

Australian Ethical Investment Limited

Half-year financial results and business update to 31 December 2022

ASX Announcement

STRONG FUM UPLIFT AS AUSTRALIAN ETHICAL CONTINUES TO INVEST FOR GROWTH

FUM increases 21% from 31 December 2021 to \$8.37 billion

Half-year financial results to 31 December 2022

Australia's leading ethical investment manager, Australian Ethical Investment Limited (ASX: AEF) today announced its financial results for the six months ended 31 December 2022, showing strong customer and FUM growth, despite continuing market volatility over the six-month period.

Australian Ethical continues with its high growth strategy to build capability and scalability and take advantage of the once-in-a-generation opportunity presented by the sustained trend towards responsible investing.

As part of this investment for growth, the business has extended its brand reach through the launch of high impact brand campaigns, and continues to enhance distribution capability through new and existing channels. The business continues to explore new opportunities provided through different acquisition business models and recently expanded the new employment platforms channel, whilst also gaining further traction in the adviser channel.

Australian Ethical has seen continued positive net flows into their funds, and has seen customer numbers increase by 50% compared to the same time last year. The customer uplift has been driven by both organic growth and the integration of Christian Super members into Australian Ethical following the successful completion of the successor fund transfer (SFT).

In addition to the growth benefits, the Christian Super transaction has also developed the business's merger and acquisition capability for further inorganic opportunities.

H1 Overview

- FUM was \$8.37 billion on 31 December 2022, up 21% from 31 December 2021, and up 35% since 30 June 2022. FUM was \$8.68 billion on 31 January 2023
- Christian Super Successor Fund Transfer (SFT) was completed, adding \$1.93 billion of FUM and 28,000 members
- Continued positive net flows during volatile market conditions demonstrating the resilience of Australian Ethical's business

- Total organic net flows of \$0.19 billion, which includes the final redemption by an institutional client internalising its sustainable option of \$0.18 billion
- Retail and wholesale net flows (excl institutional) of \$0.37 billion
- Funded customer numbers up 50% to over 110,000, with super members growing 60%
- Positive investment performance* of \$0.06 billion despite challenging markets
- \$0.3 million gifted to the Australian Ethical Foundation
- Strong operating cashflow

Financial highlights

- Underlying profit after tax (UPAT) of \$5.0 million (down 9%), in line with expectations
- Net profit after tax (NPAT) attributable to shareholders of \$1.0 million
- Operating revenue of \$36.6 million (up 4%)
- Expenses of \$29.4 million (excluding SFT integration costs of \$2 million and fair value adjustment of investment in Sentient Impact Group of \$2.6 million) up 7% as momentum continues on the high growth strategy outlined in the FY21 full year results
- Interim dividend of 2 cents per share, fully franked
- Diluted EPS^ of 0.85 cents
- Strong balance sheet, no gearing, well managed operating cash flow

* Net of fees and distributions

^ Based on NPAT attributable to shareholders

All comparisons to the 6 months ended 31 December 2021, unless otherwise stated

Mergers and Acquisitions

In November, Australian Ethical successfully completed the SFT with Christian Super, boosting funds under management by \$1.93 billion and increasing customers by 28,000. This transaction also had a number of additional benefits for the business:

- enhancing portfolio diversification by increasing Australian Ethical's exposure to alternative assets including impact investments
- passing on the benefits of the increased scale through fee reductions for all members, increasing the competitiveness of the super product.
- increasing merger and acquisition capability for further transactions
- boosting capability through retained staff with expertise in alternative investments, call centre operations in order to maintain high NPS, employer channel, product management and investment administration as well as strengthening risk and governance

The SFT with Christian Super has increased scale, facilitates reinvestment in initiatives to improve customer experience, and accelerates Australian Ethical's growth and impact. The \$1.93 billion increase in FUM will drive higher revenue in the second half, whilst expenses will also increase, reflecting the retained Christian Super employees, variable fund-related expenses, and increased marketing and regulatory expenses. Further synergies are expected to be realised in the medium term as third-party providers are integrated and other operating efficiencies are implemented. On a stand-alone basis the SFT is earnings accretive, excluding integration costs, reflecting the internalisation of the majority of asset management activities.

Estimated FY23 full year integration costs relating to Christian Super are expected to be approximately \$2.4 million (with \$2m incurred in the 6 months ended 31 December 2022), which will be reflected as a UPAT adjustment. Further integration costs are expected in FY24 as third party providers are integrated.

During the period Australian Ethical has written down the value of their investment in Sentient Impact Group (Sentient) in which they hold a minority stake – a \$2.6 million write-down has been included in the first half financials to reflect the fair value of this asset. As a start-up organisation, Sentient is behind in the execution of its ambitious plans. Further, where the valuations of many listed funds management businesses have reduced during the period, Australian Ethical has deemed it appropriate to take a similar valuation discipline to unlisted investments, consistent with the regular valuation of assets they own in their funds.

Profit and revenue

Australian Ethical's underlying profit after tax (UPAT) was in line with expectations at \$5.0 million, down 9% compared with the prior comparative period. Net profit after tax (NPAT) attributable to shareholders for the half year ended 31 December 2022 was \$1.0 million, down 82%.

Operating revenue increased by 4% to \$36.6 million, driven primarily by strong average super FUM growth of 15%, partially offset by the impact of fee reductions during the first half, and lower managed funds average FUM. Ongoing fee reductions are a core part of Australian Ethical's growth strategy as they aim to make their products more competitive and more accessible for current and future customers. Fee reductions took place in September and December 2022, with fee margin of 1.00% at December 2022.

Consolidated NPAT is \$1.0 million, which includes the results of the Australian Ethical Foundation Limited ('Foundation').

Expenses

Expenses (excluding \$2 million Christian Super SFT integration costs and \$2.6 million fair value adjustment in Sentient), increased by 7% driven predominantly by the continued investment in the high growth strategy to enhance the operating platform and build a business capable of capturing the shift to responsible investing and operating at a much higher scale. First half investment was focused on:

- uplifting brand awareness;
- broadening adviser footprint;
- expanding the new employment platforms channel;
- improving customer experience; and
- enhancing investment capability

This was reflected primarily in increases in:

- Employment expenses, driven by targeted investment in new people capability. Full impact of FY22 hires also contributed to the increase.
- Marketing costs to support growth options for the future, to uplift brand awareness and expand distribution channels

Summary of Group profits

	1H2023 (\$m)	1H2022 (\$m)
Consolidated statutory profit	997	5,506
Loss attributable to The Foundation	(36)	(82)
Net profit after tax attributable to shareholders	961	5,424
Change in fair value of Sentient investment	2,600	-
SFT integration costs	1,999	-
Tax on adjustments	(600)	-
Underlying profit after tax	4,960	5,424

Final dividend

The Board declared a fully franked interim dividend of 2.00 cents per share for the half year ended 31 December 2022. The record date is 2 March 2023 with payment on 16 March 2023.

Australian Ethical Foundation Limited

Pleasingly, Australian Ethical has provisioned \$0.3 million to allocate to the Foundation during the period which will bolster its philanthropic endeavours.

10% of Australian Ethical profits are allocated to not-for-profit organisations through the Australian Ethical Foundation¹. More than \$8 million has been distributed to not-for-profit organisations since 2000. 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.

Board and governance changes

Michael Monaghan will retire from the Boards of Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Ltd, with effect 31 March 2023. Michael's exemplary contribution to the Australian Ethical Group over more than 5 years has been instrumental in both the dramatic growth and enhanced standing of the business. The Board sincerely congratulates Michael for his contribution and wishes him an especially well-earned and satisfying retirement.

Sandra McCullagh, already an independent member of the Australian Ethical Investment Committee, has been appointed as an independent and non-executive director of Australian Ethical Investment Limited, effective 1 March 2023. Sandra brings 15 years of financial services experience. She is presently a board member of Workcover Queensland, The Investor Group on Climate Change and The NZ Stock Exchange Corporate Governance Institute. She is a former trustee director of QSuper and was Chair of its Investment Committee. Sandra will succeed Michael Monaghan as Chair of the Australian Ethical Investment Committee effective 1 April 2023.

Michael Anderson, independent non-executive director of Australian Ethical Superannuation Pty Ltd, will join the Australian Ethical Investment Committee, effective 1 March 2023. Michael brings 37 years of investment management experience, and significant board and governance experience.

¹ Before deducting bonus and grant expense

Chair Steve Gibbs congratulates both Sandra McCullagh and Michael Anderson on their respective appointments, commenting that the Group's succession planning continues to ensure the Australian Ethical Group benefits from high calibre governance and strategic leadership.

Outlook

John McMurdo, Australian Ethical Chief Executive Officer, said:

"During the period we were pleased to see strong growth in key business metrics. The second half of FY23 is off to a strong start, with FUM increasing to \$8.68 billion at the end of January 2023, up 4% from 31 December 2022.

"However, many of the first half's significant headwinds are still in place: high levels of inflation, slowing growth, rising interest rates and an uncertain global outlook. But the broader tailwinds we are seeing in relation to responsible investing are encouraging and, at the point where markets stabilise, we expect to be strongly positioned.

"Our focus in the second half, in addition to the continued integration of the Christian Super business, will be on growing our brand presence, doubling down on our growing range of organic growth options and navigating the current financial market volatility. While we expect to see growth in net flows and revenue in the second half, our second-half expenses will also reflect the increased expense base following Christian Super SFT as well as our ongoing investment in the business in line with our strategic roadmap.

"This investment includes further growing the capability of our expert in-house investment team, expanding our distribution channels, and growing our brand awareness through targeted high-impact marketing campaigns, as well as ramping up our inorganic strategy. We will continue to manage these costs prudently with an eye to our longer-term growth and profitability.

"Our investment strategy has diversified to include a broader array of asset classes, including additional defensive assets, and our focus remains on capitalising on the longer-term trend towards decarbonisation. By staying true to our Ethical Charter, and investing in companies that have long-term futures, I believe we are in the best possible place to deliver long-term performance.

"As the climate crisis grows ever more urgent, so too does Australian Ethical's voice and influence in calling for others across the industry to divert capital towards sectors and companies that are good for people, animals, and the planet."

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 investment management products that align with their values and provide competitive returns. Investments are guided by the Australian Ethical Charter which shapes its ethical approach and underpins both its culture and its vision. Australian Ethical has over \$8.5 billion in funds under management across managed funds and superannuation.

Visit: www.australianethical.com.au