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# Australian Ethical Investment Limited Financial results for year ended 30 June 2021

ASX ANNOUNCEMENT

(comparisons are with financial year ended 30 June 2020)

## AUSTRALIAN ETHICAL ANNOUNCES RECORD UNDERLYING PROFIT OF \$11.1M, UP 19%

#### Financial highlights

- Underlying profit after tax (UPAT) of \$11.1 million (up 19%)
- Net profit after tax attributable to shareholders of \$11.3 million (up 19%)
- Operating revenue of \$58.7 million (up 18%)
- Performance fee of \$2.9 million from investment outperformance by the Emerging Companies Fund
- Excluding the impact of the performance fee, operating revenue is up 21% and UPAT increased by 30%
- Operating expenses of \$43.6 million (up 18%) as the business continues to invest for growth
- Diluted earnings per share 3-year CAGR of 31%
- Final ordinary dividend of 4.0 cents per share, fully franked; special performance fee dividend of 1.0 cent per share, fully franked; total dividend for year 8.0 cents (up 33%)
- Strong balance sheet, no gearing

### Operating highlights

- Group funds under management of \$6.07 billion (up 50%)
- Net inflows of \$1.03 billion (up 56%)
- Funded customer numbers up 23%
- Strong performance across most funds in the investment portfolio with multiple industry awards
- In November 2020, recognised by Morningstar as one of just 6 global leaders for our commitment to ESG1
- Industry leading net promoter scores<sup>2</sup>
- Top quartile staff engagement score of 82%<sup>3</sup>
- A record \$1.6 million donated to the Foundation to support its philanthropic endeavours
- Strong operating cash flow

<sup>&</sup>lt;sup>1</sup> Morningstar has named Australian Ethical as one of just six global leaders, out of 71 asset managers assessed for our ESG commitment. We offer the only Australian equities strategy achieving this rating. Inaugural ESG assessment: The Morningstar ESG Commitment Level: Our first assessment of 100-plus strategies and 40 asset managers, second assessment: The Morningstar ESG Commitment Level: Our second assessment of 140 strategies and 31 asset managers.

<sup>&</sup>lt;sup>2</sup> Number 1 for customer advocacy, Number 2 for industry NPS (super only), Investment Trends research, June 2021.

<sup>&</sup>lt;sup>3</sup> Culture Amp Survey, June 2021.

#### Our FY21 in detail

#### Profit and revenue

Australian Ethical Investment is pleased to announce that net profit after tax attributable to shareholders for the year ended 30 June 2021 rose 19% to \$11.3 million, driven by strong FUM growth and the Emerging Companies Fund performance fee.

Underlying profit after tax was \$11.1 million, up 19% compared with the prior corresponding period. Excluding the impact of the performance fee, underlying profit after tax was \$9.2 million, up 30% on prior corresponding period.

Revenue increased 18% to \$59.1 million, up from \$49.9 million in FY20. This result includes the \$2.9 million Emerging Companies Fund performance fee which delivered one-year returns of 17.3% above benchmark for retail investors and 18.1% above benchmark for wholesale investors<sup>4</sup>.

The revenue increase was driven by strong FUM growth, in turn driven by record net inflows and strong investment performance, 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 and June 2021.<sup>5</sup>

#### Funds under management

Funds under management (FUM) for the full year increased by 50% to \$6.07 billion, up from \$4.05 billion reported for the previous period. Super FUM increased 43% with managed funds FUM increasing by 63%.

#### Inflows and customer growth

Australian Ethical saw another year of record net flows, recording \$1.03 billion of net inflows, a 56% increase on the prior year.

Managed funds net inflows (excluding institutional) increased 161% as the strategic focus on managed funds and targeted marketing campaigns gained traction. During the period, Australian Ethical also captured record super net inflows of \$614 million, an increase of 31% year on year - these super flows are predominantly from the direct-to-consumer channel, with growth reflecting ongoing investment in the digital acquisition strategy.

Australian Ethical's customer base grew by 23%, with managed fund customers increasing by 31% and super members by 22%. Australian Ethical remains one of the fastest growing super funds in the country by both number of members and funds under management<sup>6</sup>.

#### Costs and operating expenses

Operating expenses increased by 18% to \$43.6 million during FY21, up from \$37.0 million in the prior corresponding period. Operating expenditure includes \$4.6 million for continuing investment in brand, investment expertise, distribution channels, customer experience and in delivering strategic and regulatory initiatives.

<sup>&</sup>lt;sup>4</sup> Benchmark is the S&P/ASX Small Industrials.

<sup>&</sup>lt;sup>5</sup> On 1 April 2020 the percentage-based administration fee was reduced from 0.41% to 0.29% across all superannuation and pension options. 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). The defensive superannuation option management fee was reduced from 0.40% to 0.20%. In June 2021, fees were reduced on the Australian Shares (1.25% to 1.20%) and International (1.10% to 0.89%) super and pension options and the Balanced (1.84% to 1.51%), International (1.85% to 0.99%), Diversified (1.90% to 1.39%), Advocacy (1.90% to 1.39%), Australian Shares (1.99% to 1.69%) and Emerging Companies (1.99% to 1.69%) retail funds, and the Balanced (0.94% to 0.85%) and International (0.85% to 0.59%) wholesale funds.

 $<sup>^{6}</sup>$  KPMG 2021 Super Insights Report – published May 2021, using statistics published by APRA and ATO as at 30 June 2020

#### Final dividend

The Board declared a fully franked final dividend of 4.0 cents per share for the year ended 30 June 2021, as well as a special performance fee dividend of 1 cent per share, bringing the total dividend for the year to 8 cents per share, an increase of 33% on the previous year. The record date for the final and special performance fee dividend is 2 September 2021 with payment on 16 September 2021.

#### Australian Ethical Foundation Limited

Australian Ethical donated \$1.6 million to the Australian Ethical Foundation following its success during the financial year. This amount included \$0.1 million which was received by Australian Ethical as part of the Federal Government's cash flow boost COVID-19 stimulus package (not a jobkeeper payment); which was subsequently donated to Pollinate Group via the Foundation. The Pollinate Group works in India and Nepal, heavily impacted by COVID in recent times, supporting women entrepreneurs to deliver solar lights and clean energy cookstoves to communities.

A record \$1.8 million (utilising current year Foundation income and a portion of Foundation retained earnings) has been allocated by The Foundation to deliver philanthropic impact initiatives via grant making programs.

The Foundation was established in July 2015 as a vehicle to manage the portion of profits distributed to charitable, benevolent and conservation causes in line with Australian Ethical's Constitution. To date, more than \$6 million has been distributed to not-for-profit organisations. All income received and net assets of the Foundation are restricted to The Foundation's activities and are not available for distribution to Australian Ethical Investment Limited's shareholders.

#### Comments and outlook from the CEO

John McMurdo, Australian Ethical CEO, said: "Despite the ongoing challenges posed by the pandemic, it has been a pivotal year for ethical investing, climate pledges and sustainable commitments around the world. As the coronavirus continues to reshape economies and global markets, a near-universal desire for a more sustainable future is emerging.

"As a result, our ethical approach is rapidly gaining popularity for its inherent tilt toward quality, resilience and long-term capital appreciation. Over the past 12 months, we've seen record net flows into our award-winning products, buoyed by excellent investment performance and a growing awareness among Australians of the power of their money in driving climate action.

"However, the most recent Intergovernmental Panel on Climate Change (IPCC) report makes for sobering reading and tells us that the climate emergency is here, and the clock is ticking. Recent climate pledges and commitments must now be accelerated with a clear role for investors to push forward mandatory climate action plans. Because as much as the report is bleak and troubling, it is also a historic moment for investors to step up and support urgent and large-scale initiatives to reduce emissions.

"We expect climate to remain centre stage ahead of the meeting of world leaders at COP26 in November and are hopeful that humanity can rally and make the most of the window to alter the climate path.

#### Outlook

"The planets are aligning very quickly for Australian Ethical with societal, political and economic tailwinds pointing to a business case for responsible investing that is impossible to ignore. And while we are well-positioned – with no debt, strong cashflows and positive momentum – we will be much more ambitious to safeguard and grow our market share in what will be a fiercely contested market in the near term.



"Over the past 12 months we have seen the benefits of the strategic investments we have made in our operating platform, acquisition channels and customer experience. These outcomes, together with the extraordinary momentum we're experiencing, confirm that now is the time to extend our market leadership.

"As such, we are embarking on an aggressive growth strategy that reinforces our existing market share and expands it where we see the most potential. Our goal is to build a much bigger, more impactful business and we will be investing heavily in our existing business to achieve this ambition.

"Over the short-term, our strategic focus is on deepening our investment capability, expanding our product offering, growing our brand awareness, fully digitising and upgrading the customer experience and significantly expanding our newer customer segments. Over the longer-term, we believe these short-term focus areas will cement our leadership while allowing us to leverage the scale in our business to grow profit.

"The speed at which we execute this strategy is vital and dictated by the once-in-a-business-lifetime expansion of the addressable market and imminent competition. As such, our expense growth in the short-term will reflect the investment we will make into our business to realise our ambitious growth aspirations. We expect profit growth to remain modest during this time, though we expect to see a strong increase in funds under management and revenue.

"Looking out to the medium and long-term, we expect to see higher levels of profitability and operating leverage from achieving greater scale as we realise the anticipated benefits of investing in our business.

"As veterans of the industry, we're proud of our 35-year head start on the other investors who are rushing to capitalise on this moment. And as a purpose-driven business, we're proud that our ambition means greater outcomes for people, planet, animals, greater returns for our shareholders and greater benefits for our people."

This announcement is authorised by the Board.

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#### About Australian Ethical

Australian Ethical is Australia's leading ethical investment manager. Since 1986, Australian Ethical has provided investors with wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which shapes our ethical approach and underpins our culture and vision.

Australian Ethical has over \$6bn in funds under management across managed funds and superannuation – as at 30 June 2021.