

Annual General Meeting – Acting CEO's Address

ASX ANNOUNCEMENT

Good morning and thank you all for attending the 33rd annual general meeting of Australian Ethical Investment limited (17th since the listing).

Well, the financial year ended 30 June 2019 has been another record one for Australian Ethical. Let me just repeat the highlights, some of which Michael has already mentioned.

Funds Under Management – \$3.42 billion – up 21%

Profit attributable to shareholders – \$6.5 million – up 29%

Dividend for full year – 5 cents per share – up 25%

Share price as at 30 June 2019 \$1.77 up 31% – and since then has risen nearly 50% to be \$2.63 at yesterday's close.

Total Shareholder return for year – 34%

Net Flows (excluding institutional) strongly positive at \$322 million - whilst this is 14% lower than net flows in the previous year, this is still a strong result when many funds are in net outflow

Operating expenses – were up 11% on the previous year which was below revenue growth. Some expenses will grow as super member numbers grow and as FUM grows. Other expenditure increases are as a result of conscious decisions to invest in brand awareness and in particular in technology to considerably improve our customer experience

Revenue up 14% to \$41 million

Our super fund continues to grow strongly – our funded member numbers increased by 11% last year – we consistently rate in the top growing funds by member numbers and funds under management over one and five years.

We have industry leading customer retention rates and industry leading Net Promoter Scores for both Super and Managed funds.

Our employee engagement score was top quartile at 71% and we have exceeded our gender diversity targets.

FY 19 was a standout year for investment performance - All bar one of our funds met or exceeded benchmark over the year. The Emerging Companies Fund significantly outperformed its benchmark thereby delivering a performance fee which fed through directly to our NPAT. Investment performance of our super

fund was outstanding with the growth option ranking number one for the year, our MY Super or balanced option ranking number 2 for the year and the Australian Shares option ranking number one over 5 and 7 years.

We have also received multiple awards over FY19 including:

- Winner – Financial Standard Investment Leadership Award – ESG – for the Australian Shares Fund
- Money Magazine Best Green Super Fund in the ‘Best of the Best’ December 2018 issue
- Money Management’s Fund Manager of the Year – Responsible Investments for the Australian Shares Fund (wholesale)
- Winner – Super Ratings Infinity Award 2019
- Three gold ratings from Super Ratings (for MySuper, MyChoice and Account Based Pension)

Returning to Funds Under Management, it is important to recall that it was just a few years ago that we broke through the \$1billion FUM mark. In four years from 2015 – 2019 FUM has increased by 200% and risen by 60% in 2 years.

We have a strong balance sheet with no debt, a strong cash position and surplus above regulatory capital requirements.

We have industry leading superannuation client retention rates. Our super outflow ratio continues to be the lowest across all retail funds. Australian Ethical’s retention rate has consistently been in the top five funds over a five-year period. The industry average outflow ratio is >100% - our ratio is 29%

We provide employees with a number of benefits including a well-being program, two volunteering days per year, paid parental leave with super contributions paid during the leave and an annual employee trip where one employee gets to work with a community grant recipient. As well as exceeding our gender diversity targets, we have a diverse workforce across many dimensions.

ETHICAL LEADERSHIP

Australian Ethical continues to lead the pack when it comes to the major issues that concern people. Our share investments produced 70% less CO₂ than the benchmark. We do not invest in fossil fuel companies, we do not invest in nuclear, we do not invest in tobacco. We have over 3 times more impact towards achieving the Social Development Goals than the market, and more than 6 times more investment in renewable power generation than the global share market. We continue to advocate on social issues, for example for a ban on live animal export and as a further example we supported the “Kids off Nauru” campaign.

Yet again we were awarded Best for the World status by B CORP.

As an outspoken ethical investor, we straddle the activist world and the institutional investor world. As an ethical organisation we choose to advocate on the issues that matter.

As a business that manages a significant volume of capital across the economy we can influence the activities of companies and provide an independent voice on public policy. This year on behalf of our members we:

- Had over 300 engagements with more than 250 companies to influence positive change on issues relating to the environment, animal protection and treatment of people
- Were involved in eight collaborative investor engagement programs
- Individually engaged with 75 companies
- Voted for over 50 shareholder resolutions, speaking in support of them at two Annual General Meetings (AGM's)

Fifty companies that we engaged with either made positive change during the year or made a commitment to do so (with more to come).

CHARITABLE ACTIVITIES.

As you know 10 % of AEI profits before deducting bonus and grant expense is donated to not for profit organisations - this amounted to \$937 thousand in FY 19. Since inception this means that over \$3.5 million has been donated through this program which is now managed by the Australian Ethical Foundation.

We now have multiyear partnering arrangements with organisations such as Human Rights Watch, the Wilderness Society and Food frontier.

Engagement with the general community through our grants program has continued to grow with more than 18,000 people voting for the recipients of the grants this year – these people included customers, employees, shareholders and people who are active through our social media network. FY19 Grant recipients included:

- Abundant Water
- ACT Wildlife Incorporated
- Action for Dolphins
- Environs Kimberley
- F.A.W.N.A. NSW
- Food Frontier
- Food Ladder
- Free To Shine
- Friends of the Koala Inc
- Green Heroes
- Greyhound Rescue Incorporated
- Hobart Women's Shelter
- Human Rights Watch
- Karrkad Kanjdji Trust
- Little Oak Sanctuary
- Love Mercy Foundation
- One Girl
- Pocket City Farms
- Pollinate
- Positive Change for Marine Life Ltd.
- Refugees Welcome Australia Inc.
- Renewable Energy Development Trust (REDT)
- Seabin Foundation Limited
- The Community Grocer

- The Life You Can Save
- The MAWA Trust
- The Orangutan Project
- The Wilderness Society
- Wildlife Asia Inc
- YGAP

INVESTMENTS

As mentioned earlier FY 19 was a particularly good year for our funds in terms of investment performance and our Chief Investment Officer David Macri and his team deserve a special congratulation.

The team continue to find investments that are true to our Ethical Charter and which deliver good returns at the same time as doing good. Some examples of investments we have made in recent times are

- **First Solar** has developed, financed, engineered, constructed and currently operates many of the world's largest grid-connected photovoltaic power plants. Using experience across the solar value chain, it aims to reduce risk while delivering more reliable, dependable and cost-effective solutions for customers. As at June 2019, First Solar have 17 Gigawatts of solar globally
- **Meridian Energy** is a New Zealand electricity generator and retailer that only generates electricity from renewable sources. The company operates seven hydroelectric power stations and one wind farm in the South Island of New Zealand, four wind farms in the North Island, and two wind farms in South Australia and Victoria
- **Applied Materials** Applied Materials engineer highly sophisticated manufacturing and process technologies used to build the world's most complex chips and displays. This enables its customers to build a wide range of advanced products, including larger capacity and faster memory chips, more efficient, faster, and highly integrated processors, super high-resolution displays and flexible electronics.
- **Rhipe** is an Australian software services company that helps its partners and their end-customers navigate 'the cloud' by providing licensing, business development and knowledge services.
- **Bigtincan** provides cloud-based sales enablement software to large enterprises with global and mobile sales forces. Sales enablement provides organisations with content, tools and information that helps provide them with relevant content and training materials to streamline the buying process.

OUTLOOK

Let me take a few more minutes of your time to talk about the future.

We announced to the market 2 weeks ago that funds under management as at 30 September 2019 - that is after the first quarter of FY 20 had increased by \$.23 billion (rounded). Of this \$225 million increase about half was net flows and half due to market movements. We cannot necessarily expect that markets will continue to perform as strongly over the entire 4 quarters of this financial year particularly given the world economic outlook - and Australia's economic outlook – is not looking as positive as it has in the last year or two. Net flows were at around \$110 million including a small increment to the institutional money that we manage. If the net flows achieved in the first quarter of FY 20 were repeated in the remaining quarters this

would result in an approximately 30% increase in net flows above FY 19. This would be a fantastic result and will be difficult to achieve - but not impossible for there are many factors working for us - not the least of these being the substantial action taking place around climate change which can only help raise awareness of who we are and what we stand for.

Our own brand research shows that for the first time in 5 years climate change was flagged as more concerning to Australian's than the cost of living.

Strong start to the year underpinning continued investment in growth

Ideally placed to capture opportunities for growth as more people realise that our approach is achieving strong returns and delivering social good

- Ongoing growth in FUM and strong inflows expected to drive continued profit growth
- Strong start to FY20 with FUM up 6.6% from 30 June to \$3.64bn
- Positive first quarter net flows of \$0.11bn
- Strong first quarter investment performance of \$0.12bn
- Record new member acquisition in September of 1,273 super members – mostly attributable to the highly successful Amazon campaign

Targeted investment in key initiatives in FY20 to drive sustainable growth & deliver better outcomes for clients

- Investment in brand awareness as business continues to grow
- Continue to enhance our client experience through investment in digital platform & other touch points
- Continued product innovation to meet client needs
- Further investment to support our intermediated channels, ensuring we are accessible through clients' channel of choice
- Implementation of regulatory change pipeline

Continued business growth will drive growth in community impact investment, via The Foundation

2019 watershed year in calls for action on climate change

AEI perfectly positioned to capitalise on this as people look more and more to invest their money and / or super in vehicles which do not exacerbate the problem but are clearly part of the solution

AEI has a long track record of investing for good, of using advocacy and investments to bring about change whilst at the same time delivering competitive returns

As I mentioned earlier, we will continue to invest in raising awareness of our brand and to try to keep up to date with the rapidly changing technological environment. As a first step it is pleasing for me to be able to announce that our new website will go live within the next week or so.

Finally, insofar as highlights for FY19 are concerned, we continued to deliver reduced fees to our customers as we share the benefits of our growth among all of the company's stakeholders.

Of course, it is not all downhill with the wind on our backs. Investment and Superannuation is a very competitive industry. Our competitors are increasingly realising that the number of people who really do

care where their money, their retirement savings, is being invested is on the increase. I am sure we will see more and more of our competitors trying to position their Funds as responsible or sustainable or green or concerned about the environment or contributing towards tackling climate change. This will often be pure marketing spin - and for those who are truly concerned about the issues we stand for and against no one can even come close to Australian Ethical. One of our biggest challenges is making sure we continue to articulate our values and expand our reach.

I just want to briefly mention 2 recent examples of positioning by our competitors. Recently a large Industry Super Fund announced that they were the first certified carbon neutral fund in Australia. Well, as it turns out, this carbon neutral description applies to their operations – not their complete carbon footprint including most importantly their investments. We have committed to be completely carbon neutral, including all of our investments, by 2050 and have recently decided to review that target date to see if it can be brought forward. The second example is the recent statement by the Chief Investment Officer of another large industry fund that divesting from coal companies would achieve nothing. The rationale here, apparently, is that if you sell your shares in a company then all that happens is that someone else will buy them and it will have no impact on the company's operations. This argument seems to me to be a classic attempt to deflect criticism of a fund owning coal company stock - perhaps in the face of increasing questioning amongst its members. If everyone sold their shares (or at least attempted to) then the impact on the share price would be substantial - as would I suspect the impact on the personal wealth of Directors and management of the company. Surely there is no better way to make the point that certain activities that harm the environment are simply no longer acceptable.

So, thank you once again for attending our AGM. I think we can look forward to the year ahead with some optimism and confidence.