

Australian Ethical Investment Ltd FY21 Half Year Results

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24 February 2021



Highlights



FY21 H1 highlights

Continued strong growth with focused strategic investment in the business

Growth

Excellent momentum in the first half

Customer numbers up

↑ **22%**

Net inflows~
\$0.42bn

↑ **43%**

Funds under management
\$5.05bn

↑ **30%**

UPAT \$4.9m

↑ **11%**

NPAT attributable to shareholders*
\$5.2m

↑ **17%**

Operating revenue
\$25.6m

↑ **10%**

Diluted EPS^
3 year CAGR

+30.9%

Interim dividend
3 cents

↑ **20%**

Operating expenses
\$18.9m

↑ **11%**

Strategic investment in the business of

\$1.7m

\$0.7m

allocated to The Australian Ethical Foundation

~ Netflows relate to the 6 months to December 20. The 43% growth relates to growth from PCP (6 months to December 19)

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

^ Based on NPAT attributable to shareholders

Note: All financial results and metrics in this pack relate to half year ended 31 December 2020 with comparatives relating to half year ended 31 December 2019.



FY21 H1 highlights

Exceptional investment performance across most of our funds

Excellent investment performance



ESG Trailblazer award

from Money Magazine

1 of only 6

Fund managers globally to be named a “leader” for ESG commitment by Morningstar

MySuper Balanced option ranked second against its peers over the year to December, returning **8.0%~**



No.1 Australian Shares super option over 5,7 and 10 years[#]

Emerging Companies Fund significantly outperformed benchmark for the 6 months by

21.4% Retail[^]
&
21.7% Wholesale[^]

Australian Shares Fund outperformed its benchmark across all time periods, with a 6 month outperformance of

16.7% Retail*
&
17.3% Wholesale*

~ SuperRatings December 2020 survey results. Australian Ethical Balanced is 2nd for the 12 month period in the SR50 Balanced (60-76) Index. The 1 year return is represented gross of member fee, in alignment with SuperRatings reporting of investment performance

[^] Reflects 6 month return to 31 December 2020. Performance is quoted after fees. Benchmark is the S&P/ASX small industrials.

* Performance is quoted after all fees. Benchmark is S&P/ASX 300 Accumulation Index

[#] SuperRatings SR50 Australian Shares Index

Financials

Key financials

Key financials^ (\$'000)	1H2021	1H2020	Change (YoY)
Operating revenue	25,609	23,322	10%
Other income	399	66	nm**
Total Revenue	26,008	23,388	11%
Operating expenses	(18,899)	(17,049)	11%
Profit before income tax	7,109	6,339	12%
Income tax expense	(1,768)	(1,598)	11%
Net profit after tax - statutory	5,341	4,741	13%
Less Foundation results	(169)	(304)	
Net profit after tax attributable to shareholders	5,172	4,437	17%
Re-valuation 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) attributable to shareholders	4,863	4,371	11%
Diluted earnings per share*	4.60 cents	3.95 cents	16%
Diluted earnings per share 3-year CAGR~	30.9%	54.5%	
Dividend per share	3.00 cents	2.5 cents	20%



Key themes

- Increase in revenue driven by:
 - strong FUM and member growth
 - partially offset by the impact of superannuation fee reductions (including those implemented in the second half of FY20^^) and fee and threshold reductions across some managed funds in October 2020# (impact in 1H21 is \$1.9m, equating to 8% growth)
- NPAT growth (attributable to shareholders) of 17%
- Diluted EPS up 16%
- Operating expenses up 11% driven by:
 - continued investment in brand, employee capability, customer experience and our technology platform (totalling \$1.7m investment in first half)
 - growth in variable costs as a result of FUM and customer growth
- Dividend up 20%

^This table has been prepared in accordance with 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

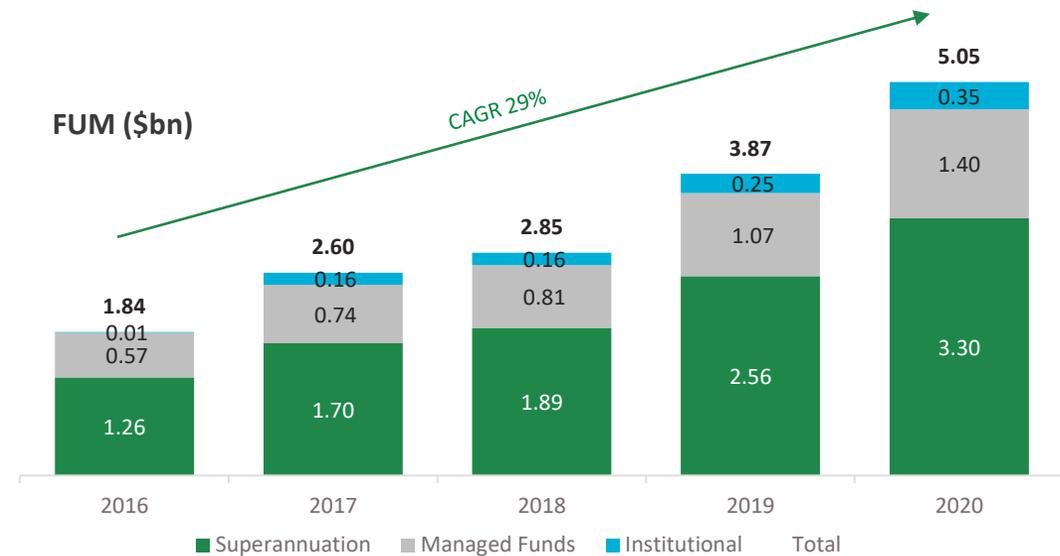
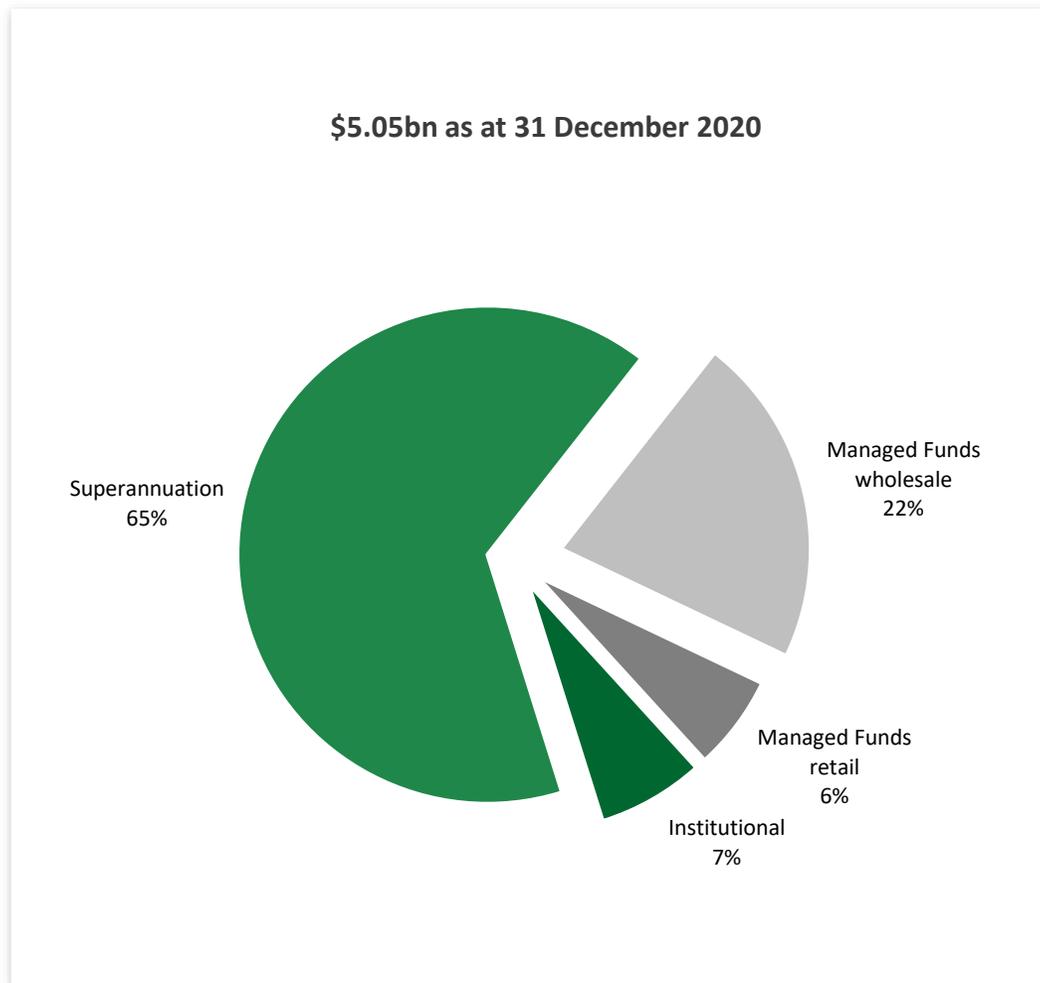
** Not meaningful

^^ 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.

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)

Strong FUM growth of 30%

FUM by product



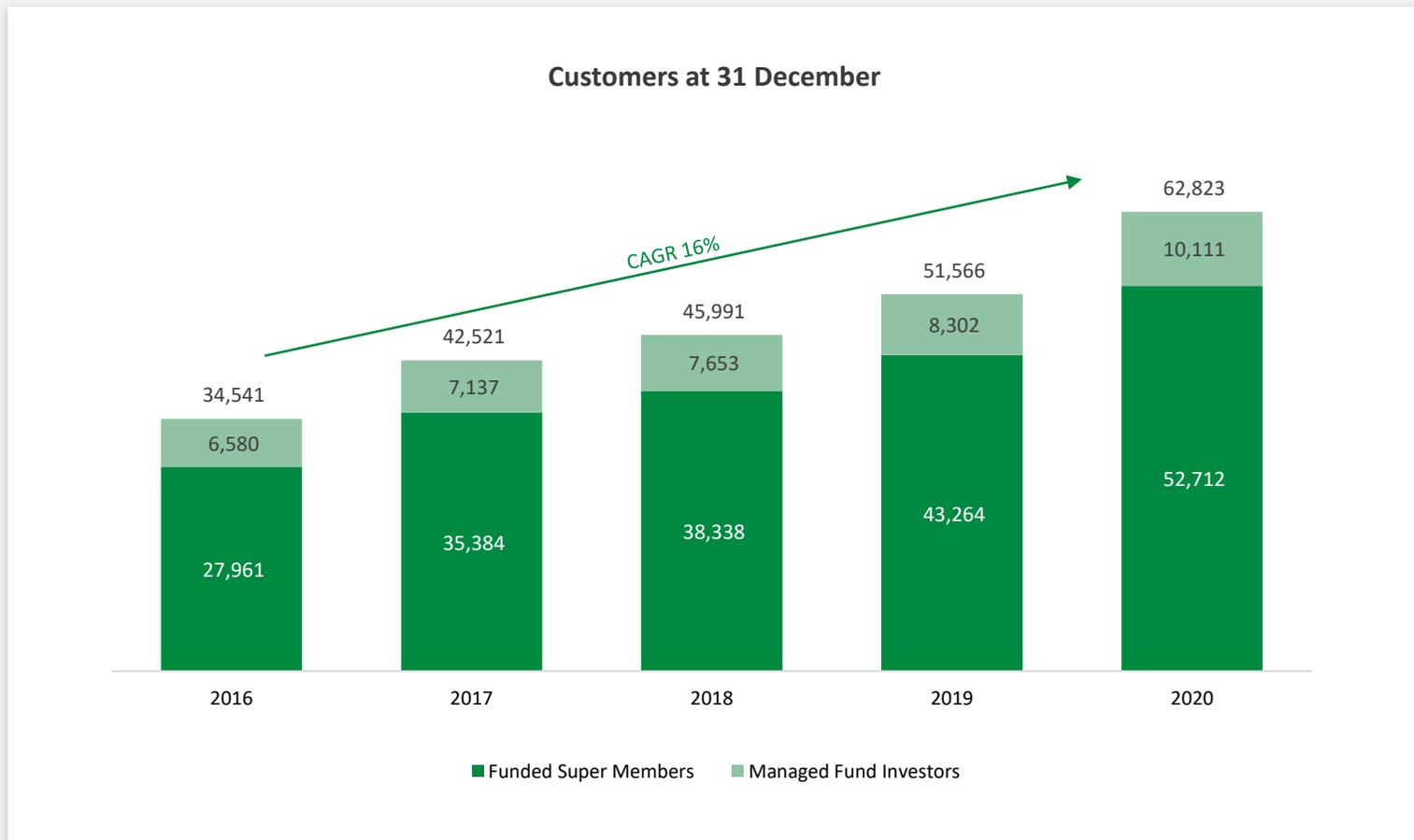
As at 31 December of each year

Funds under management (\$bn)	1H2021	1H2020	Change (YoY)
Opening FUM	4.05	3.42	19%
Super flows (net)	0.25	0.20	27%
Managed Funds flows (net)	0.12	0.07	82%
Institutional flows (net)	0.05	0.03	58%
Net flows	0.42	0.30	43%
Market movement and other [^]	0.57	0.16	259%
Closing FUM	5.05	3.87	30%

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

* Not meaningful

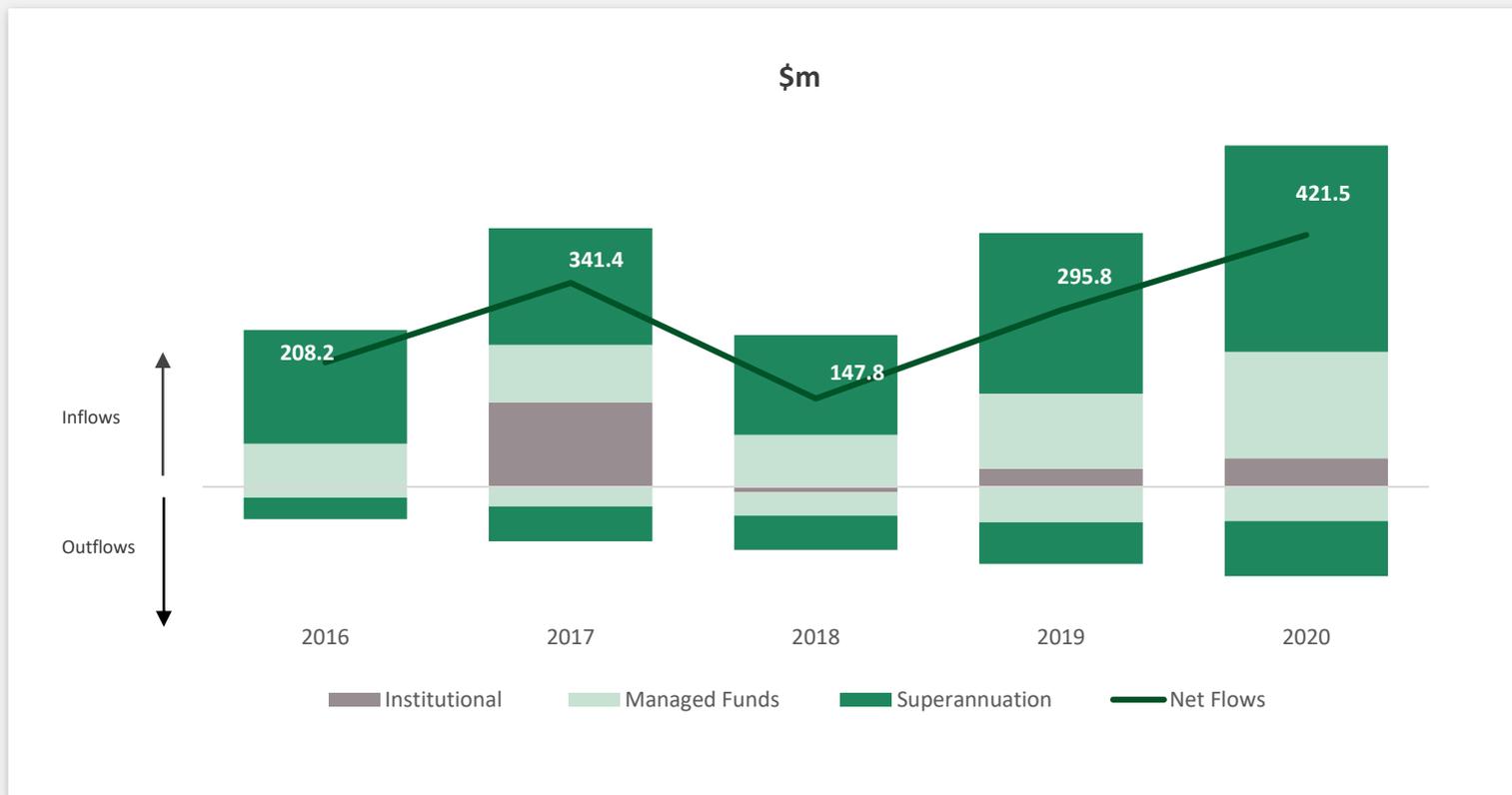
22% increase in customers



Key themes

- Customers grew 22% since December 2019
- Over 10,000 managed fund investors
- Super membership continues to grow, primarily in the direct channel

Record netflows in 1H21



For 6 months to 31 December of each year

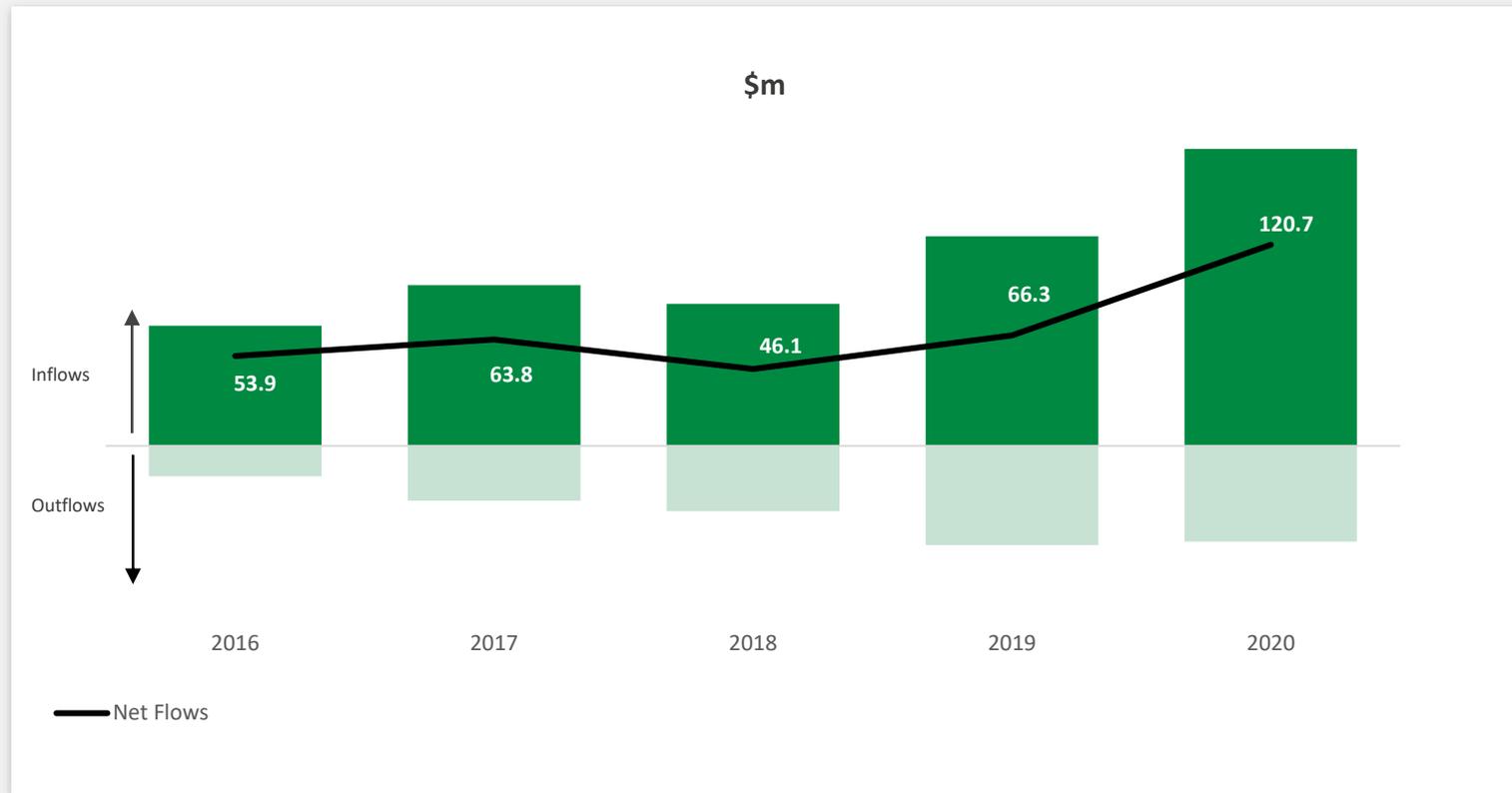


Key themes

- Net inflows up 43% compared to first half FY20
- 82% growth in managed fund net inflows to \$121m (excludes insto)
- Super netflows up 27% to \$253m driven by higher rollovers (up 31%) and higher SG contributions (up 29%)
- Super outflows during the period (of \$92m) include \$40m early release of super payments
- Industry leading super retention rates continue

All comparisons are to first half FY20

Managed Funds netflows up 82%



For 6 months to 31 December of each year

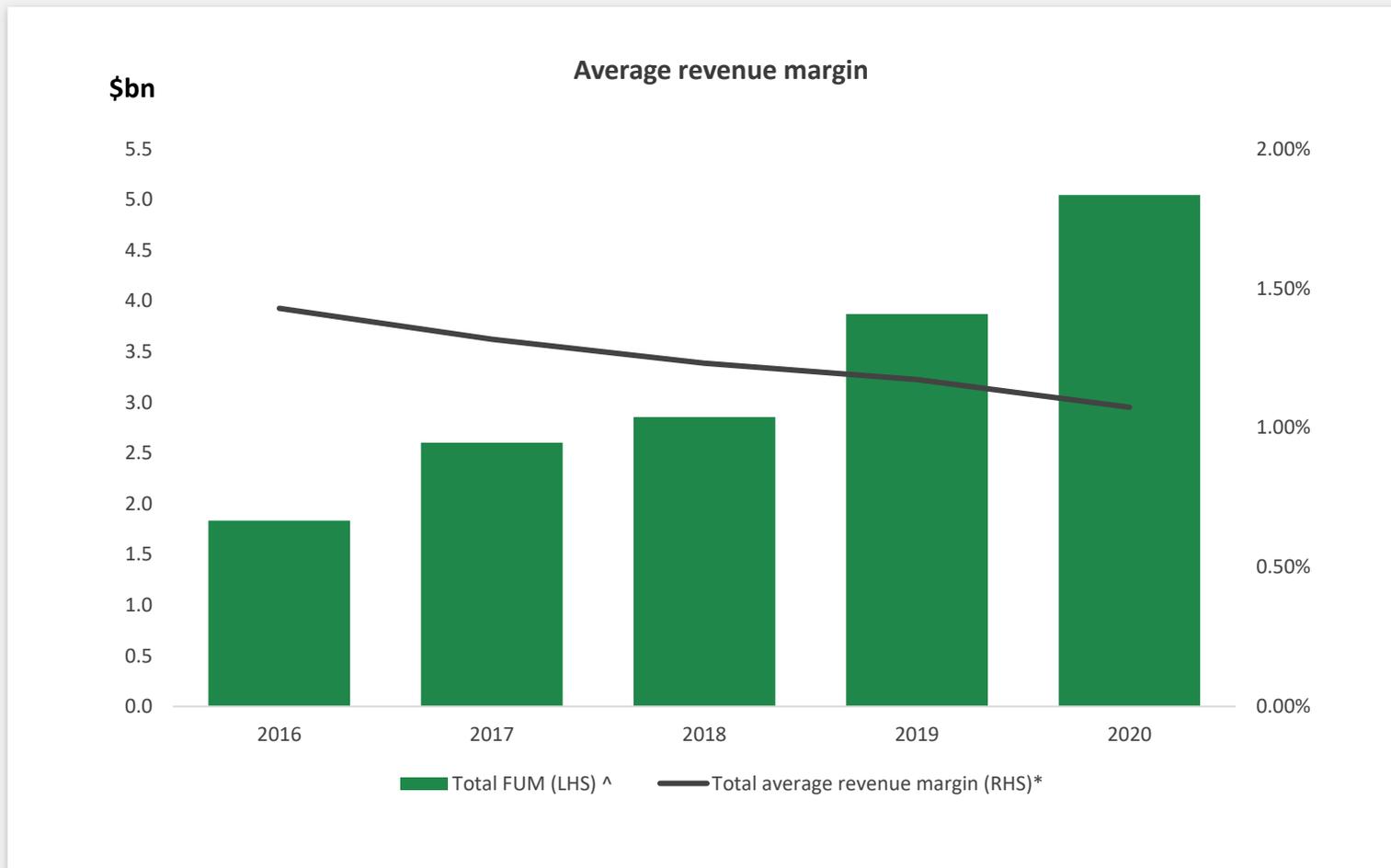


Key themes

- Increased brand awareness and stronger traction in our targeted growth areas (high networth and advisers) has driven 82% growth in managed fund net inflows to \$121m (excludes insto)
- Strong indication that investors are shifting to invest with Australian Ethical outside of super
- Strong managed funds inflows, together with stronger retention during the period has contributed to this growth

All comparisons are to first half FY20

Revenue margin



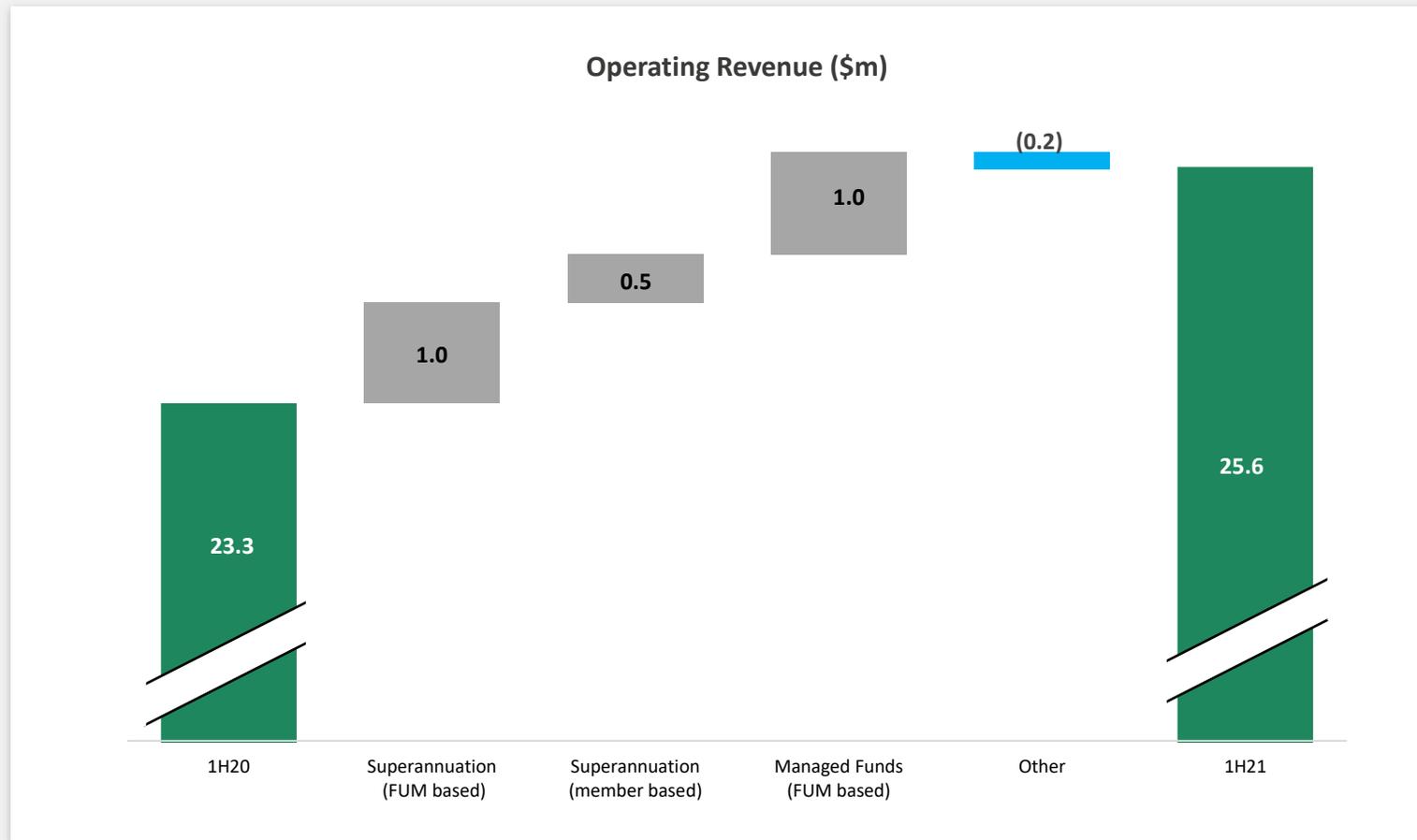
Key themes

- Long track record of fee reductions continues
- As part of our fee strategy, we will continue to reduce fees as we grow, to increase our competitiveness and to benefit our customers
- Continued growth has allowed further fee reductions during the period. On 1 October 2020 the following reductions occurred:
 - Balanced Fund wholesale investment threshold was reduced from \$500k to \$200k
 - Income Fund management fee was reduced from 0.35% to 0.20% (wholesale) and 0.50% to 0.20% (retail)
 - Fixed Interest Fund management fee was reduced from 0.45% to 0.30% (wholesale) and 1.00% to 0.50% (retail)
- Average revenue margin for the 12 months to 31 December is 1.07% compared to 1.17% for prior comparative period
- Revenue margin at 31 December is 1.05%

^ 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

10% increase in operating revenue



Key themes

- Strong FUM based revenue growth underpinned by strong super and managed fund FUM growth, partially offset by the impact of superannuation fee reductions (including those implemented in the second half of FY20^{^^}) and fee and threshold reductions across some managed funds in October 2020[#].
- Increase in member based revenue follows the increase in super membership vs 1H20
- Decrease in other revenue is due to lower interest income, and decrease in rental following the sale of the Canberra property

^{^^} 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.

[#] 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)

Expenses

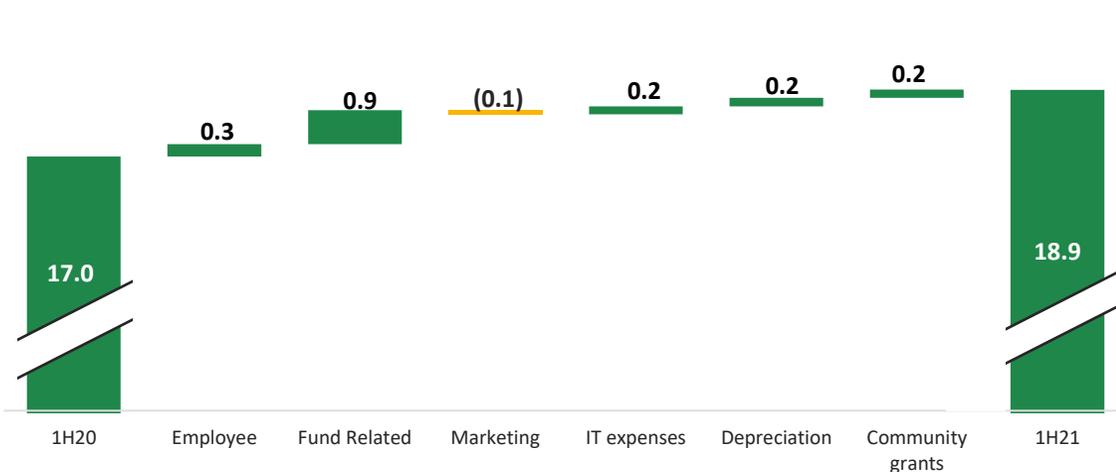


Continuing to invest for growth

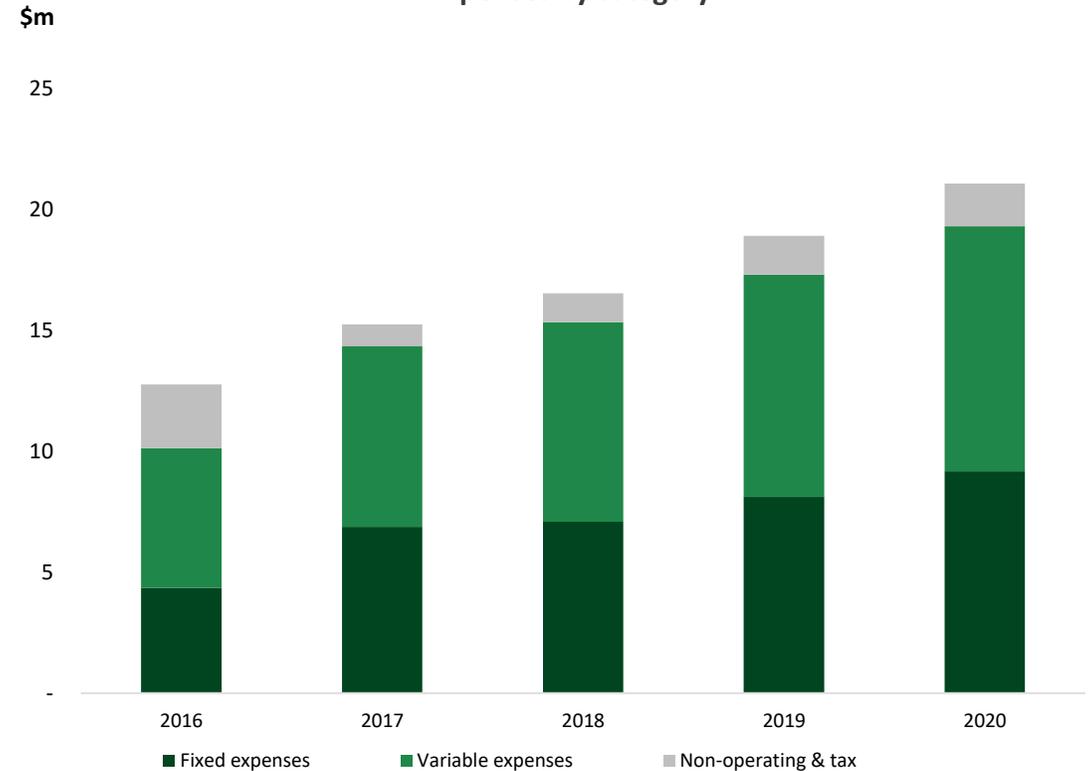
Key themes

- Increase in operating expenses driven by focused investment in the business to take advantage of growth opportunities:
 - increased employment costs due to new hires, full year impact of FY20 hires and promotions as we continue to strengthen distribution, customer and operations teams, partially offset by savings from a restructure at the end of FY20
 - increased fund related costs as FUM and customer numbers grow, as well as investment in product and customer experience enhancements, including:
 - Redesign of insurance offering
 - Insourcing super customer contact centre (to be launched in second half)
 - Launch of a member education tool
 - IT and depreciation increases relating to improvements to our technology platform

Operating expenses (\$m)

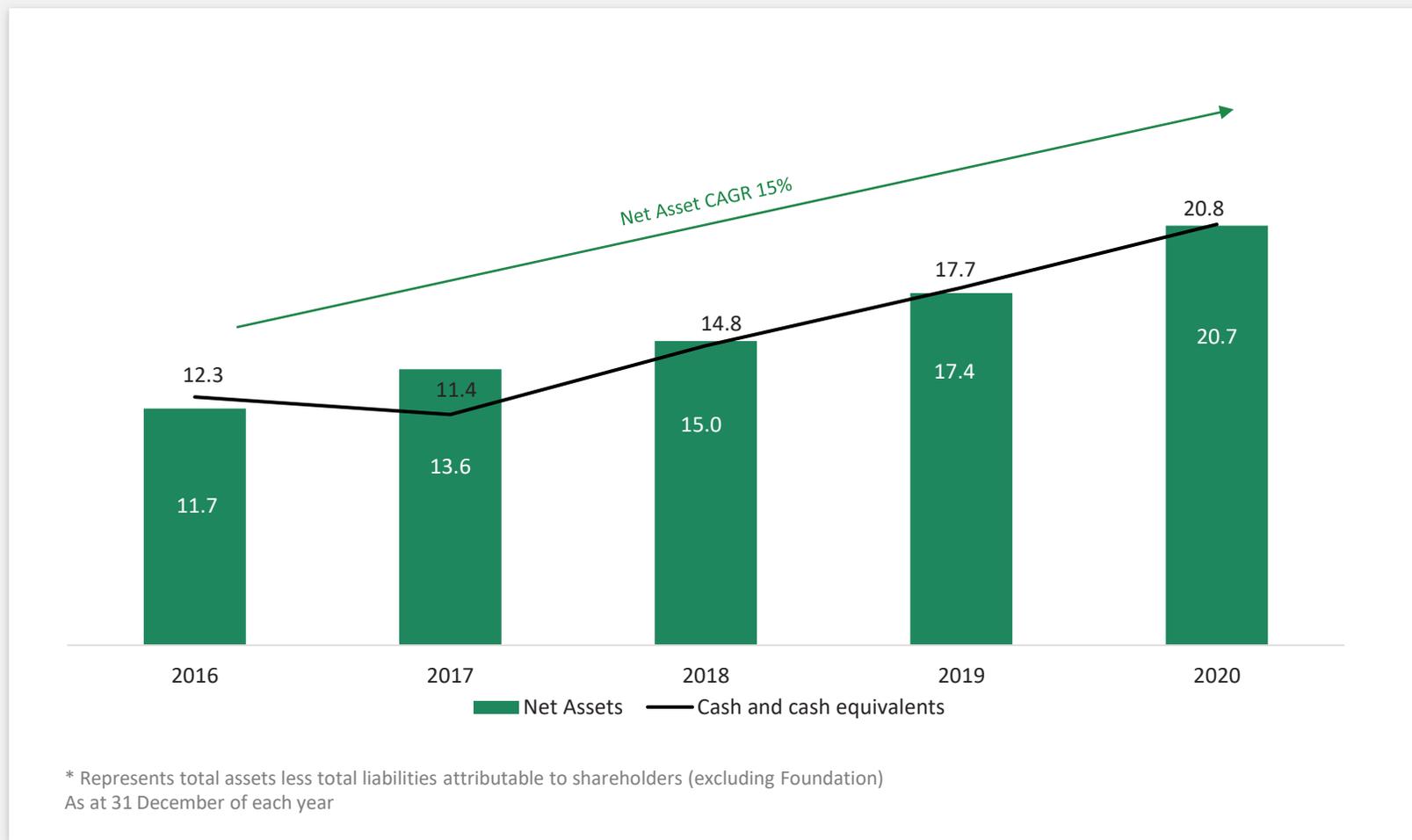


Expenses by category*



* Represents expenses attributable to shareholders (excluding Foundation) for 6 month periods ending 31 December

Balance sheet strength



Key themes

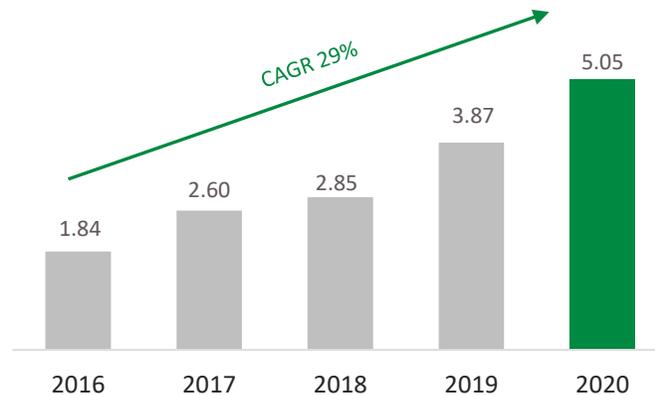
- Strong balance sheet with no debt
- Strong cash position
- Parent holds surplus regulatory capital of \$10m



Key financials

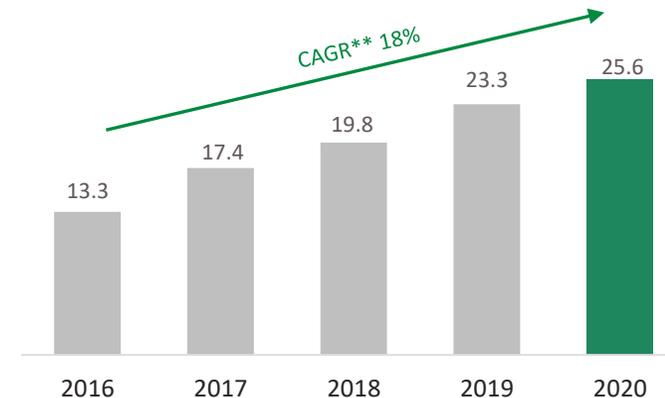
Strong growth across key metrics

Funds under management^ (\$bn)



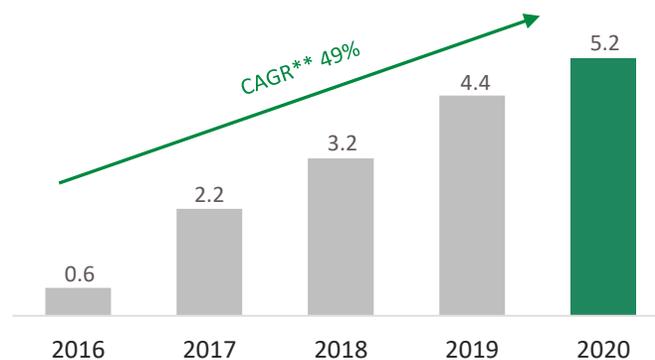
As at 31 December of each year

Operating revenue (\$m)



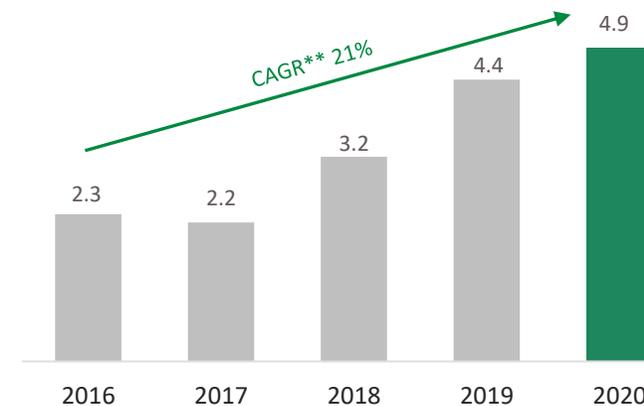
For the 6 months ended 31 December each year

Net profit after tax * (\$m)



For the 6 months ended 31 December each year

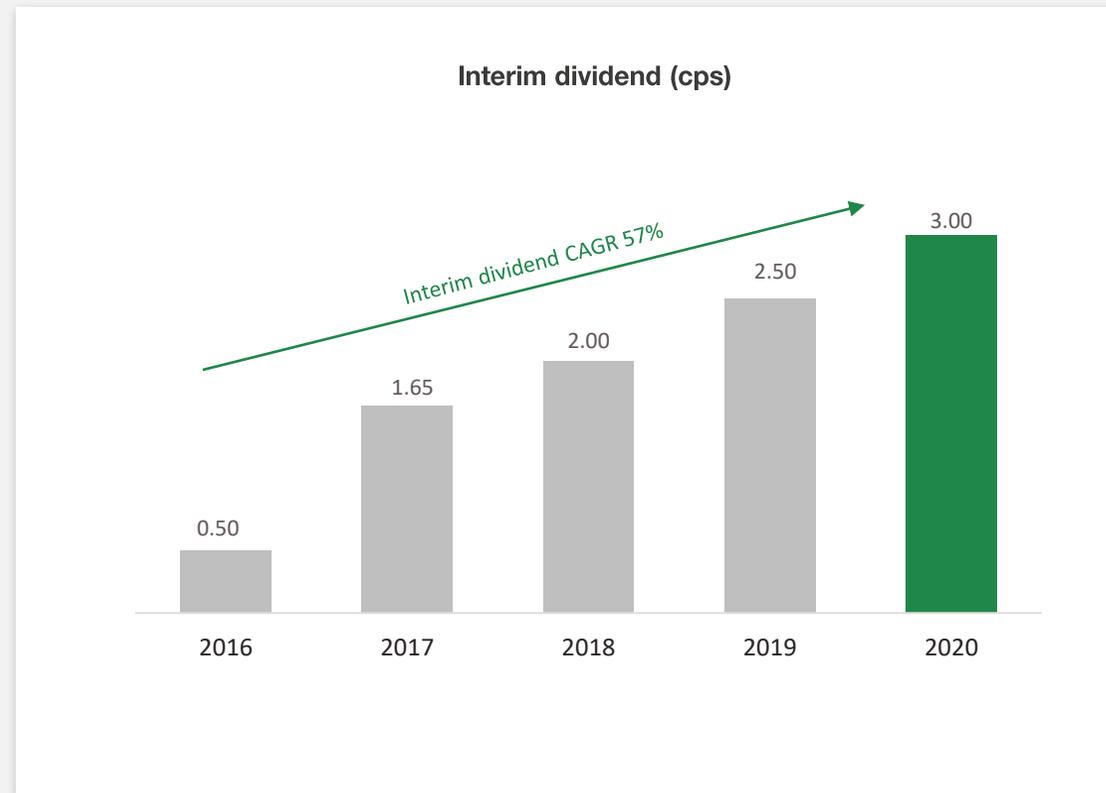
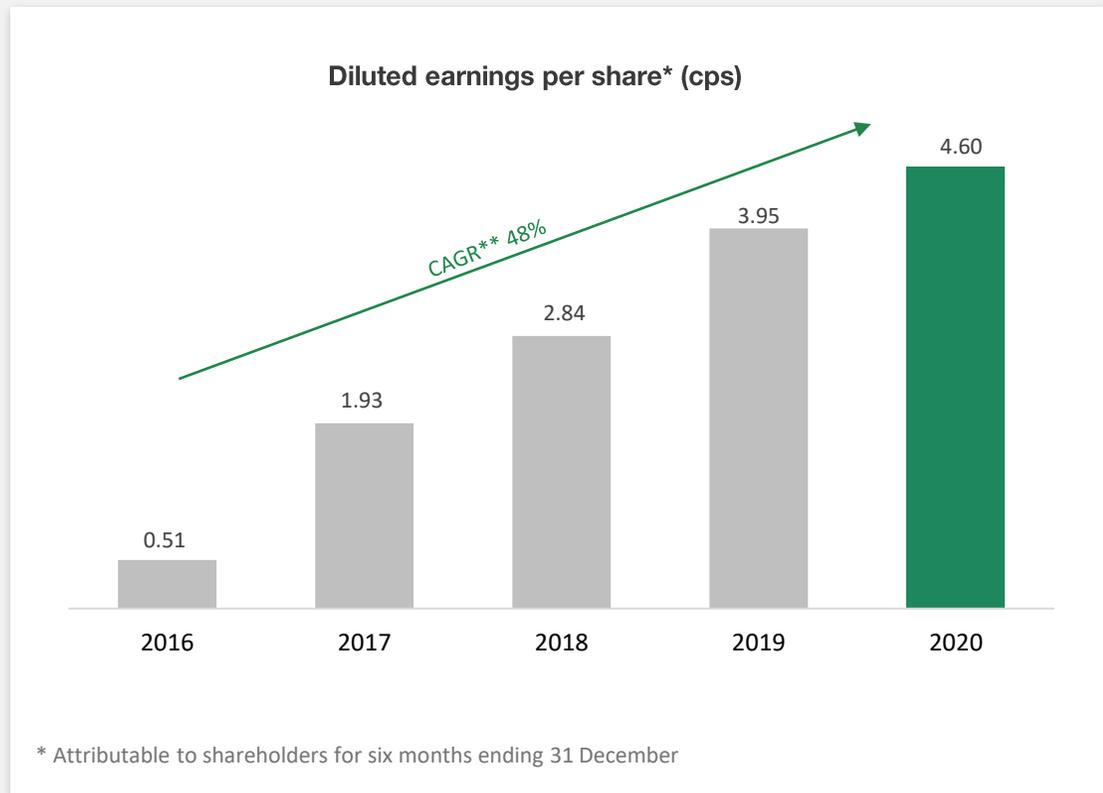
Underlying profit after tax * (\$m)



For the 6 months ended 31 December each year

^ Before distributions
 * Attributable to shareholders
 ** CAGR based on calendar 12 month over 4 years

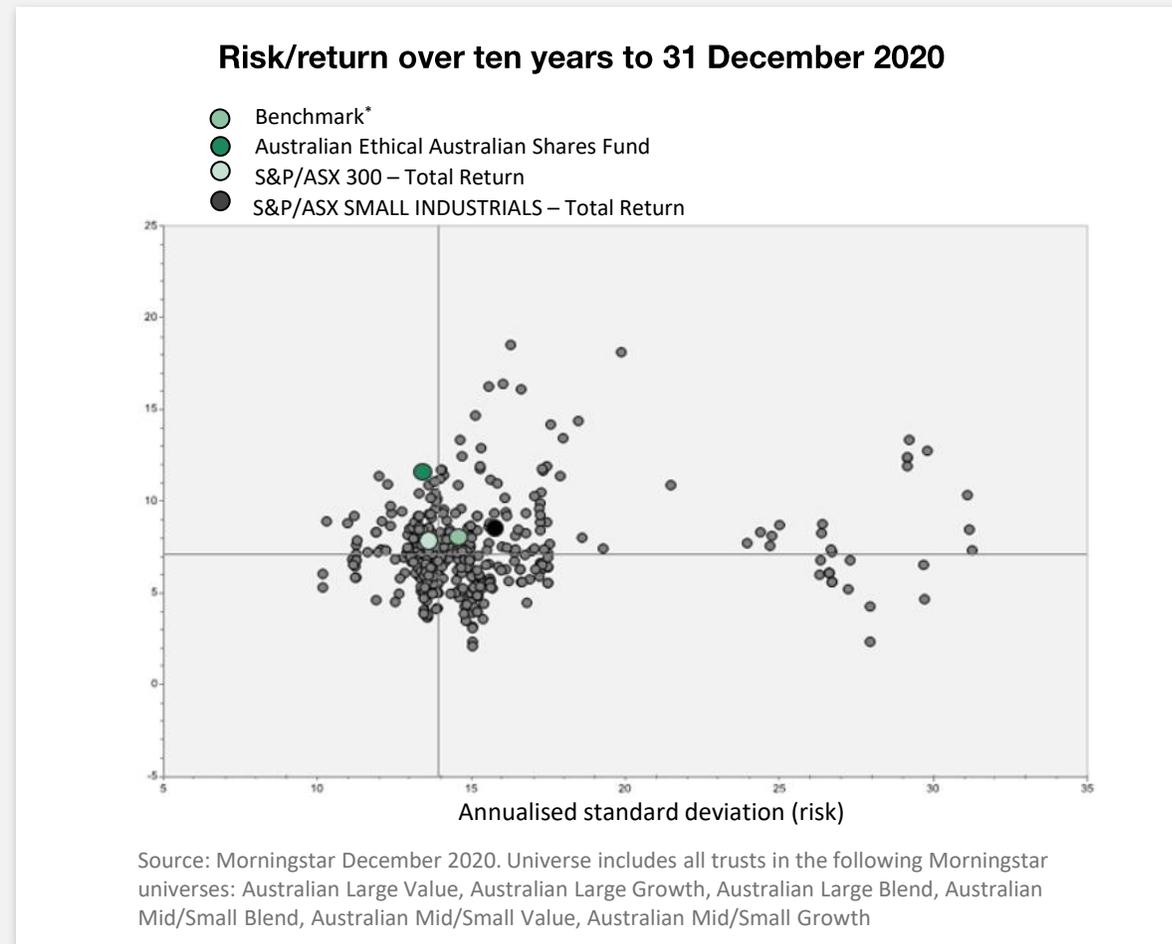
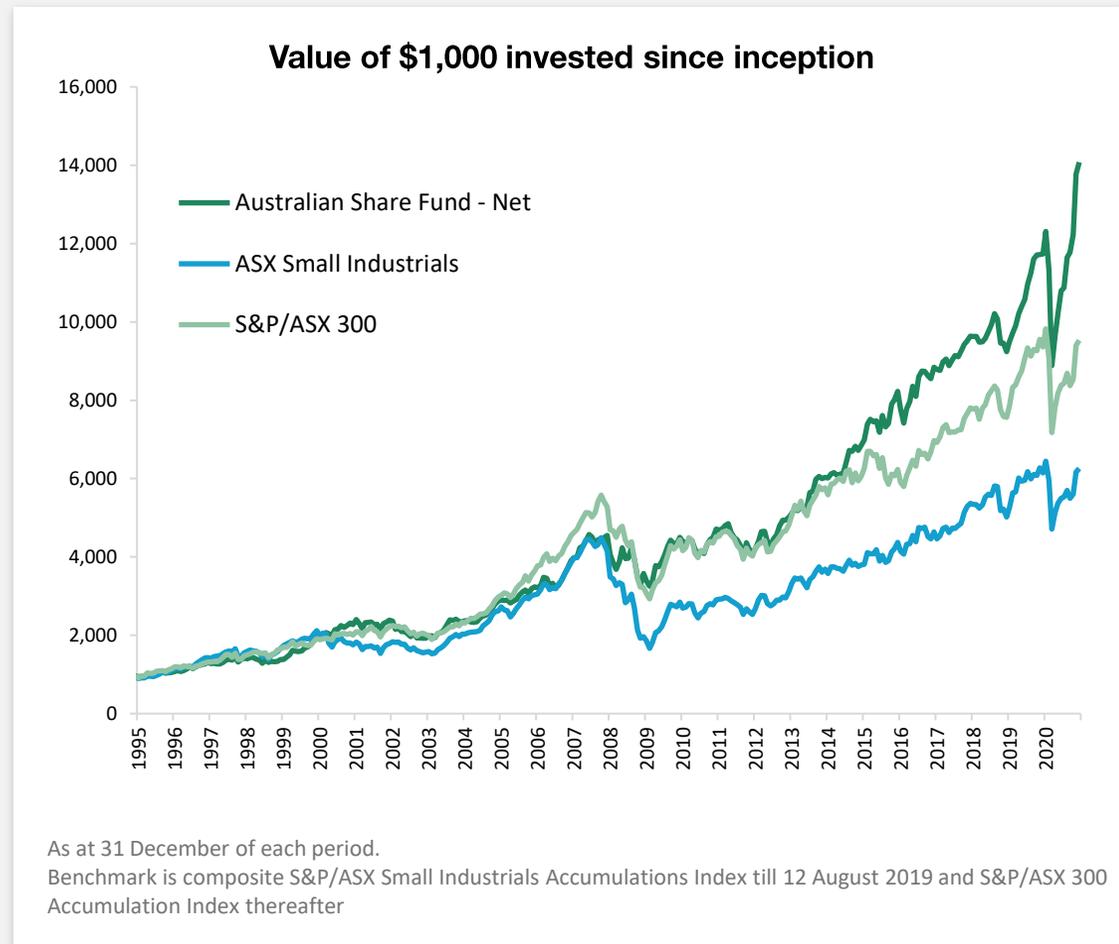
Key financials



Reflects six months ending 31 December of each year. 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



Long track record of outperformance

Balanced Accumulation Option (FUM \$1.79bn)

Our default MySuper option, the **Balanced Accumulation Option** ranked second against its peers over the year to December 2020[#], whilst also outperforming its peer-based benchmark over all time periods

	6mths	1Y	3Y	5Y	7Y	10Y	20Y	Since Inception*
Balanced Accumulation Option ~	9.7%	8.0%	8.3%	7.9%	8.0%	7.4%	6.2%	6.5%
Investment Return Objective^	n/a	n/a	n/a	5.1%	n/a	n/a	n/a	n/a
<i>Relative Performance</i>	n/a	n/a	n/a	2.8%	n/a	n/a	n/a	n/a
Benchmark``	8.5%	3.3%	5.5%	6.2%	5.8%	6.1%	4.9%	5.0%
<i>Relative Performance</i>	1.2%	4.7%	2.8%	1.7%	2.2%	1.3%	1.3%	1.5%

SuperRatings December 2020 survey results. Australian Ethical Balanced is 2nd for the 12 month period in the SR50 Balanced (60-76) Index.

~ Performance is stated net of all fees except member fees (consistent with the benchmark (SuperRatings SR50 Balanced (60-76) Index), 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.

Past performance is not a reliable indicator of future performance

Long track record of outperformance

Australian Shares Fund (FUM \$1.4bn)

Australian Shares Fund continues to outperform the market over the short, medium, long and very long term. Returning **17.3% above the benchmark for the 6 months****

	6mths	1Y	3Y	5Y	7Y	10Y	20Y	Since Inception
Retail*	30.4%	19.9%	13.5%	11.3%	12.9%	11.6%	9.5%	10.5%
Benchmark ^^	13.7%	1.7%	5.2%	7.4%	7.8%	8.0%	6.6%	7.1%
<i>Relative Performance</i>	16.7%	18.2%	8.2%	3.9%	5.1%	3.6%	3.0%	3.3%
S&P/ASX 300 Accum Index	13.7%	1.7%	6.9%	8.8%	7.4%	7.7%	8.1%	7.9%
<i>Relative Performance</i>	16.7%	18.2%	6.6%	2.5%	5.4%	3.8%	1.4%	2.6%
Wholesale^	31.0%	21.0%	14.6%	12.7%	14.4%	n/a	n/a	15.9%
Benchmark ^^	13.7%	1.7%	5.2%	7.4%	7.8%	n/a	n/a	10.0%
<i>Relative Performance</i>	17.3%	19.3%	9.4%	5.3%	6.6%	n/a	n/a	5.9%
S&P/ASX 300 Accum Index	13.7%	1.7%	6.9%	8.8%	7.4%	n/a	n/a	7.9%
<i>Relative Performance</i>	17.3%	19.3%	7.8%	3.9%	6.9%	n/a	n/a	8.0%

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 until 12 August 2019 and S&P/ASX 300 Accumulation Index thereafter

**Wholesale fund

Past performance is not a reliable indicator of future performance

Significant outperformance

Emerging Companies Fund (FUM \$0.2bn)

Emerging Companies Fund continuing to show strong outperformance; **21.7% above the benchmark** for the 6 months**

	6mths	1Y	3Y	5Y	Since Inception
Retail*	41.3%	35.1%	24.0%	18.5%	20.0%
S&P/ASX Small Industrials Accum Index	19.9%	5.9%	7.2%	8.7%	10.1%
<i>Relative Performance</i>	21.4%	29.2%	16.8%	9.8%	9.8%
Wholesale*	41.7%	35.9%	24.8%	19.3%	20.8%
S&P/ASX Small Industrials Accum Index	19.9%	5.9%	7.2%	8.7%	10.1%
<i>Relative Performance</i>	21.7%	30.0%	17.6%	10.7%	10.7%

Performance fee only crystallises on 30 June of each year.

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

AEI STRATEGY ON A PAGE



Purpose

Investing for a better world

STRATEGIC PILLARS

Principled investment leadership

- Extend our leadership in principled investment management
- Deepen our investment capability
- Enhance our reputation with investors & advisers

Advocates for a better world

- Foster a coalition of co-investors for a better world
- Amplify our bold voice on key topics of expertise

Compelling client experience

- Enhance our client relationships and services for a better client experience
- Provide accessible, competitive and unique investment solutions

Impactful business

- Leverage our brand to capture opportunities for growth
- Deepen reach with HNW segments and financial advisers

FOUNDATION

Leadership & Innovation

Further develop our professional, high performing people | Foster creativity and innovation for improved client outcomes

Good momentum on delivering our Strategy



Principled Investment Leadership

- Continued long term outstanding investment performance and recent outperformance vs benchmark of 21.7% for the Emerging Companies Fund & 17.3% for the Australian Share fund¹
- Named as one of just six global leaders by Morningstar for our ESG Commitment, the only asset manager in Australia

- Awards & recognition: Recognised for a leading approach to Responsible investing (RIAA)², Fund Manager most recognised by Financial Advisers for Sustainable Responsible Investments³, ESG Trailblazer award⁴, 1 of only 6 fund managers globally to be named a “leader” for ESG commitments⁵



Advocates for a better world

- Submissions and media voice for Climate Change Bill & improved biodiversity protection
- Expanded communication of SDG, climate and corporate engagement in new Sustainability Reporting suite

- Since inception, >\$5m allocated to not for profits via The Foundation
- Corporate engagement on modern slavery, traditional owner and worker rights, gender equality, animal welfare and emissions reduction



Compelling Client Experience

- Industry Leading NPS for super members⁶ and managed fund investors⁷
- Redesigned insurance offering within super with improved member outcomes
- New fund accounting operating model delivered with increased efficiency and reduced risk

- Product development and new investment strategies underway
- Investment in infrastructure through improved data management, CRM and insourcing customer centre that allows for more control over client experience
- Record flows leading to \$5bn FUM milestone achieved Dec 2020



Impactful Business

- Strong momentum in managed fund flows and adviser channel growth through platforms

- Investment in new sales & marketing roles to underpin brand reach & distribution capability to capture unprecedented growth opportunities including adviser and HNW segments
- Investment in key leadership roles eg Chief Customer Officer



Leadership & Innovation

- Engagement of leading global innovation consultant to identify emerging innovation opportunities
- Focused investment in Leadership program, Innovation capability & culture

- Continued top quartile employee engagement at 86% in 2020
- New Chief Strategy and Innovation Officer position filled



Outlook

Focused investment in the business to capture the growth opportunity ahead

Well positioned for future growth

as ethical investment continues to gain momentum and our **excellent returns and impact are increasingly recognized**

Implementing our strategic roadmap

against a backdrop of **increased 'green' investment globally** by world leaders, and with the pandemic accelerating the existing trend towards sustainability. This will ensure we capture the **huge growth opportunity** ahead

Focused investment

in our brand, product development, people capability, technology platform, customer experience and distribution channels to maximise our reach and impact

Expect higher operating expenses in second half

due to timing of expenditure, as well as increased investment in capability, strategic initiatives and regulatory projects as we continue to position our business for success

Market volatility expected to continue

with further global lockdowns causing market nerves balanced against the optimism from the vaccine rollout. Like all fund managers we are **highly leveraged to the markets**

Growth in community impact

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 2021**, if the fund outperforms the benchmark.

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