

Australian Ethical Investment Limited

Full Year Financial Results to 30 June 2023

ASX announcement

**FUM UP 48%, EARNINGS AT UPPER END OF GUIDANCE,
INCREASED DIVIDEND**

Strategic execution yielding strong results

Full year results to 30 June 2023

Australian Ethical Investment Limited (ASX: AEF) today announced its financial results for the year ending 30 June 2023, with UPAT increasing 15% to \$11.8m, despite a challenging period given economic and financial market volatility.

FY23 saw a record 48% growth in funds under administration (FUM) of \$3 billion to reach \$9.2 billion. This growth was driven by continued positive net flows, solid investment performance and the completion of the successor fund transfer (SFT) with Christian Super.

Customer numbers also increased 54% year on year, driven by organic growth and the integration of Christian Super members.

Australian Ethical continues with its strategy to build capability and scalability and take advantage of the significant opportunity presented by the sustained trend towards responsible investing, with the investment in the business starting to yield strong results.

"This is a really strong result for Australian Ethical, with a substantial increase in both FUM and customer numbers, and an uplift in UPAT," John McMurdo, Australian Ethical Chief Executive Officer said today.

"I'm proud of the investment team's strong performance over the past year despite 2023 remaining a challenging market for investment managers amid broader macroeconomic uncertainty. We see this result as a testament to the resilience of our unique investment approach, and our deep expertise in ethical investing garnered over three decades.

"Pleasingly, our growth strategy is bearing fruit while we continue to scale our business to take advantage of the move towards responsible investing. This is evidenced by the seamless integration of Christian Super, which not only increased our customer numbers and FUM, but enabled us to pass on fee reductions to all our superannuation members that has made us even more competitive.

"We have continued to enjoy organic net flows into our funds resulting in strong revenue growth – despite further fee reductions, our second half FY23 revenue was up 22% compared to the first half as the post-SFT scale becomes evident, indicating that our growth strategy is succeeding, and causing us to feel optimistic about the year ahead."

Operating Highlights

- FUM reached \$9.20 billion on 30 June 2023, up 48% from 30 June 2022
- Key milestones of \$7 billion FUM in super and \$9 billion total FUM reached
- The Christian Super Successor Fund Transfer (SFT) was completed during the first half, adding \$1.93 billion of FUM and 28,000 superannuation members
- Continued positive net flows during volatile market conditions demonstrating the resilience of Australian Ethical's business
- Net flows of \$0.65 billion (excluding institutional redemption of \$0.18 billion previously reported); total organic net flows of \$0.47 billion.
- Funded customer numbers up 54% to over 127,000, with average super member balance maintained
- Solid investment performance* of \$0.61 billion despite challenging markets, with continuing long-term outperformance
- Multiple industry awards and accolades
- \$1.1m provisioned for the Australian Ethical Foundation

Financial highlights

- Underlying profit after tax (UPAT) up 15% to \$11.8 million, at the upper end of guidance range
- Statutory net profit after tax (NPAT) attributable to shareholders of \$6.6 million
- Revenue of \$81.1 million (up 15%); second half revenue up 22%
- Expenses of \$64.2 million up 15% (excluding SFT integration costs of \$3.7 million and fair value adjustment of investment in Sentient Impact Group of \$2.6 million) driven primarily by business growth drivers, as well as strategic investment in the business
- Underlying diluted EPS[^] of 10.46 cents
- Final dividend of 5 cents per share, fully franked, total dividend of 7 cents, up 17%
- Strong balance sheet, no gearing, well managed operating cash flow

* Net of fees and distributions

[^] Based on UPAT attributable to shareholders

All comparisons to the 12 months ended 30 June 2022, unless otherwise stated

Profit and revenue

Australian Ethical's underlying profit after tax (UPAT) was at the upper end of the earnings guidance range at \$11.8 million, up 15% compared with the prior comparative period. Statutory net profit after tax (NPAT) attributable to shareholders for the year ended 30 June 2023 was \$6.6 million, after SFT integration and other non-operating costs.

Revenue grew 15% to \$81.1 million, driven by strong average FUM growth, partially offset by the competitive fee reductions implemented for super members during the year. 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. The fee margin across all products at June 2023 was 1.00%.

Consolidated statutory NPAT is \$6.6 million, which includes the results of the Australian Ethical Foundation Limited ('Foundation').

Expenses

- Expenses (excluding \$3.7 million Christian Super SFT integration costs and \$2.6 million Sentient fair value adjustment), increased by 15%, driven predominantly by increased variable costs as the business grows, as well as continued investment in the execution of the growth strategy. This strategy will deliver enhanced capability, an enhanced operating platform and will build a business capable of operating at a much higher scale as the demand for responsible investing increases. As market volatility continued, we conducted a prudent assessment of our cost base to enable disciplined cost management, while continuing to focus discretionary investment in areas that will generate medium term growth.

Expense increases were driven by:

- Fund related expenses, which drove approximately half the expense growth, and was linked to higher customer numbers and FUM, offset by savings achieved through reaching scale thresholds.
- Employment expenses, following targeted investment in new people capability, including investment team capability (with enhanced alternatives capability added through the retention of the Christian super employees), the hire of a new Chief Technology Officer role, a new Head of Ethics and a new Chief Executive, Superannuation. These hires serve to underpin further business growth. Remuneration changes also contributed to the increase.
- Marketing costs to support growth options for the future, uplift brand awareness and expand distribution channels. At the same time, marketing spend on direct acquisition was reduced to rationalise costs during challenging market conditions and focus spend on the product and channels likely to yield the most impact.

In terms of the SFT, further synergies are expected to be realised in the medium term as third-party providers are integrated and other operating efficiencies are implemented.

Summary of Group profits

	FY2023 (\$m)	FY2022 (\$m)
Consolidated statutory profit	6.6	9.5
Loss attributable to The Foundation	-	0.1
Net profit after tax attributable to shareholders	6.6	9.6
Due diligence costs in relation to mergers & acquisition activity	-	1.0
Change in fair value of Sentient investment	2.6	-
SFT integration costs	3.7	-
Tax on adjustments	(1.1)	(0.3)
Underlying profit after tax	11.8	10.3

Final dividend

The Board declared a fully franked final dividend of 5.00 cents per share for the year ended 30 June 2023. The record date is 7 September 2023 with payment on 21 September 2023. This takes the full year dividend to 7c, up 17%.

Australian Ethical Foundation Limited

Australian Ethical provisioned \$1.1 million during the period to the Australian Ethical Foundation to bolster its philanthropic endeavours, including the Visionary Grants program.

Each year, 10% of Australian Ethical profits are allocated to not-for-profit organisations through the Foundation¹.

¹ Before deducting bonus and grant expense

Outlook

John McMurdo, Australian Ethical Chief Executive Officer, said:

“We’ve begun FY24 in a strong position, and believe that the medium-term market opportunity remains compelling, as we build the path to deliver our aspirational growth targets.

“The full-year revenue effect of the SFT, ongoing positive flows and market performance will see us well placed as we target \$100 million in annualised revenue by the end of FY24.

“With this increased scale, we believe we can invest judiciously to capture future growth opportunities, whilst also delivering further operating leverage as we target a lower cost to income ratio, and look ahead to solid profit growth in FY24.

“A key focus during FY24 and 25 will be continuing to build investment capability across all asset classes, under the guidance of our new Chief Investment Officer, Ludovic Theau, in order to maintain our lead as an ethical investment manager.

“We’ll also continue to invest prudently in technology, brand, distribution, new products and customer experience in line with our growth strategy. Our transition to a single super administration provider with GROW will deliver medium term cost synergies post SFT, whilst at the same time delivering a more modern technology stack and an enhanced customer experience.

“Overall, we expect these initiatives to result in a more robust and scalable business, and believe we are well positioned to continue our growth trajectory into FY24.

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 \$9 billion in funds under management across managed funds and superannuation.

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