

# Australian Ethical Investment Ltd 2018 full year results

Phil Vernon | Managing Director and CEO  
Mark Simons | CFO

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# Agenda

01 HIGHLIGHTS

02 FINANCIALS

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# Highlights



# 2018 highlights

## INVESTING FOR A BETTER WORLD



### Growth

**Fastest growing** super fund over 5 years and 5th highest over 1 year \*

Superannuation members up **17%**

Net flows up **14%**

Funds under management up **31%**

Key institutional investor win **\$128m**

Share price up **43%**



### Our impact

- **\$620k** distributed through the foundation
- Investment portfolio is **66%** less carbon intensive than benchmark ^
- Engaged more than **300 companies** to influence positive change. Two companies **ceased services to live animal exporters**. One bank **ruled out any new thermal coal lending**.



### Investment performance

Long term track record of **strong performance** on Balanced Accumulation (My Super) Option and Australian Shares Fund



### Our products

- Launch of **Wholesale Balanced Fund**
- Additional funds **rated by Lonsec** - International and fixed interest funds~



### Our people

- Increase in **employee engagement** to **78%**
- **Voluntary staff turnover** a 3 year low of **7%**



### Client engagement

- **Industry leading** Net Promoter Score
- Industry leading **client retention** rates\*
- **120,000** social media followers
- Successfully completed **super administration transition** to Mercer Outsourcing (Australia) Pty Ltd

\* Represents membership growth. Excludes Tidswell whose high growth related to an internal merger. Source: KPMG 2018 Super Insights Report – published May 2018

^ Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian share holdings) and MCSI World ex Australia Index (for international share holdings). Data is at December 2017

~ The Lonsec Rating (assigned July 2018 presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold [Fund Manager name] product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec’s Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>



# Financials



# Financial highlights

## Continued growth delivering strong returns



### Record profit

NPAT attributable to shareholders\* **\$5m**, up

**71%**

Underlying profit **\$5m**, up

**18%**

Diluted EPS  
3 year CAGR

**35%**

Dividend  
400c, up

**54%**

Total  
shareholder  
return

**47%**



### Strong FUM & revenue growth

- FUM **up 31%**
- Revenue **up 27%** to \$36m
- Institutional investor win in July 17 of **\$128m**



### Building scale & investing in growth

- Operating expenses up **28%**
- Strong investment in **brand awareness, education & channel diversification**
- FUM per employee up **11%~**



### Impact

- **10% of AEI profits^** donated to not-for-profit organisations
- **\$620k of grants** for FY18

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

^ After tax and before bonuses. This equates to ~14% of NPAT in FY18

~ Based on closing FUM and closing number of employees

# Key financials

| Key financials^ (\$'000)                                               | FY2017           | FY2018           | Change (YoY) |
|------------------------------------------------------------------------|------------------|------------------|--------------|
| Revenue                                                                | 28,305           | 35,992           | 27%          |
| Operating expenses                                                     | (22,310)         | (28,594)         | 28%          |
| Non operating expenses                                                 | (1,937)          | -                | -            |
| <b>Total expenses</b>                                                  | <b>(24,247)</b>  | <b>(28,594)</b>  | <b>18%</b>   |
| Income tax expense                                                     | (1,134)          | (2,317)          | 104%         |
| <b>Net profit after tax-statutory</b>                                  | <b>2,924</b>     | <b>5,081</b>     | <b>74%</b>   |
| Less Foundation results                                                | (4)              | (83)             | -            |
| <b>Net profit after tax attributable to shareholders</b>               | <b>2,920</b>     | <b>4,998</b>     | <b>71%</b>   |
| <b>Net profit after tax attributable to shareholders</b>               | <b>2,920</b>     | <b>4,998</b>     | <b>71%</b>   |
| Re-valuation/impairment of PPE                                         | (228)            | -                | -            |
| Employment restructure                                                 | 250              | -                | -            |
| Unit price remediation expense                                         | 795              | -                | -            |
| Unit price remediation project costs                                   | 1,160            | -                | -            |
| Tax on adjustments                                                     | (662)            | -                | -            |
| <b>Underlying profit after tax (UPAT) attributable to shareholders</b> | <b>4,235</b>     | <b>4,998</b>     | <b>18%</b>   |
| Diluted earnings per share – attributable to shareholders              | 262 cents        | 446 cents        | 70%          |
| Diluted earnings per share 3-year CAGR                                 | 2.8%             | 35.2%            |              |
| <b>Dividend per share</b>                                              | <b>260 cents</b> | <b>400 cents</b> | <b>54%</b>   |

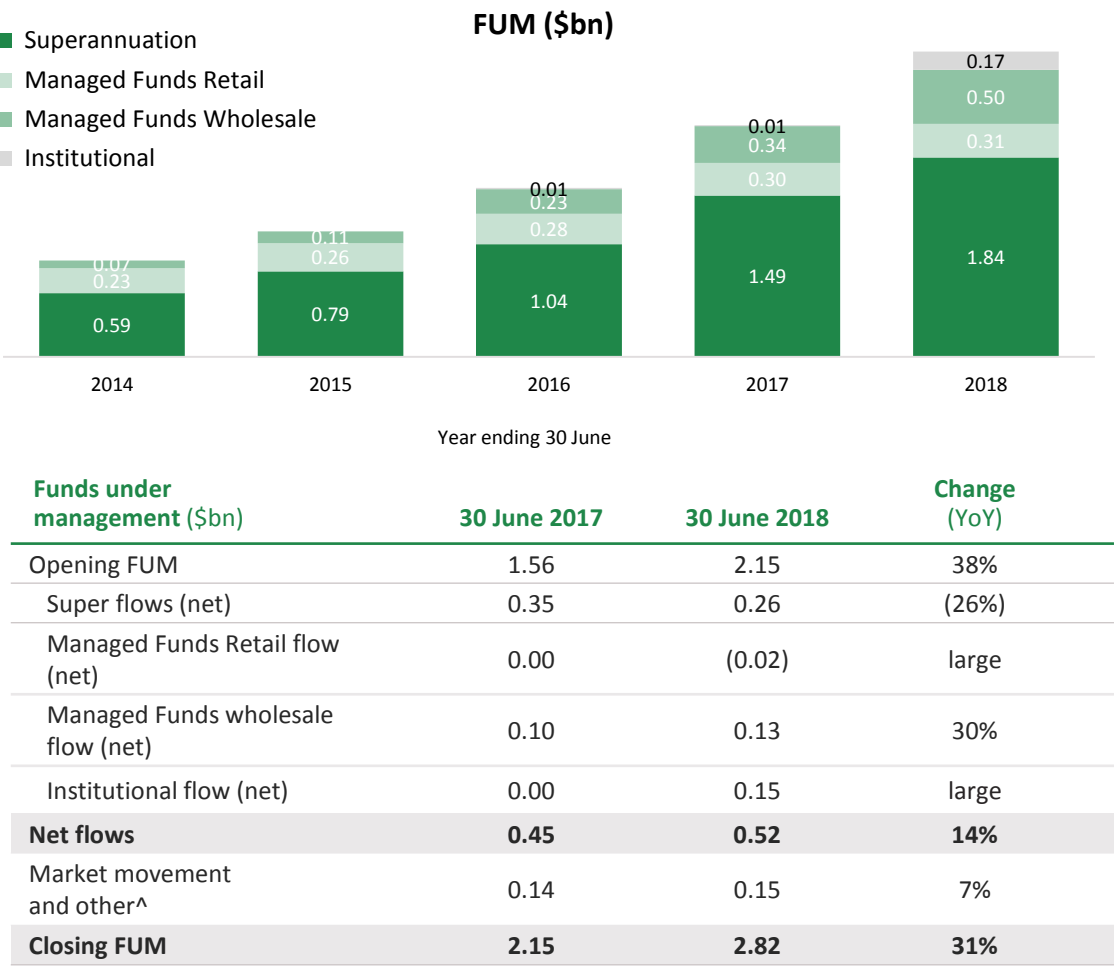
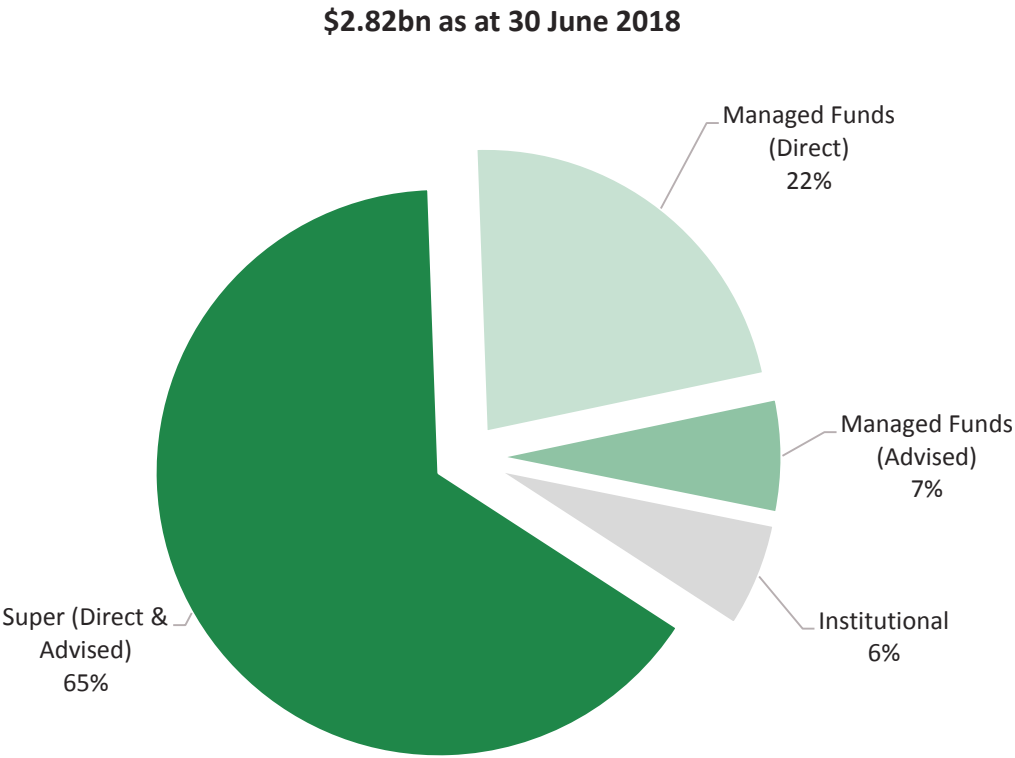
^This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

## Key themes

- Continued FUM growth driving higher revenues
- Tilt toward wholesale managed funds driving lower average fee margins
- Full year impact of FY17 hires impacting year on year cost growth
- Focused investment in communication and channel diversification
- Full year dividend up 54%

# Continued strong growth in FUM

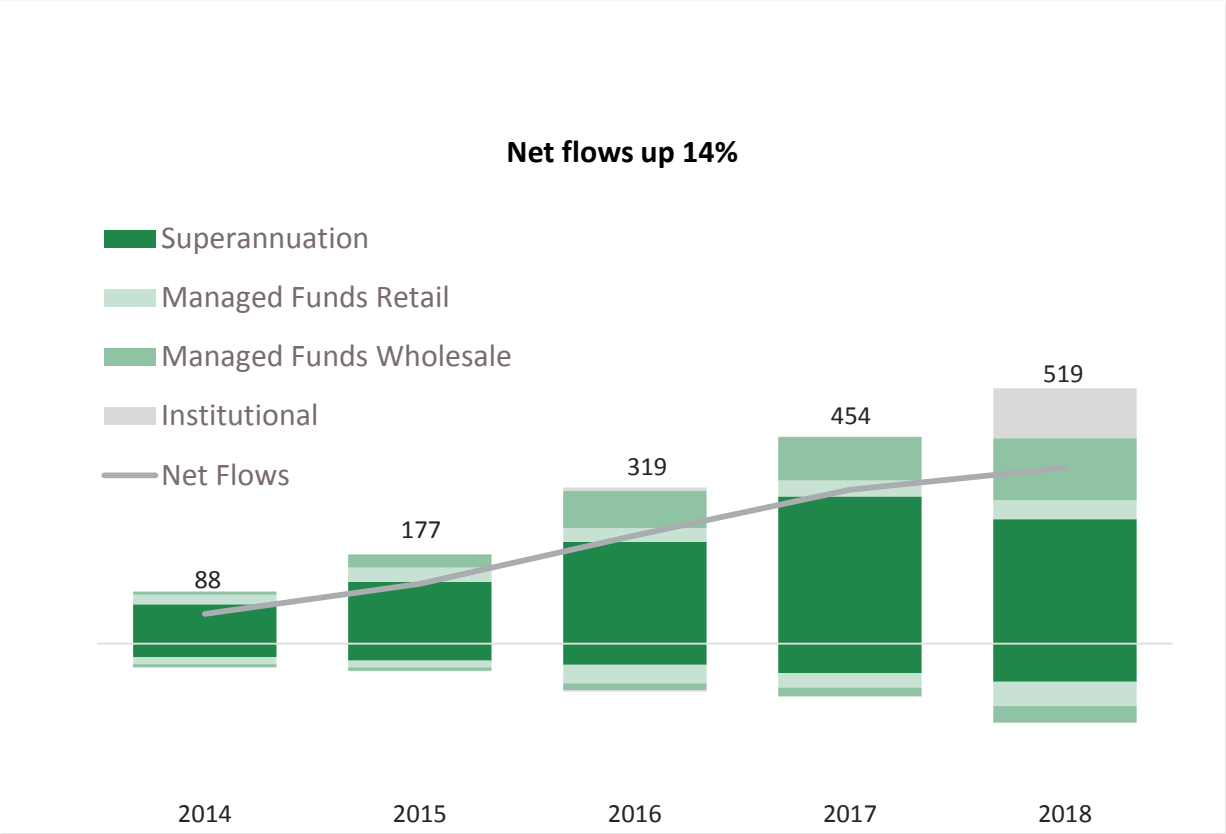
FUM BY CHANNEL AND PRODUCT



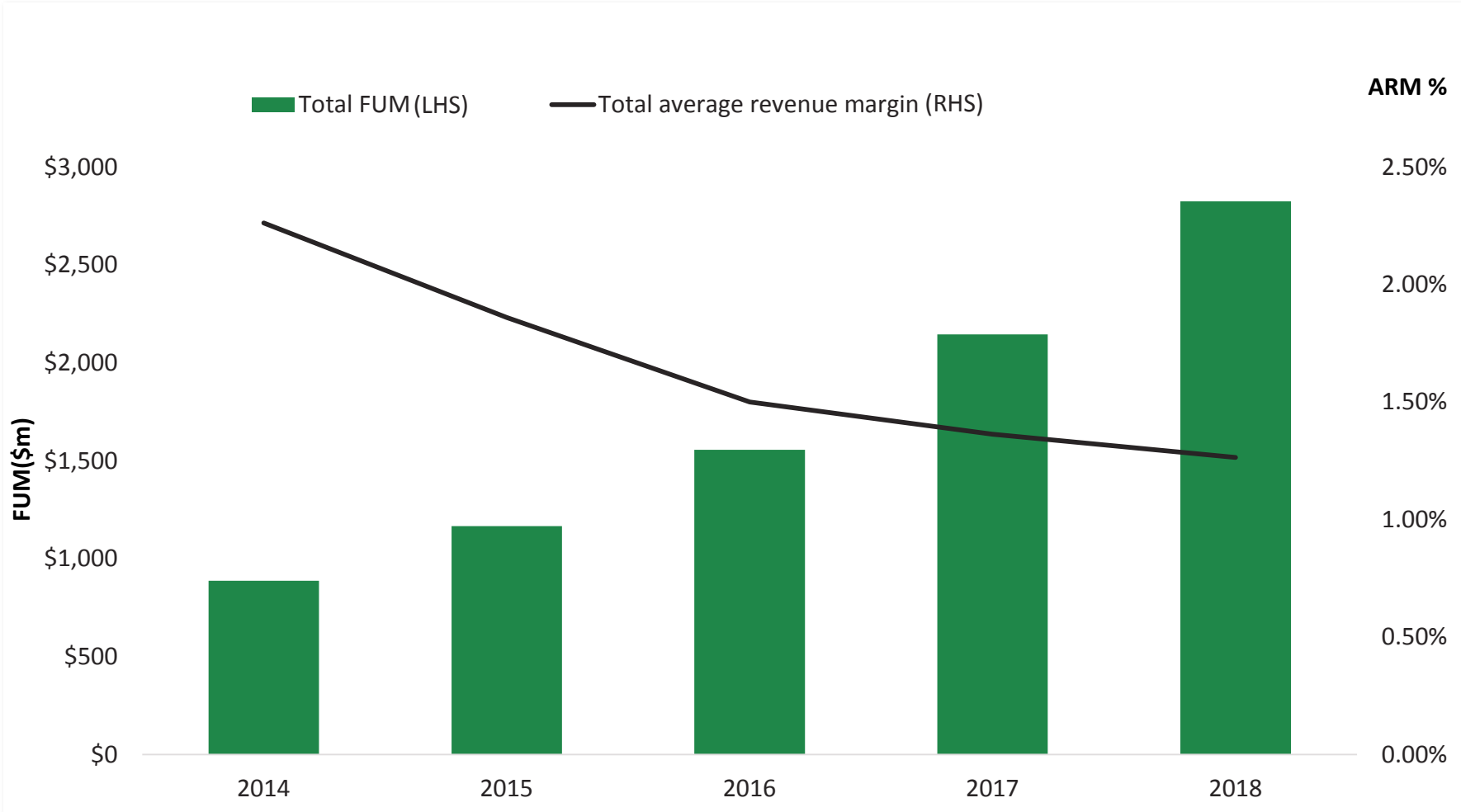
^ Includes changes in asset value due to market movements, income, reinvestments and distributions.



# Strong growth in super and managed funds



# Revenue margin

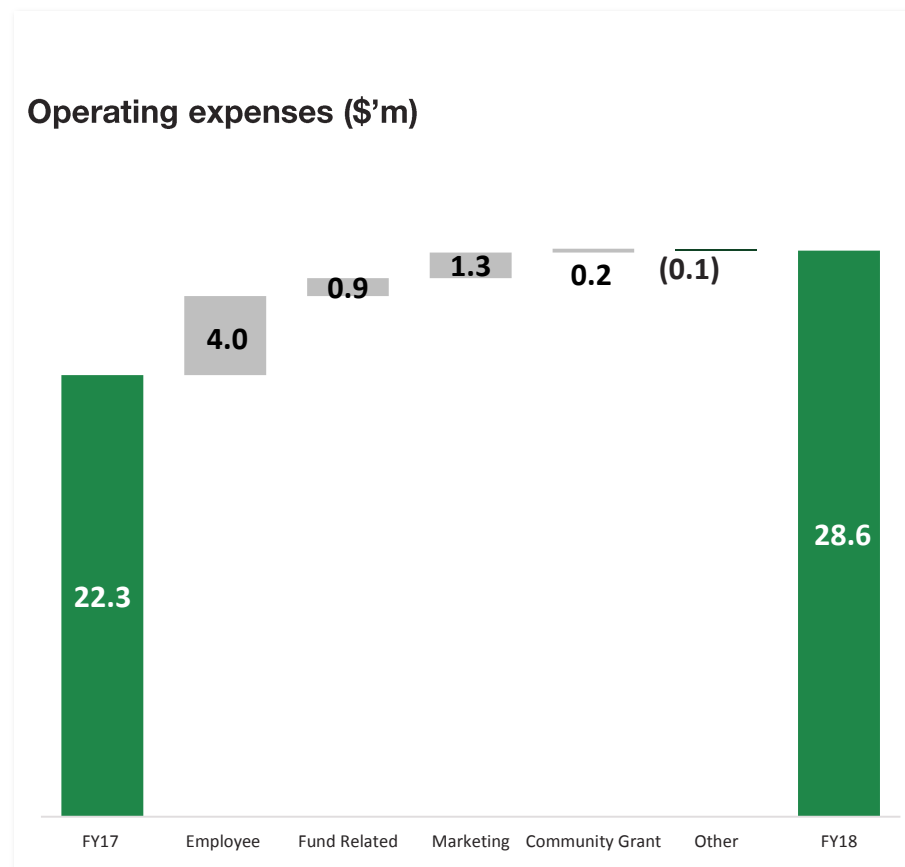
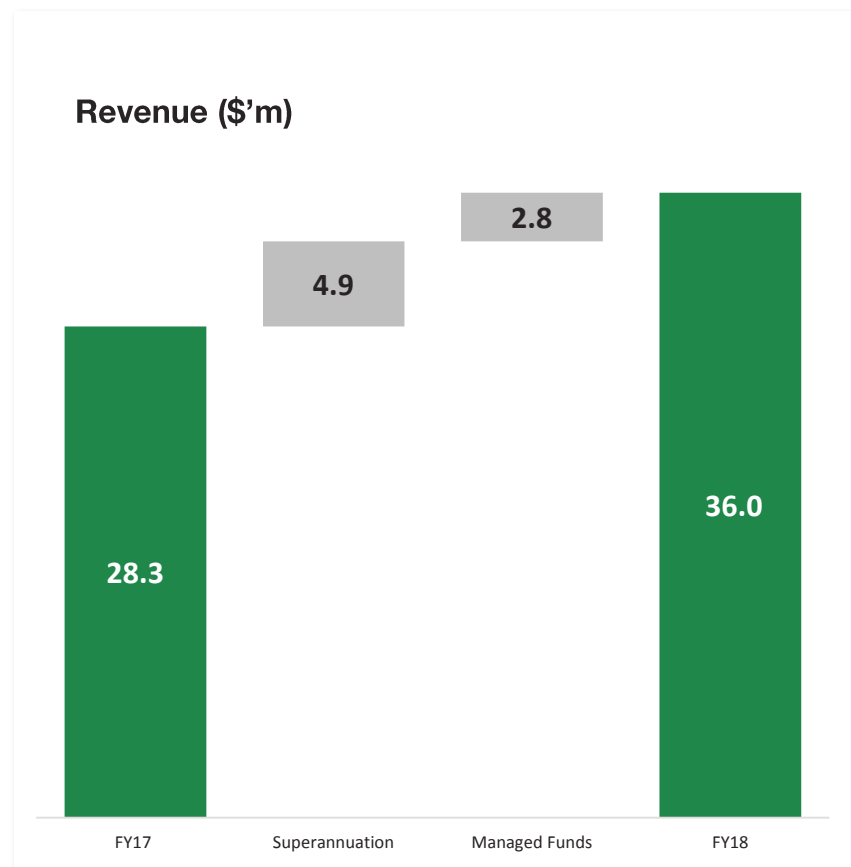


## Key themes

- Ongoing targeted fee reductions since 2014
- Change in managed funds product mix from retail to wholesale contributed to further reduction in average margin in FY18
- Further fee reductions planned for retail managed funds and selected super and pension options in FY19



# Revenue and expense drivers

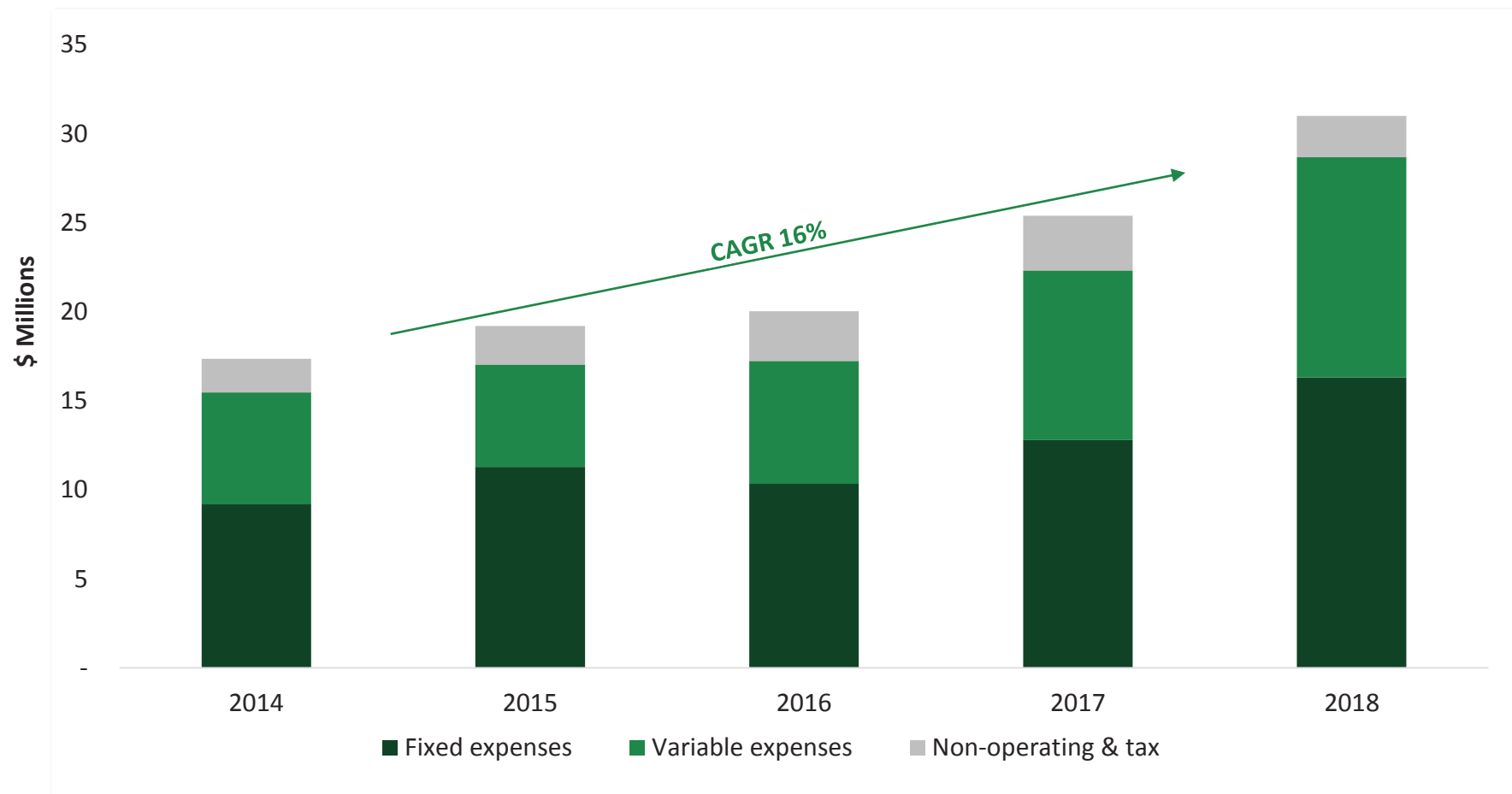


## Key themes

- Super FUM growth of 23% driving strong revenue growth
- Managed funds FUM tilt to wholesale driving lower average fee margins and revenue growth
- Employee cost increase driven by full year impact of FY17 hires and continued investment in channel diversification, customer experience and employee capability

# Expenses

SCALE DEVELOPING BUT BUSINESS IS STILL IN GROWTH PHASE

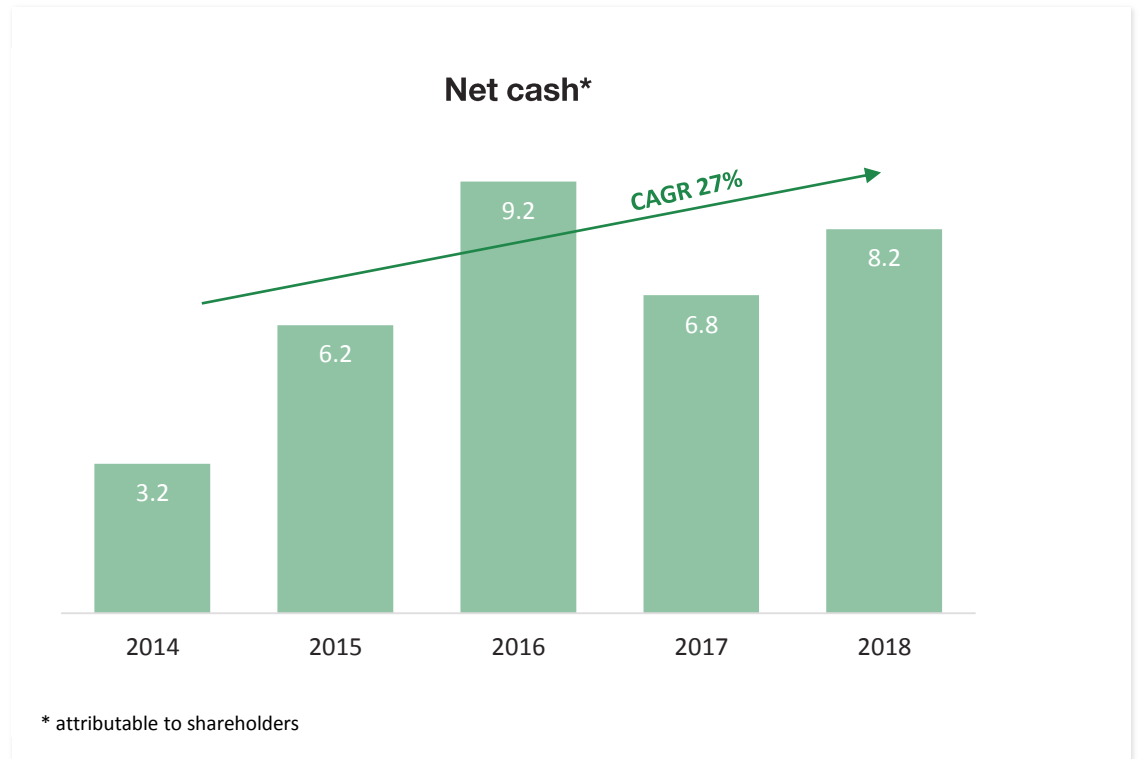
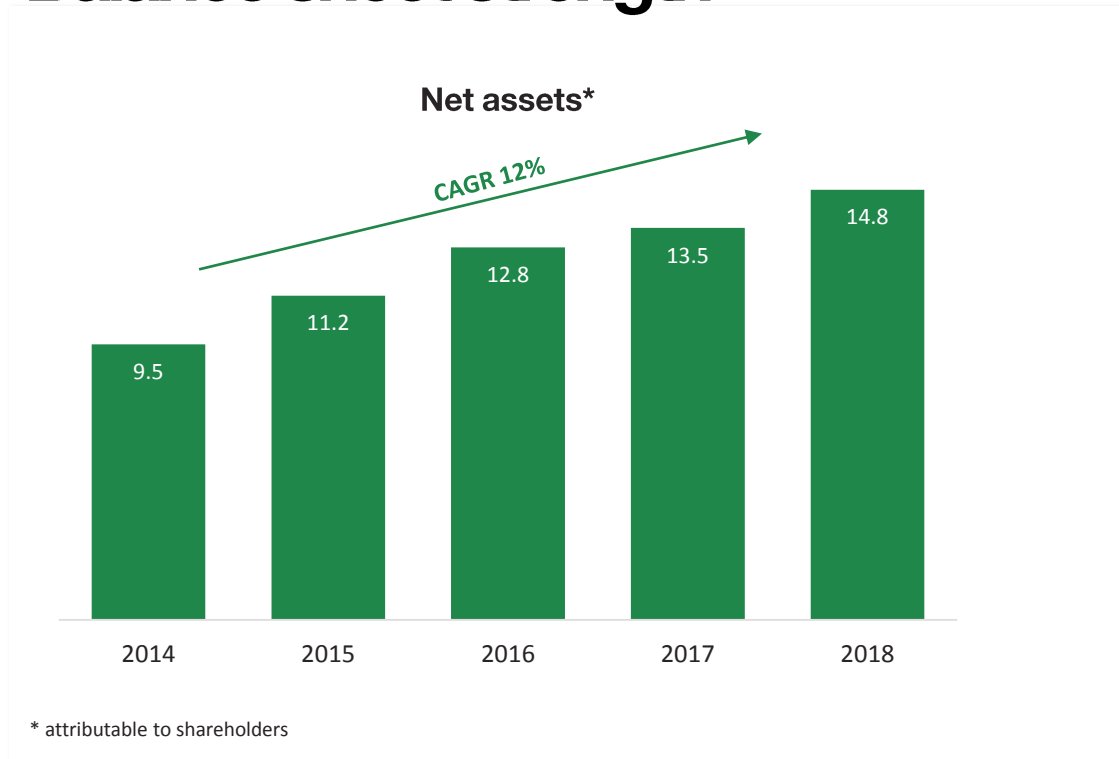


## Key themes

- Full year impact of FY17 hires impacting year on year cost growth
- Focused strategic investment on customer experience improvements, communication and channel diversification



# Balance sheet strength

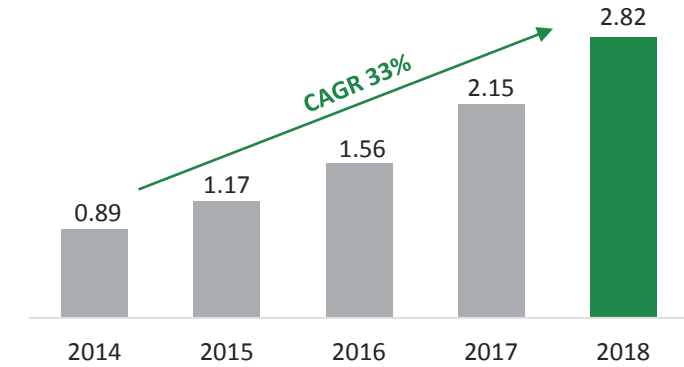


## Key themes

- Strong balance sheet with no debt
- Strong cash balances maintained to support continued investment in growth and customer experience, meeting regulatory capital requirements and allowing a prudent buffer for operational risk
- 90% dividend payout ratio for FY18

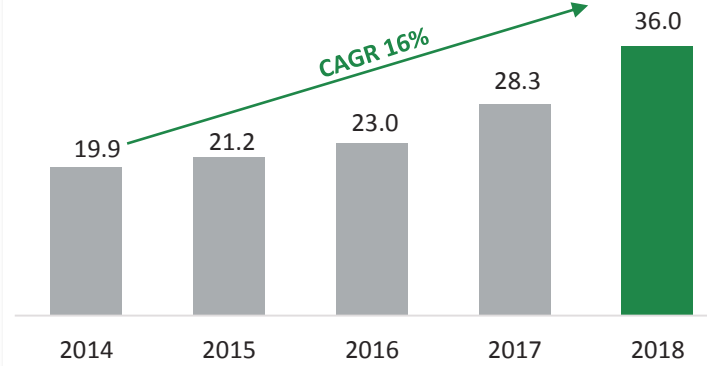
# Key financials

Funds under management^ (\$bn)

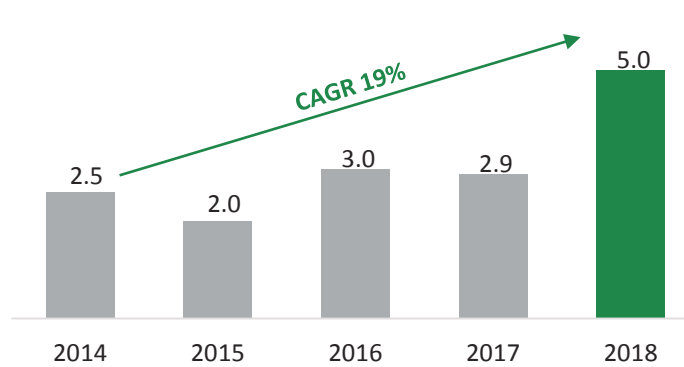


^before distributions

Revenue (\$m)

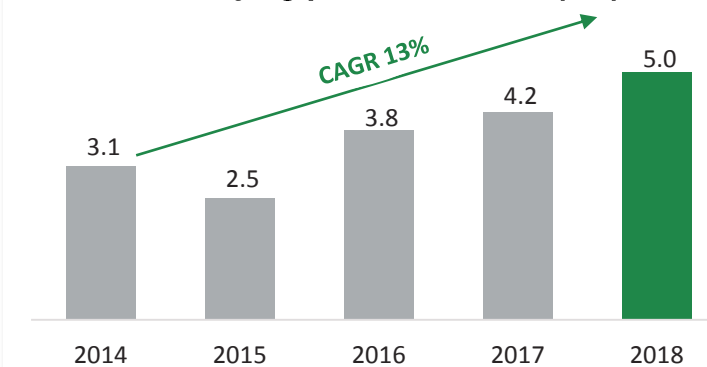


Profit after tax \* (\$m)



\*attributable to shareholders

Underlying profit after tax \* (\$m)



\*attributable to shareholders

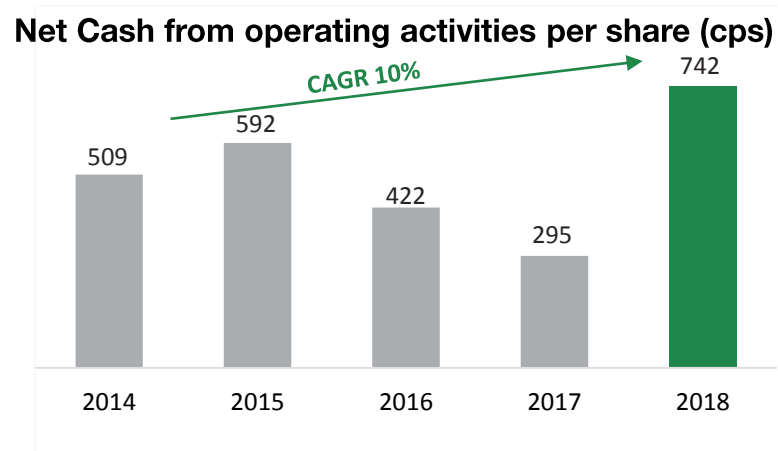
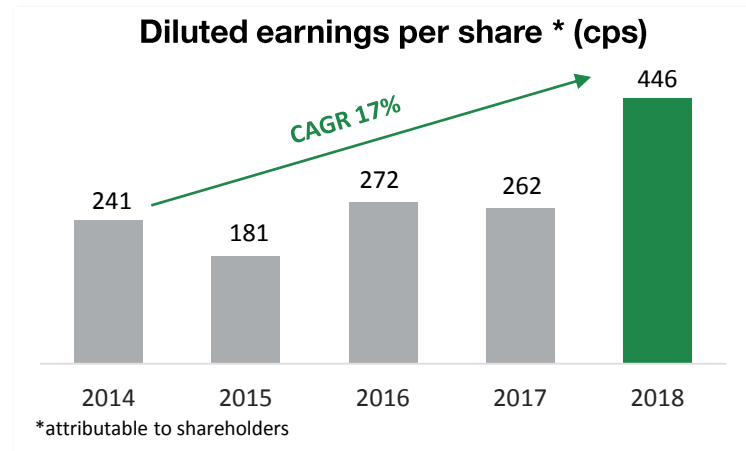
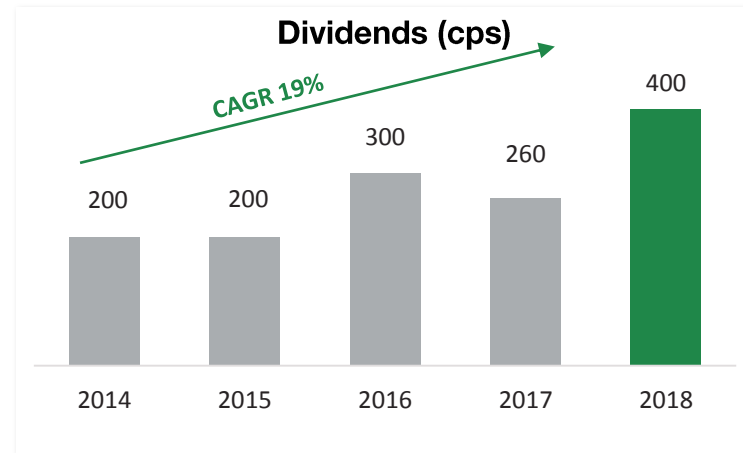
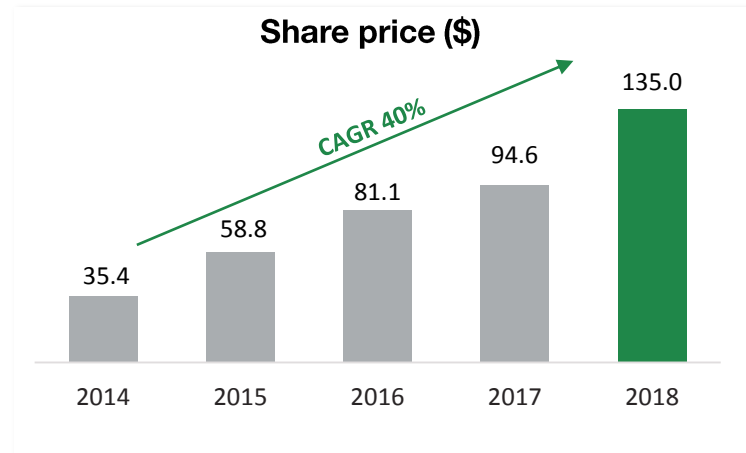


## Key themes

- Strong FUM growth continues
- Ongoing fee reductions to our customers
- Sustained growth in underlying profit and revenue
- Continued investment in growing the business



# Key financials



## Key themes

- Continue to deliver value to shareholders
- Strong share price growth
- FY18 dividend 400c, up 54%
- Strong operating cash flow



# Business update



# Our strategic pillars

## INVESTING FOR A BETTER WORLD

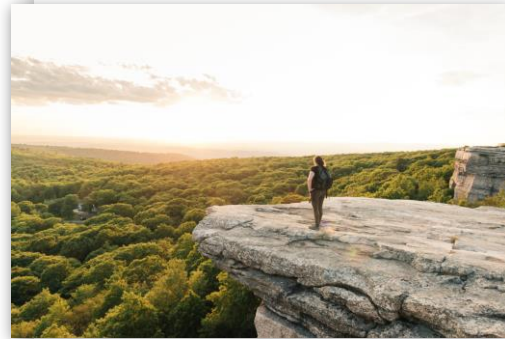


PILLAR

01

### Ethical leadership

Be a bold ethical voice and drive change for good.



PILLAR

02

### Professional investment management

Deliver long term competitive financial returns for our clients.



PILLAR

03

### Competitive products

Offer a unique set of fully featured ethical wealth management products for the conscious consumer.



PILLAR

04

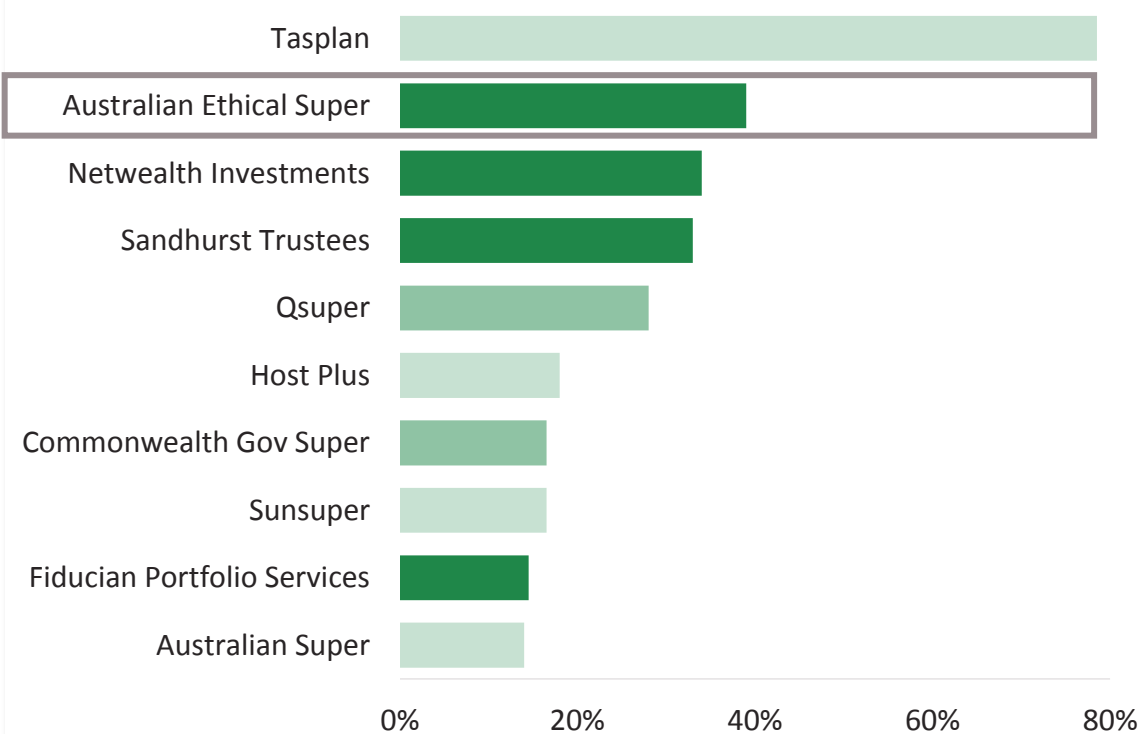
### Sustainable business

Be of a scale that meets customer needs, shareholder returns and delivers significant social and environmental impact.

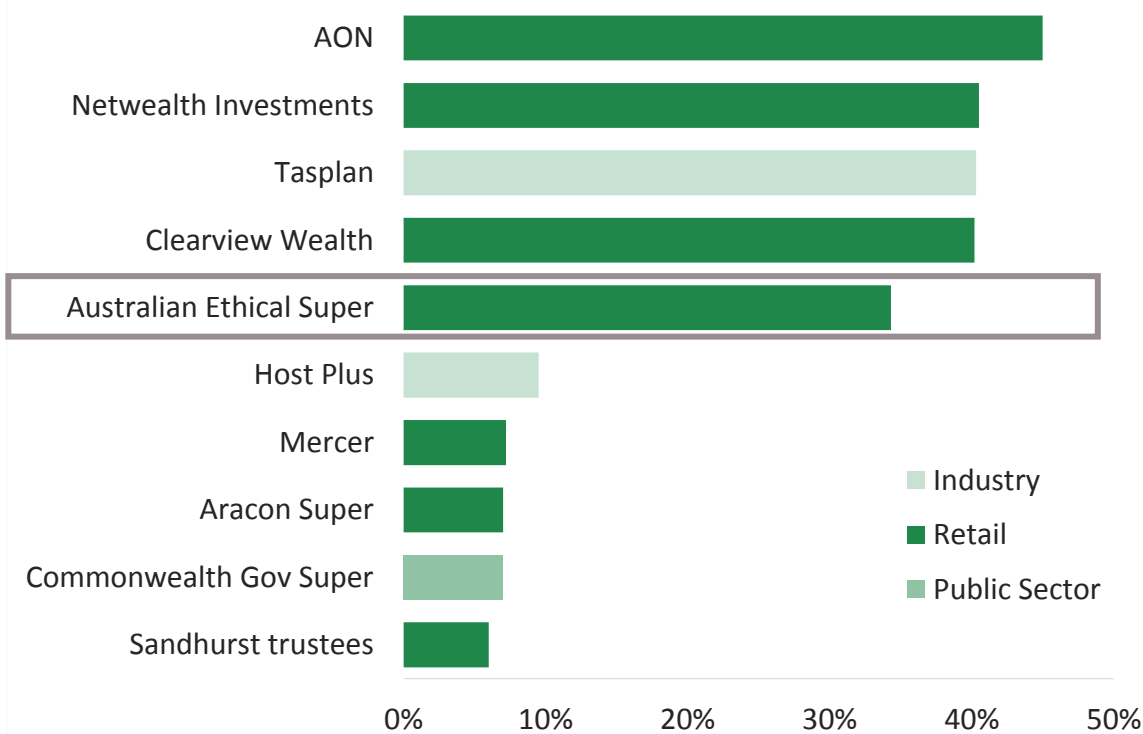
# Top 10 funds by growth

KPMG SUPER INSIGHTS REPORT

## Top 10 funds by AUM growth



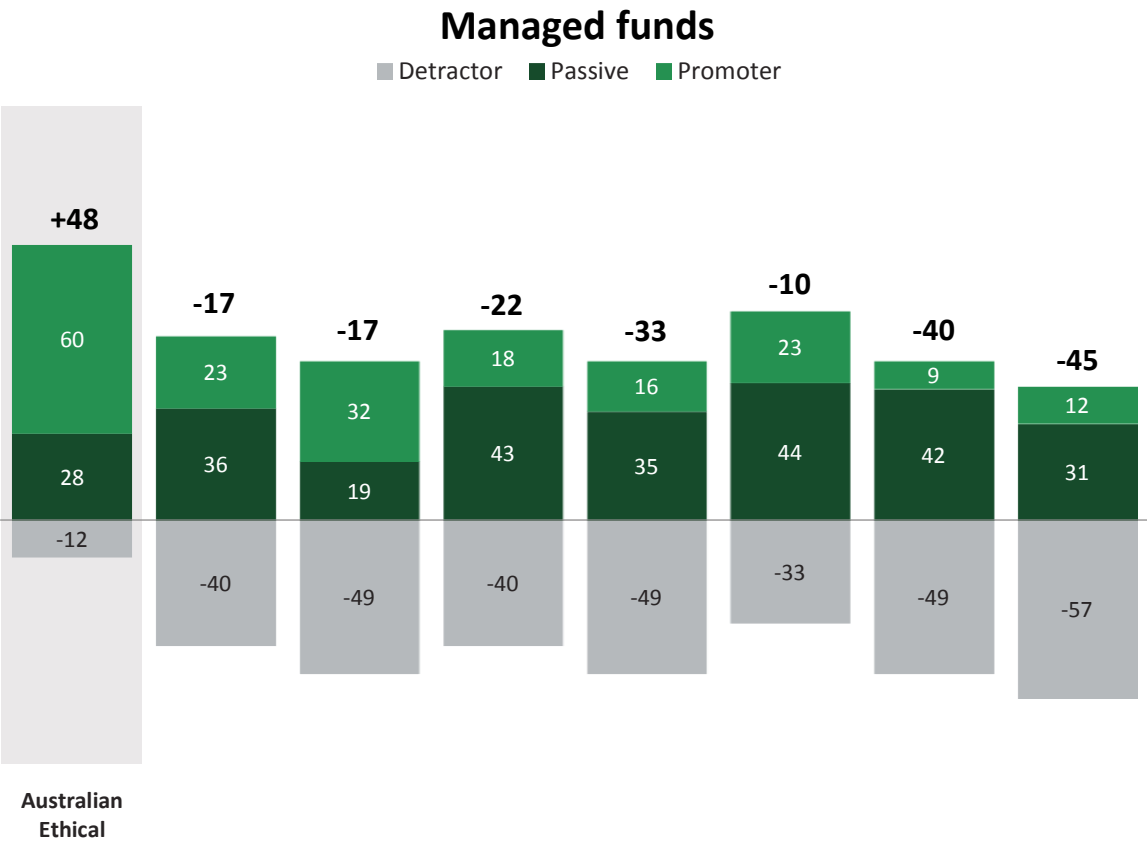
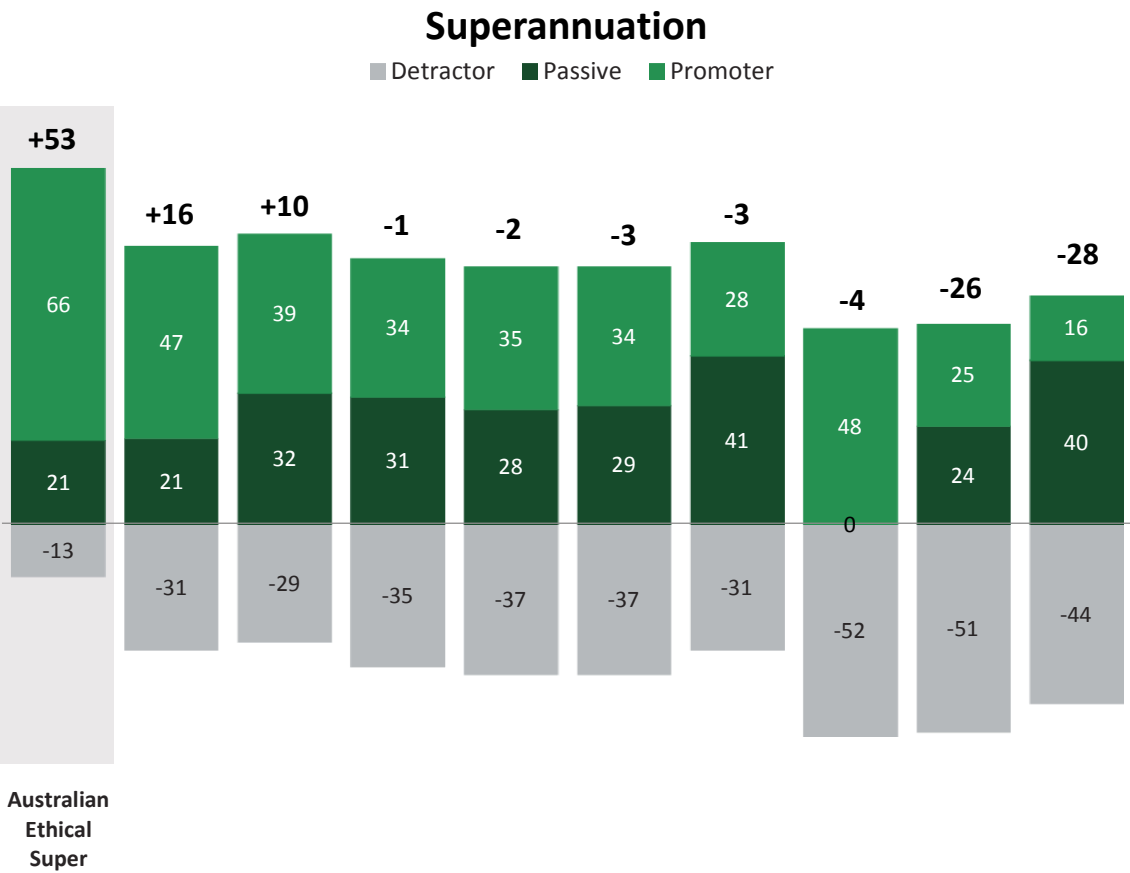
## Top 10 funds by member growth



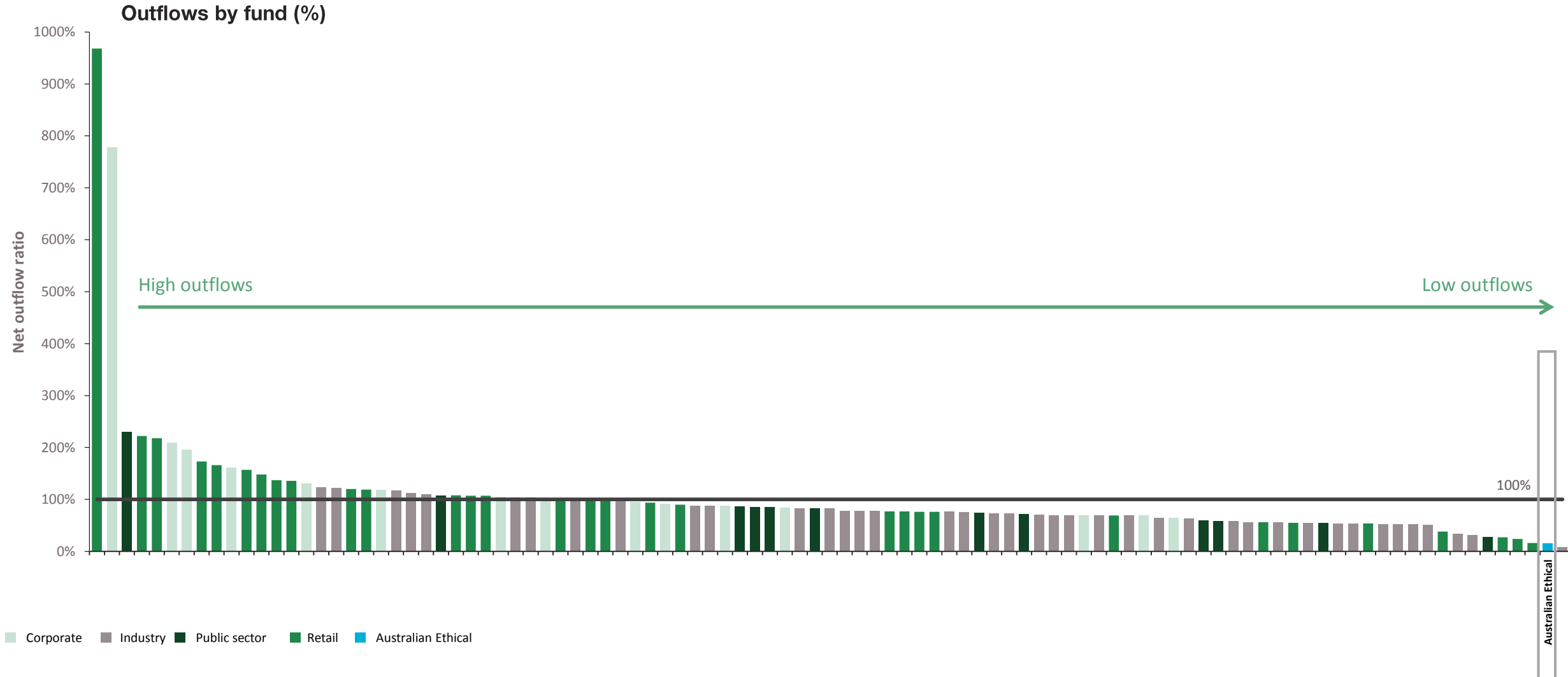
Note: Charts represent 2017 growth  
Source: KPMG 2018 Super Insights Report – published May 2018



# Industry leading net promoter score



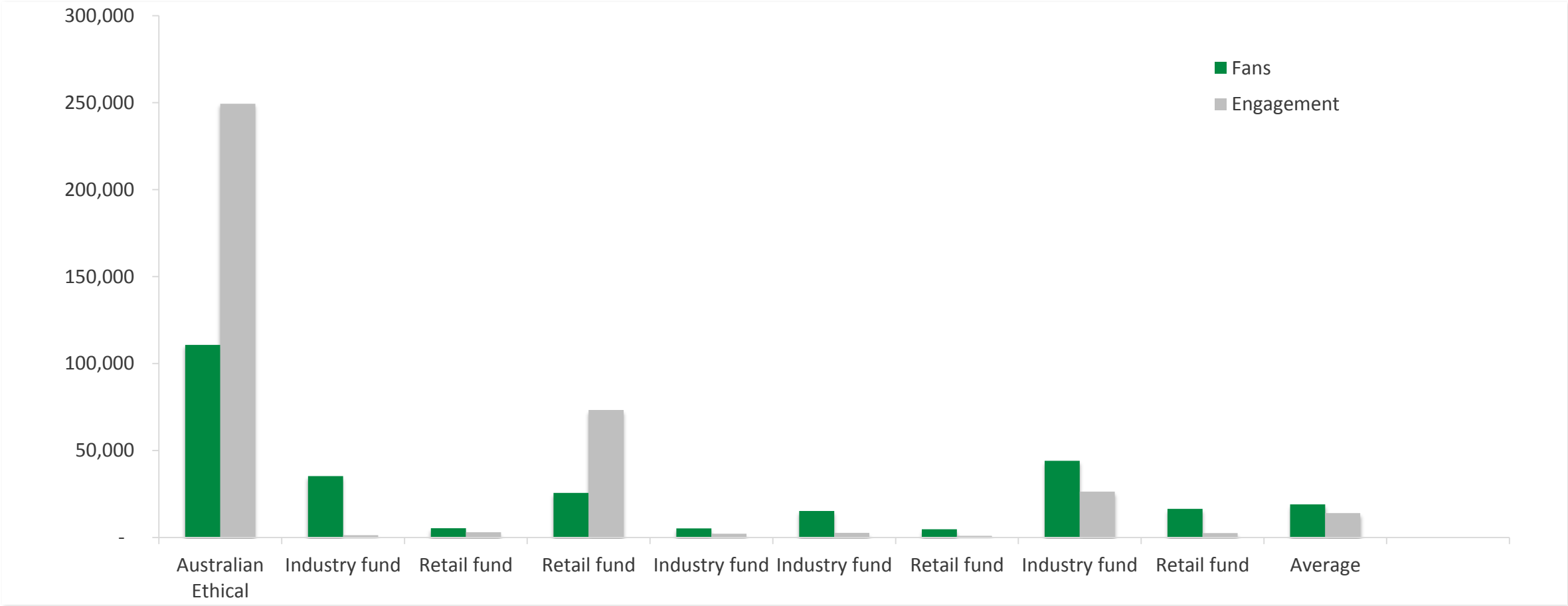
## Industry leading client retention rates



Represents outflows as percentage of inflows  
Source: KPMG 2018 Super Insights Report – published May 2018

# Industry leading social media engagement

COMPETITOR ANALYSIS - FACEBOOK ENGAGEMENT – FY18

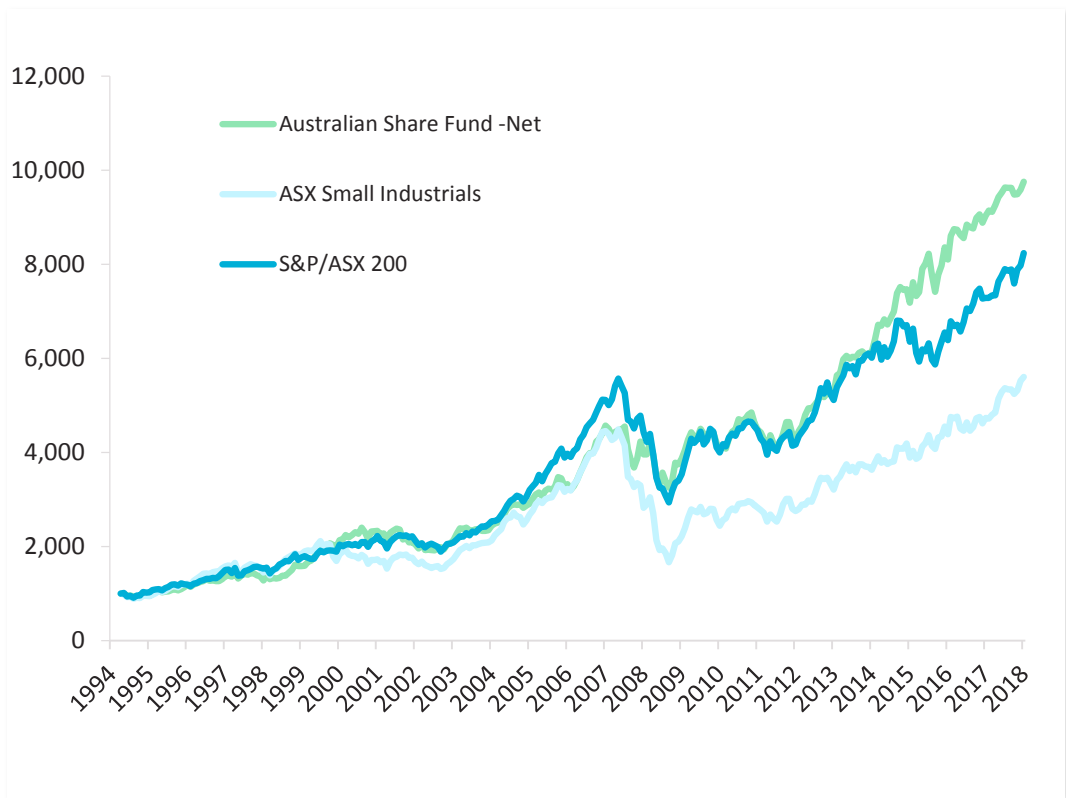


Note: Fans = total number of people who have liked our page; Engagement = total of all likes, shares and comments  
Source: Sprout Social July 2018

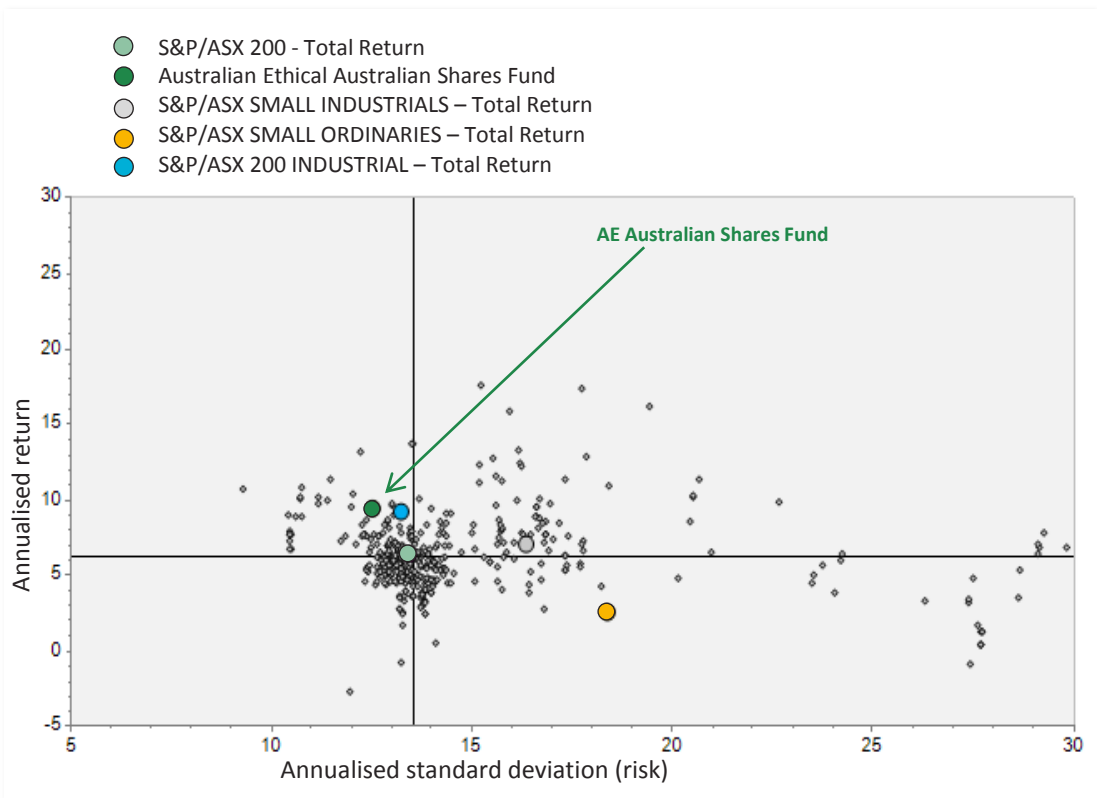
# Investment performance - strong returns, less risk

*ETHICAL INVESTING DOESN'T MEAN MORE RISK*

Value of \$1000 invested since inception



Risk/return over ten years to 2018



Source: Morningstar June 2018. 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

**Australian Shares Fund** continues to outperform the market over the medium, long and very long term

|                                       | 1Y<br>(%) | 3Y<br>(%p.a.) | 5Y<br>(%p.a.) | 7Y<br>(%p.a.) | 10Y<br>(%p.a.) | 20Y<br>(%p.a.) | Since Incept'n<br>(%p.a.) |
|---------------------------------------|-----------|---------------|---------------|---------------|----------------|----------------|---------------------------|
| <b>Retail*</b>                        | 8.0       | 10.7          | 13.1          | 11.7          | 9.4            | 10.7           | 9.9                       |
| S&P/ASX 200 Accum Index               | 13.0      | 9.0           | 10.0          | 9.1           | 6.4            | 8.8            | 9.4                       |
| <i>Relative Performance</i>           | -5.0      | +1.7          | +3.1          | +2.6          | +3.0           | +1.9           | +0.5                      |
| S&P/ASX Small Industrials Accum Index | 18.3      | 12.9          | 11.8          | 10.2          | 7.1            | 7.0            | 7.4                       |
| <i>Relative Performance</i>           | -10.3     | -2.2          | +1.3          | +1.5          | +2.3           | +3.7           | +2.5                      |
| <b>Wholesale^</b>                     | 9.5       | 12.4          | 14.9          | n/a           | n/a            | n/a            | 15.6                      |
| S&P/ASX 200 Accum Index               | 13.0      | 9.0           | 10.0          | 9.1           | 6.4            | 8.8            | 11.0                      |
| <i>Relative Performance</i>           | -3.5      | +3.4          | +4.9          | n/a           | n/a            | n/a            | +4.6                      |
| S&P/ASX Small Industrials Accum Index | 18.3      | 12.9          | 11.8          | n/a           | n/a            | n/a            | 12.3                      |
| <i>Relative Performance</i>           | -8.8      | -0.5          | +3.1          | n/a           | n/a            | n/a            | +3.3                      |

Table reflects performance after fees for the Australian Shares Fund

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

# Long track record of outperformance

Our default MySuper Option, the **Balanced Accumulation option**, has outperformed its 5 year objective and benchmark over the medium, long & very long term shown below.

|                                       | 1Y<br>(%) | 3Y<br>(%p.a.) | 5Y<br>(%p.a.) | 7Y<br>(%p.a.) | 10Y<br>(%p.a.) | Since Incept'n*<br>(%p.a.) |
|---------------------------------------|-----------|---------------|---------------|---------------|----------------|----------------------------|
| <b>Balanced Accumulation Option ~</b> | 6.7       | 6.4           | 7.6           | 7.4           | 5.3            | 6.2                        |
| Benchmark#                            | 7.8       | 5.7           | 6.7           | 6.5           | 5.1            | 4.9                        |
| <i>Relative Performance</i>           | -1.0      | +0.7          | +0.9          | +0.9          | +0.1           | +1.2                       |
| Investment Return Objective^          | 5.6       | 5.2           | 5.4           | 5.4           | 5.6            | 6.2                        |
| <i>Relative Performance</i>           | +1.1      | +1.2          | +2.2          | +2.0          | -0.3           | +0.0                       |

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

\* Inception Date: 31/12/1998

# Benchmark changed from Morningstar Multi-sector Balanced – Superannuation Fund peer group index to Morningstar Multi-sector Growth, effective 1 March 2015.

The historical returns are calculated by combining the two indices.

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

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