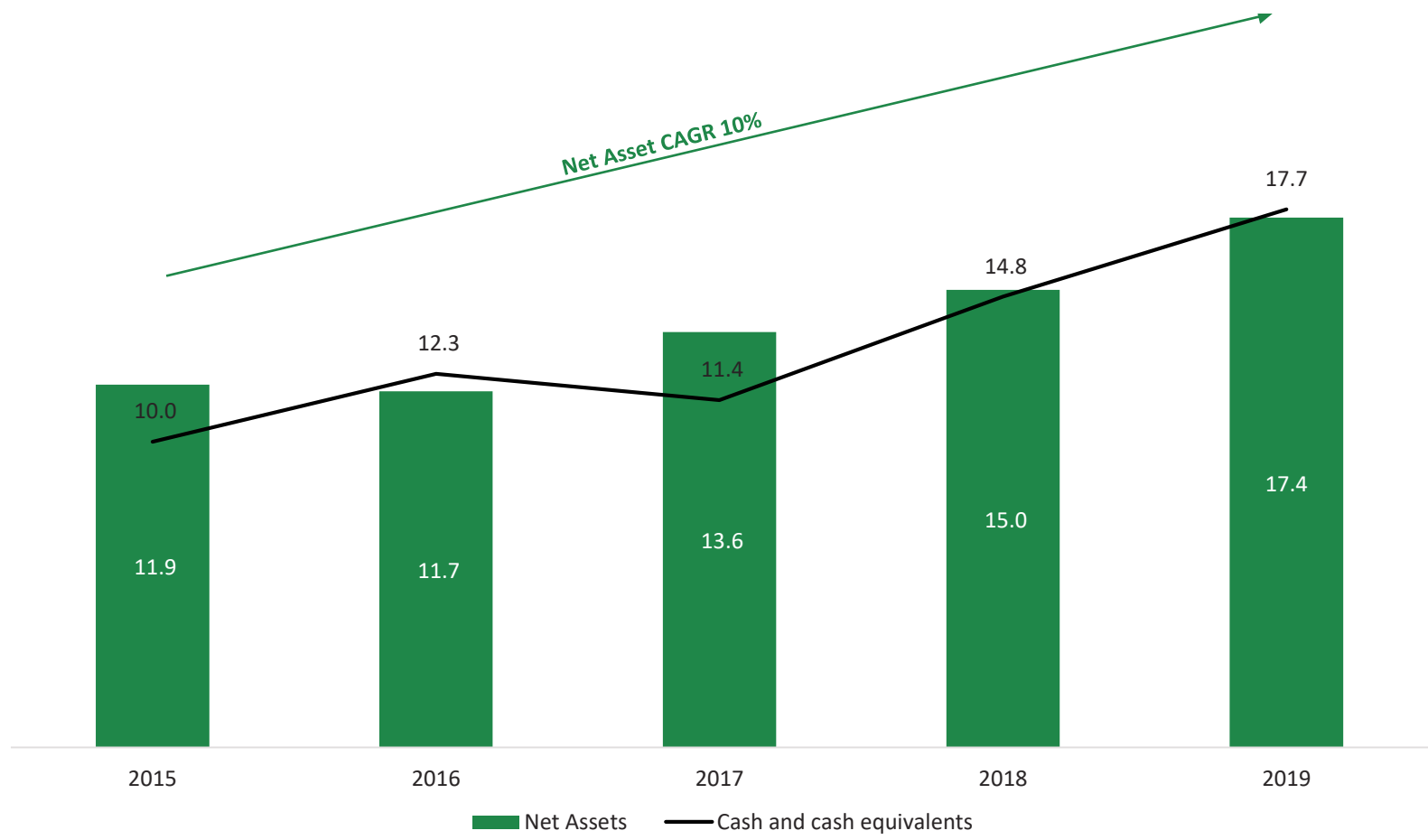
Key themes

- Long track record of fee reductions
- Continued growth has allowed further fee reductions during the period with super fee reductions implemented for three options on 1 December
- Average revenue margin across products at 31 December is 1.16%



^ As at 31 December of each year
* Average revenue margin calculated on last twelve months FUM based revenue (excluding member based fees) as a percentage of last twelve months average FUM

Balance sheet strength



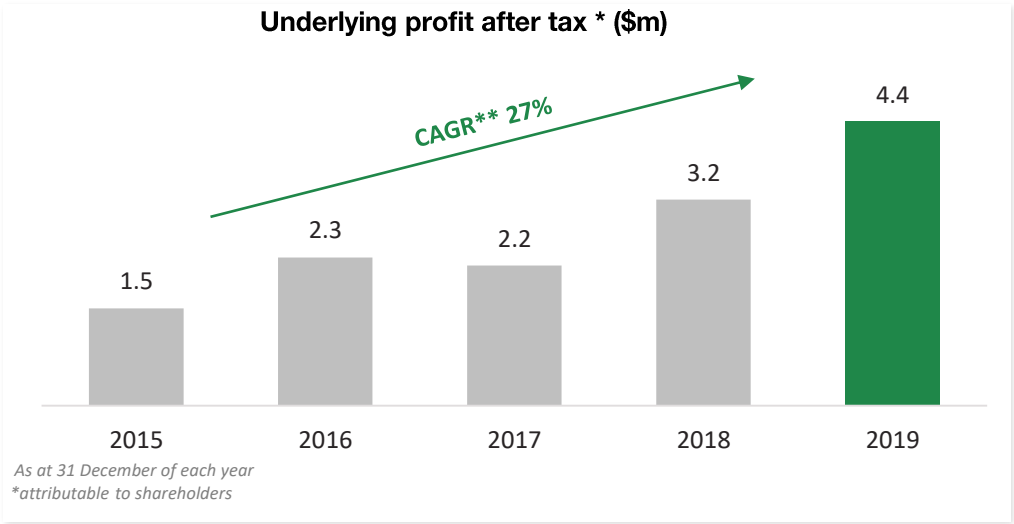
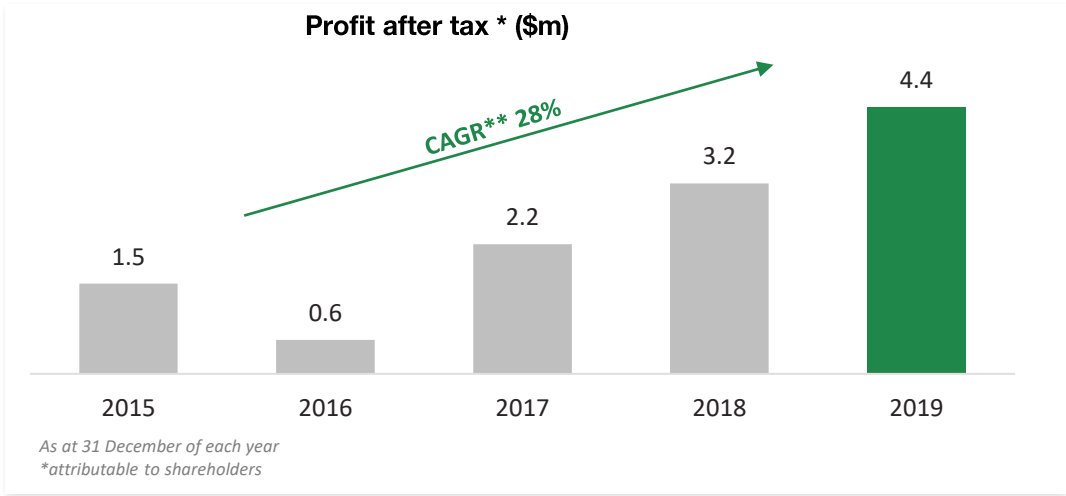
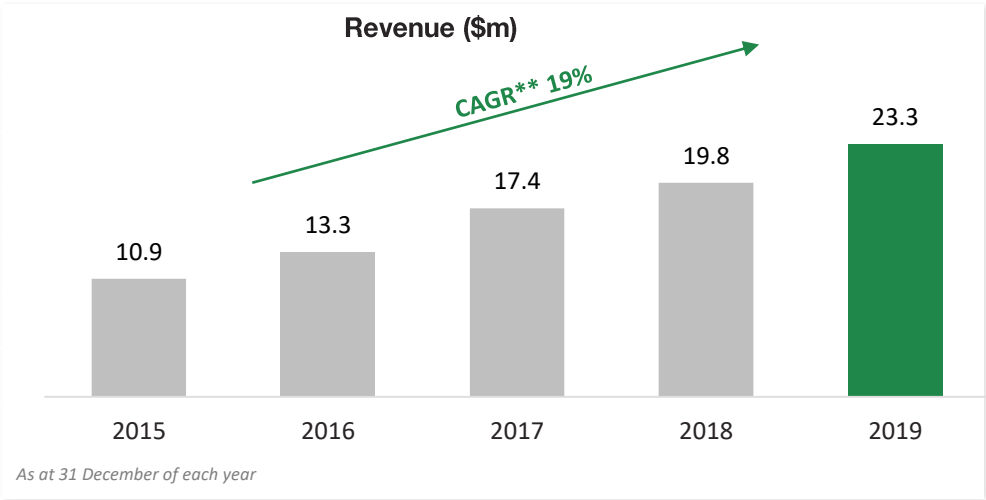
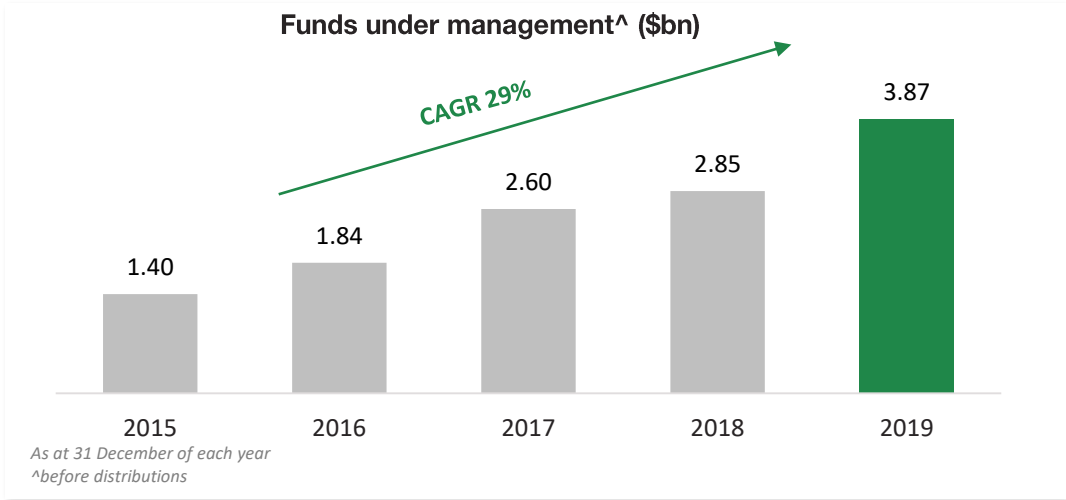
** Represents total assets less total liabilities attributable to shareholders (excluding Foundation)
As at 31 December of each year*



Key themes

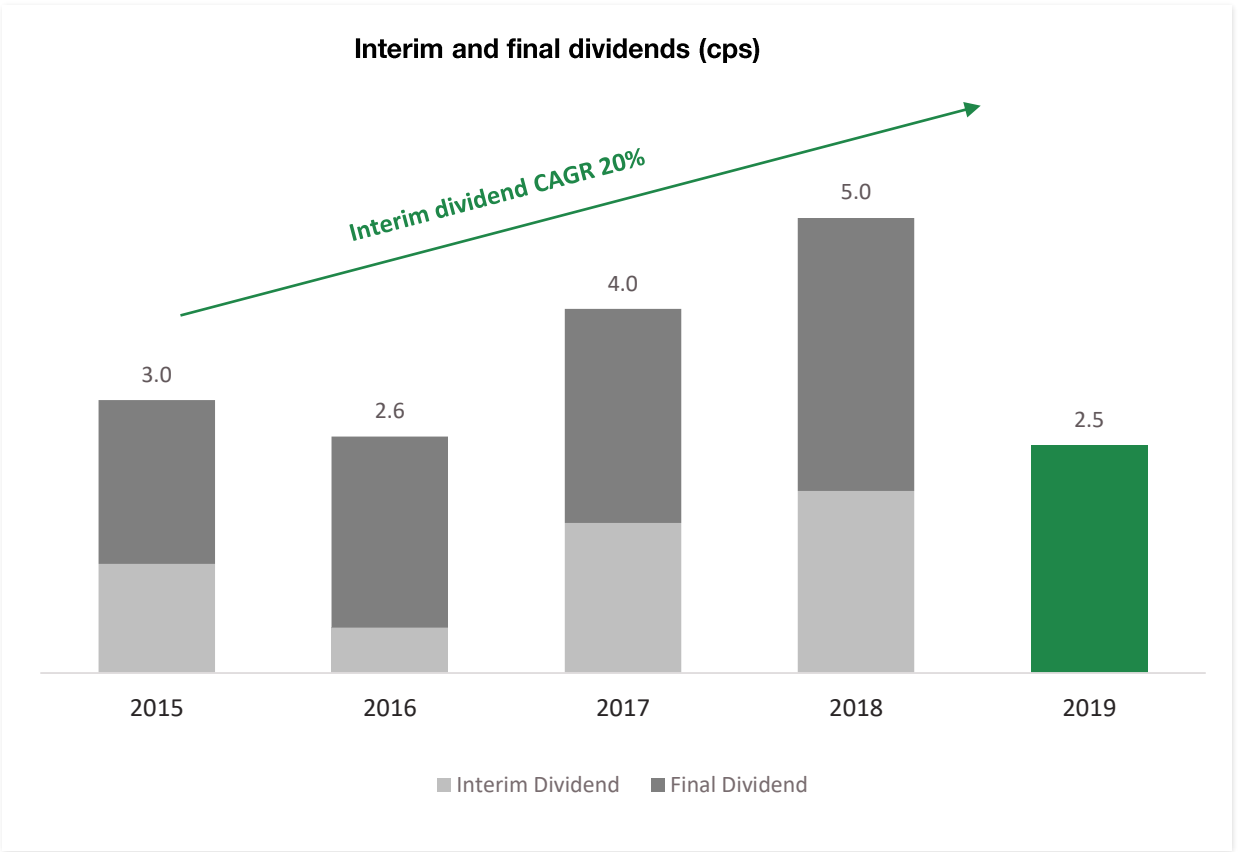
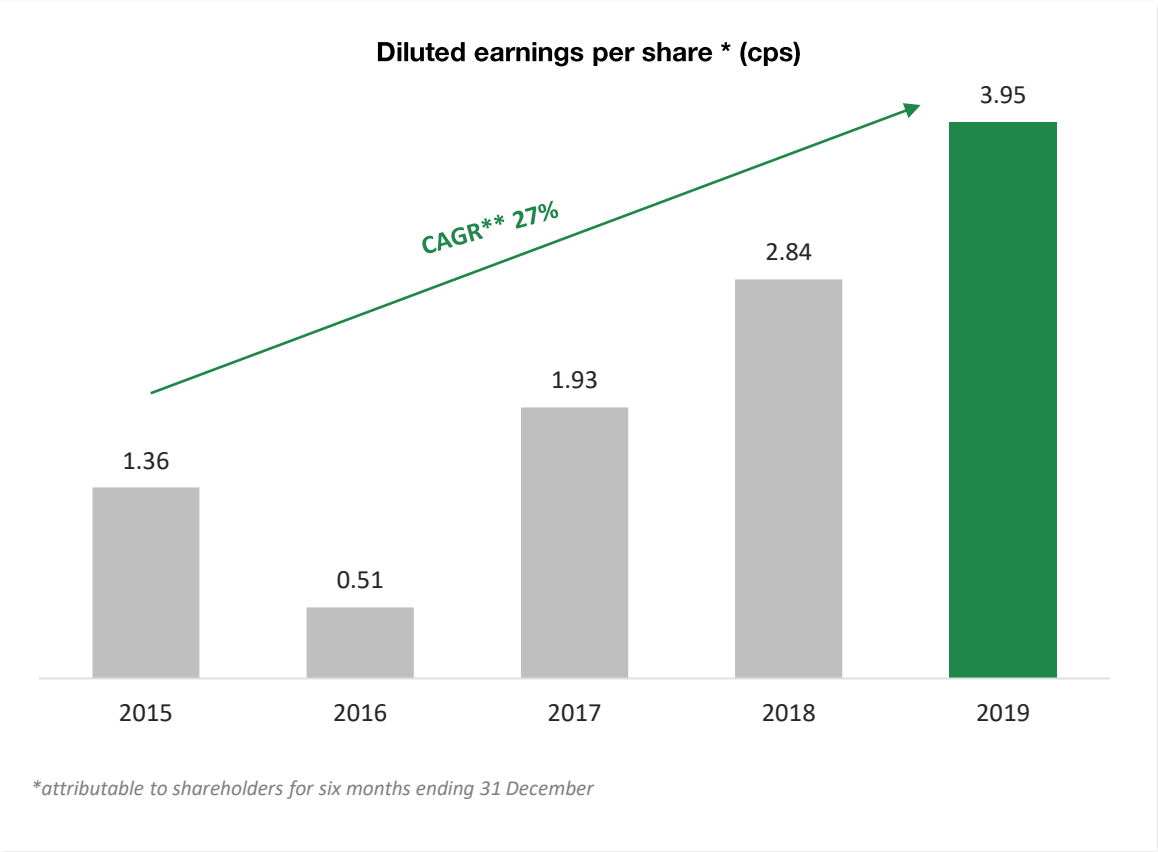
- Strong balance sheet with no debt
- Strong cash position
- Parent holds surplus regulatory capital of \$5.7m

Key financials



** CAGR based on calendar 12 month over 4 years

Key financials



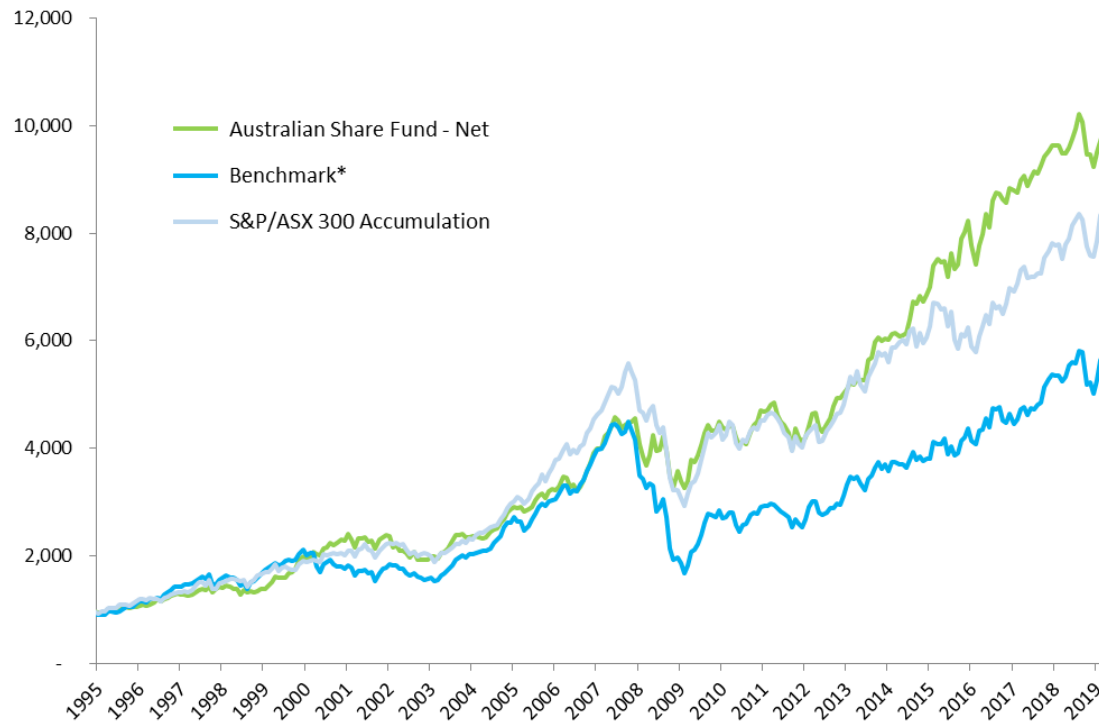
Six months ending 31 December. Historic data restated for share split.

** CAGR based on calendar 12 month over 4 years

Investment performance - strong returns, less risk

AUSTRALIAN SHARES FUND: STELLAR RISK-ADJUSTED RETURNS

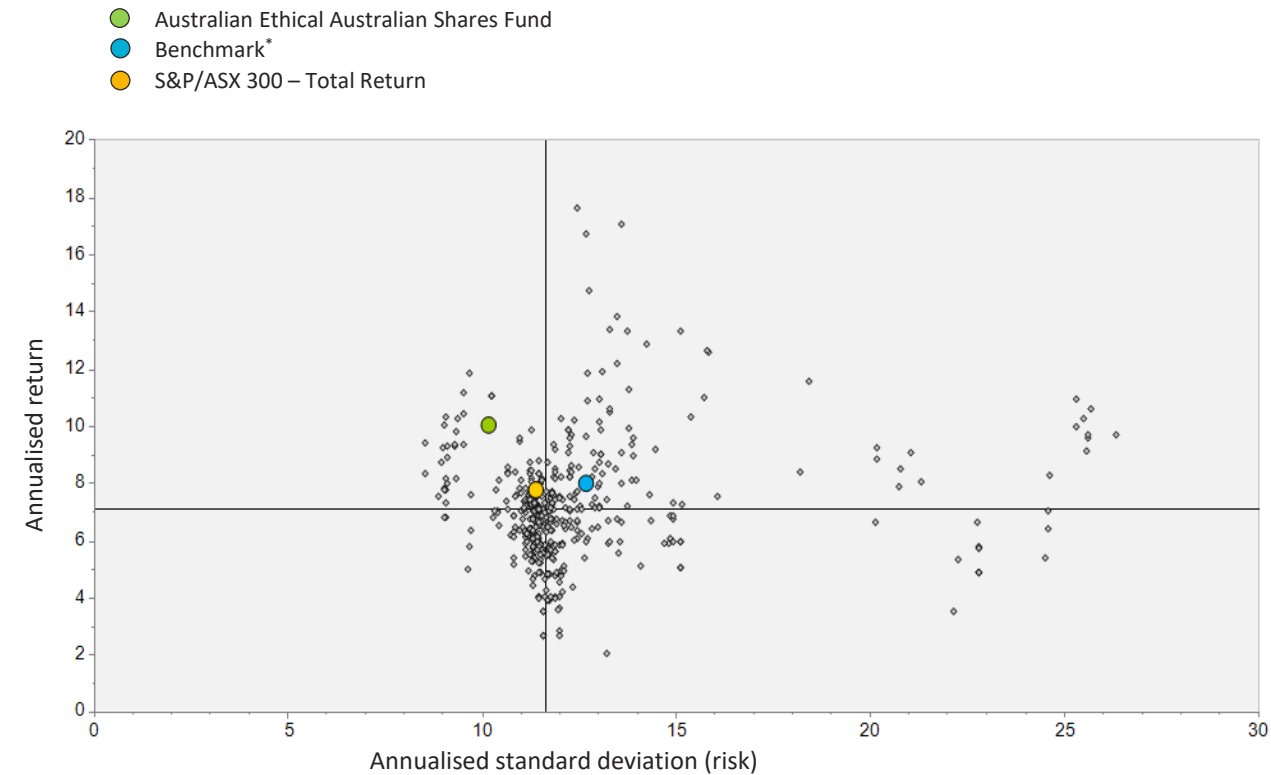
Value of \$1,000 invested since inception



As at 31 December of each period.

* Benchmark is composite S&P/ASX Small Industrials Accumulations Index till 12 August 2019 and S&P/ASX 300 Accumulation Index thereafter

Risk/return over ten years to 31 December 2019



Source: Morningstar December 2019. 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

Our default MySuper option, the **Balanced Accumulation Option** has achieved its 5-year investment objective of meeting CPI +3.5% p.a., whilst also outperforming its peer based benchmark for the medium term

	6mths	1Y	3Y	5Y	7Y	10Y	20Y	Since Inception*
Balanced Accumulation Option ~	4.0%	16.6%	8.5%	7.5%	8.7%	6.7%	6.2%	6.4%
Investment Return Objective^	n/a	n/a	n/a	5.2%	n/a	n/a	n/a	n/a
Relative Performance	n/a	n/a	n/a	2.3%	n/a	n/a	n/a	n/a
Benchmark``	4.1%	15.3%	7.3%	6.0%	7.0%	6.1%	5.0%	5.1%
Relative Performance	(0.1)%	1.3%	1.2%	1.5%	1.7%	0.6%	1.2%	1.3%

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

* Inception Date: 31/12/1998

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

`` Balanced option (MySuper: Benchmark changed to SuperRatings SR50 Balanced (60-76) Index, effective 1st of December 2019. The benchmark previously was changed from the Morningstar Multisector Balanced – Superannuation Fund peer group index to Morningstar Multisector Growth, effective 1 March 2015. The historical returns are calculated by combining the three indices.

Long track record of outperformance

Award winning Australian Shares Fund continues to outperform the market over the short, medium, long and very long term. **8.3ppts above the benchmark for the 6 months****

	6mths	1Y	3Y	5Y	7Y	10Y	20Y	Since Inception
Retail*	11.0%	27.0%	9.9%	11.4%	12.9%	10.1%	9.3%	10.1%
Benchmark ^^	3.2%	22.5%	9.8%	10.1%	10.2%	8.0%	5.5%	7.3%
<i>Relative Performance</i>	7.8%	4.5%	0.0%	1.2%	2.7%	2.0%	3.8%	2.8%
S&P/ASX 300 Accum Index	3.3%	23.8%	10.3%	9.1%	10.0%	7.8%	8.3%	9.3%
<i>Relative Performance</i>	7.7%	3.2%	(0.4)%	2.3%	2.9%	2.3%	1.0%	0.8%
Wholesale^	11.5%	28.1%	11.2%	12.9%	14.5%	n/a	n/a	15.3%
Benchmark ^^	3.2%	22.5%	9.8%	10.1%	10.2%	n/a	n/a	11.1%
<i>Relative Performance</i>	8.3%	5.6%	1.4%	2.8%	4.3%	n/a	n/a	4.2%
S&P/ASX 300 Accum Index	3.3%	23.8%	10.3%	9.1%	10.0%	n/a	n/a	10.7%
<i>Relative Performance</i>	8.2%	4.3%	0.9%	3.8%	4.5%	n/a	n/a	4.6%

Table reflects performance after fees for the Australian Shares Fund. Performance calculated in accordance with FSC standard 6 and standard 10

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

^^ Benchmark is composite S&P/ASX Small Industrials Accumulations Index till 12 August 2019 and S&P/ASX 300 Accumulation Index thereafter

**Wholesale fund

Past performance is not a reliable indicator of future performance

Outperformance of Emerging Companies Fund

Emerging Companies Fund continuing to show strong outperformance; **14.0ppts** above the benchmark for the 6 months **

	6mths	1Y	3Y	Since Inception
Retail*	18.4%	44.7%	16.3%	16.8%
S&P/ASX Small Industrials Accum Index	4.8%	24.5%	10.4%	11.1%
<i>Relative Performance</i>	13.6%	20.2%	5.8%	5.8%
Wholesale*	18.8%	45.6%	17.1%	17.7%
S&P/ASX Small Industrials Accum Index	4.8%	24.5%	10.4%	11.1%
<i>Relative Performance</i>	14.0%	21.1%	6.7%	6.6%

Table reflects performance after fees for the Emerging Companies Fund. Performance calculated in accordance with FSC standard 6 and standard 10

* Inception Date 30/06/2015

** Wholesale fund

Past performance is not a reliable indicator of future performance

Outlook

ONGOING STRONG GROWTH UNDERPINNED BY SUSTAINABLE PLATFORM



Strong start to 2nd half with record **January net inflows of \$112m**, and **FUM reaching \$4.14bn**

- **Strong growth** expected to continue as ethical investment moves into the mainstream and more people realise that our approach is achieving **excellent returns** and **delivering social good**
- Continuing **investment in strengthening our platform** and **enhancing our customer experience** to maintain momentum and drive sustainable growth
- Alignment of resources and capability to respond to ongoing **regulatory change**
- Remain committed to **passing on scale benefits** to our customers through **fee reductions**. Plan to **reduce the percentage-based super administration fee** from 0.41% to 0.29%^ in April 2020, **improving outcomes** for current and future members, and **increasing competitiveness** of our super product
- Continued business growth will drive **growth in community impact** via The Foundation
- Any **performance fee** on Emerging Companies fund will only crystallise at 30 June 2020

^ Following fee reduction the Superannuation Fund's administration fee will be 0.29% pa of daily fund balance plus the fixed \$97pa per member, which remains unchanged

Brand campaign

CLICK ON THE LINK BELOW TO VIEW OUR RECENTLY LAUNCHED BRAND CAMPAIGN



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