

# Australian Ethical Investment Ltd FY20 Half Year Results

Steve Gibbs | Chair  
Mark Simons | CFO

26 February 2020

Should this be Steve and  
John's names here?

# Highlights



# FY20 first half highlights

## PEOPLE, PLANET & PERFORMANCE: STRONG RETURNS & POSITIVE IMPACT



### Growth

Strong growth across the business<sup>^</sup>

Over <b>43,000</b> funded super members	↑ <b>13%</b>
Net inflows <b>\$295.8m</b>	↑ <b>100%</b>
Managed fund net inflows <b>\$96.4m</b>	↑ <b>150%</b>
Funds under management <b>\$3.87bn</b>	↑ <b>36%</b>
Increase in average funded member balance	↑ <b>20%</b>
NPAT attributable to shareholders* <b>\$4.4m</b>	↑ <b>40%</b>
Revenue of <b>\$23.3m</b>	↑ <b>18%</b>
Dividend <b>2.5c</b>	↑ <b>25%</b>

#### January '20 update:

Net inflows **\$112m**, performance **\$156m**, FUM **\$4.14bn**



### Continuing to invest in growth and sustainability

- Operating expenses up **13%**
- **New website & content management system launched** in October 2019
- **Super fee reductions** implemented in December 19
- **Top quartile employee engagement** of 71%
- **Award winner** in the **international climate reporting awards**



### Impact through The Foundation

- **10%** of AEI profits allocated to The Foundation<sup>+</sup>
- **\$750k** grants paid during the period (relating to full year FY19 grants), **21% up** from \$620k last year
- **\$60k donated to support victims of the bushfire crisis** in January 2020, together with AEI employee matching donation scheme



### Strong investment performance

#### Multi award winning investment portfolio

Managed Funds:

- **Strong outperformance of Emerging Companies fund with 18.8% return<sup>#</sup>** for the 6 months (14.0ppts above benchmark<sup>\*\*</sup>)
- **Australian Shares fund outperformed benchmark<sup>\*\*</sup>** returning **11.5%<sup>#</sup>** (8.3ppts above benchmark) for the 6 months

Super:

- **Balanced option (MySuper) outperformed benchmark<sup>\*\*</sup>** for 1,3 and 5 years, and **ranks 3<sup>rd</sup>** in SR50 Balanced (60-76) Index for year to December 19
- **Australian Shares option ranks 1<sup>st</sup>** over 5, 7 and 10 years in SR50 Australian Shares Index, and **2<sup>nd</sup>** for the year to December 19

<sup>^</sup> All percentages refer to movement against first half FY19

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

# Wholesale fund

\*\* Benchmarks as follows: Emerging Companies fund: S&P/ASX Small Industrials Accum Index; Australian Shares fund: Benchmark is composite S&P/ASX Small Industrials Accum Index till 12 August 2019 and S&P/ASX 300 Accum Index thereafter; Balanced option (MySuper): Benchmark changed to SuperRatings SR50 Balanced (60-76) Index, effective 1st of December 2019. The benchmark previously was changed from the Morningstar Multisector Balanced – Superannuation Fund peer group index to Morningstar Multisector Growth, effective 1 March 2015. The historical returns are calculated by combining the three indices.

+ Before deducting bonus and grant expense.

# FY20 investment awards

HIGHLY ACCLAIMED, HIGH PERFORMANCE PRODUCT SUITE



## Winner of 2 Financial Standard Investment Leadership Awards 2020

- AE Australian Shares Fund was **only fund to win in two categories**
- **AE Australian Shares fund won Australian Equities High Performance Award**
- **AE Australian Shares fund won ESG Australian Equities Award**
- Awards recognises Australian investment managers consistently producing **solid returns** whilst **effectively managing investment risk**
- Competing with other **mainstream funds** in the industry
- **3 Australian Ethical funds** (AE Australian Shares Fund, AE Diversified Shares Fund, AE Emerging Companies Fund) nominated across **multiple categories**



**Winner – SuperRatings Infinity Award 2019**

- Best sustainable super fund

# Financials

# Key financials

Key financials^ (\$'000)	1H2020	1H2019	Change (YoY)
<b>Revenue</b>	<b>23,322</b>	<b>19,753</b>	<b>18%</b>
Operating expenses	(17,049)	(15,154)	13%
Non-operating expenses	66	-	-
<b>Total expenses</b>	<b>(16,983)</b>	<b>(15,154)</b>	<b>12%</b>
<b>Profit before tax</b>	<b>6,339</b>	<b>4,599</b>	<b>38%</b>
Income tax expense	(1,598)	(1,195)	34%
<b>Net profit after tax - statutory</b>	<b>4,741</b>	<b>3,404</b>	<b>39%</b>
Less Foundation results	(304)	(231)	32%
<b>Net profit after tax attributable to shareholders</b>	<b>4,437</b>	<b>3,173</b>	<b>40%</b>
Re-valuation of investment property held for sale	(66)	-	-
<b>Underlying profit after tax (UPAT) attributable to shareholders</b>	<b>4,371</b>	<b>3,173</b>	<b>38%</b>
<b>UPAT attributable to shareholders</b>	<b>4,371</b>	<b>3,173</b>	<b>38%</b>
Diluted earnings per share*	3.95 cents	2.84 cents	39%
Diluted earnings per share 3-year CAGR~	54.5%	26.5%	
<b>Dividend per share</b>	<b>2.5 cents</b>	<b>2.0 cents</b>	<b>25%</b>



## Key themes

- Increase in revenue driven by continued FUM and member growth partially offset by full impact of October '18 fee reductions and PYS legislation (3% fee capping and removal of exit fees)
- Strong NPAT growth (attributable to shareholders) of 40%
- Operating expenses increase as FUM and member numbers grow, ongoing investment in brand awareness and sustainability of our platform
- Dividend up 25%

^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.

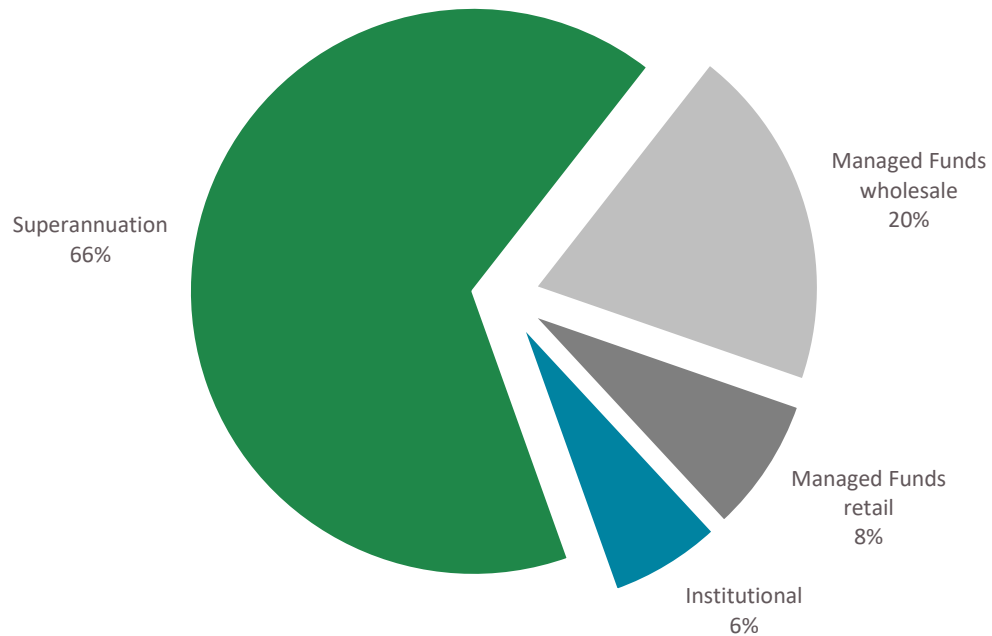
\* Diluted earnings per share based on NPAT

~ Based on last twelve months (LTM) diluted EPS

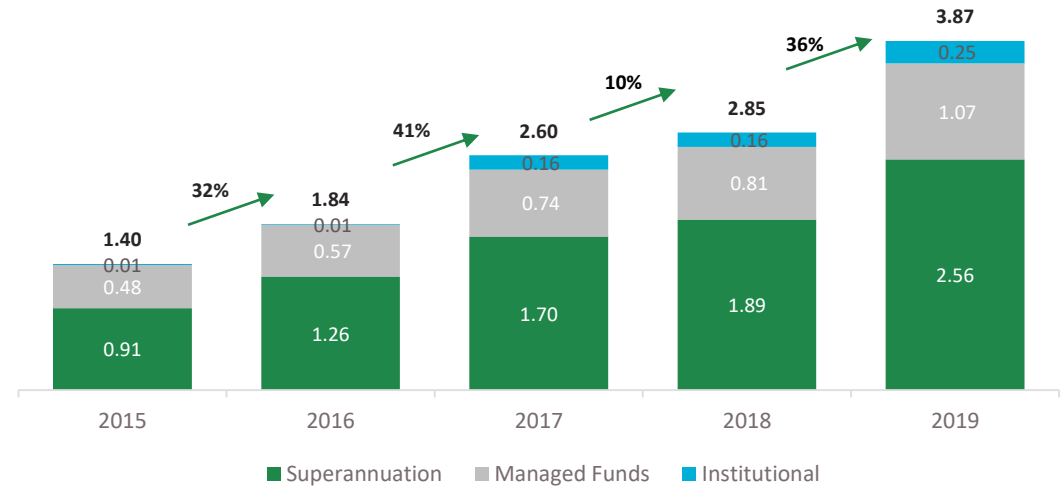
# Continued growth in FUM

## FUM BY PRODUCT

\$3.87bn as at 31 December 2019



FUM (\$bn)



As at 31 December of each year

Funds under management (\$bn)	1H2020	1H2019	Change (YoY)
Opening FUM	3.42	2.82	21%
Super flows (net)	0.20	0.11	82%
Managed Funds flows (net)	0.07	0.05	44%
Institutional flows (net)	0.03	(0.01)	nm*
<b>Net flows</b>	<b>0.30</b>	<b>0.15</b>	<b>100%</b>
Market movement and other^	0.16	(0.11)	nm*
<b>Closing FUM</b>	<b>3.87</b>	<b>2.85</b>	<b>36%</b>

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

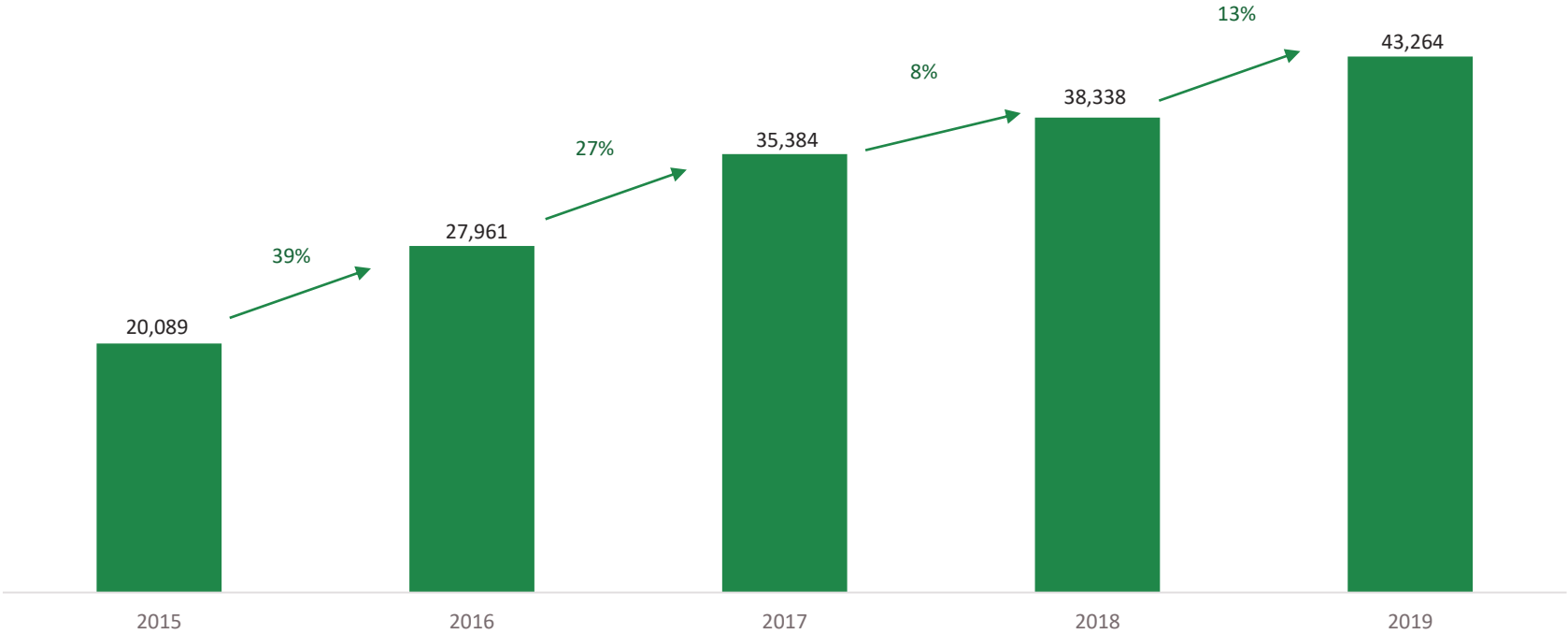
\* Not meaningful

# Strong growth in super membership continues

## Key themes

- Super membership continues to grow, primarily in the direct channel
- 45,946 super members at 31 December 2019 – comprising 43,264 funded members and 2,682 yet to be funded
- Funded super members grew 13% since December 2018
- Increasing trend of super contributions following targeted customer engagement activities

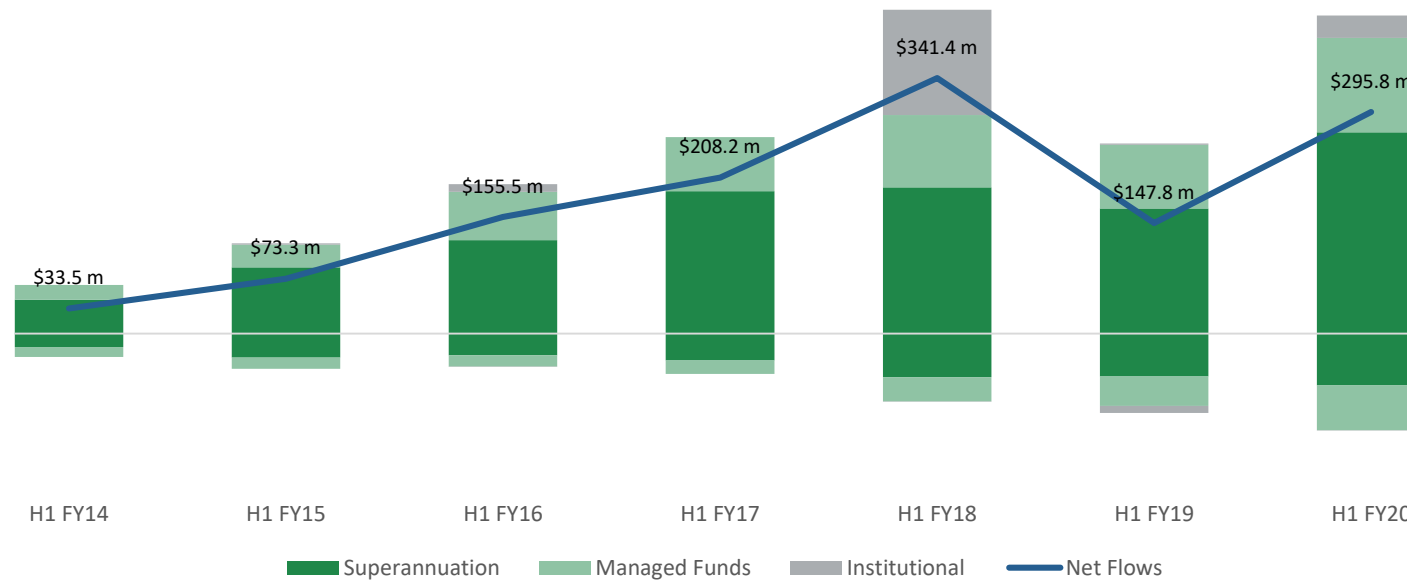
Funded super members up 13%



As at 31 December of each year



# Increase in net inflows compared to first half FY19



As at 31 December of each year



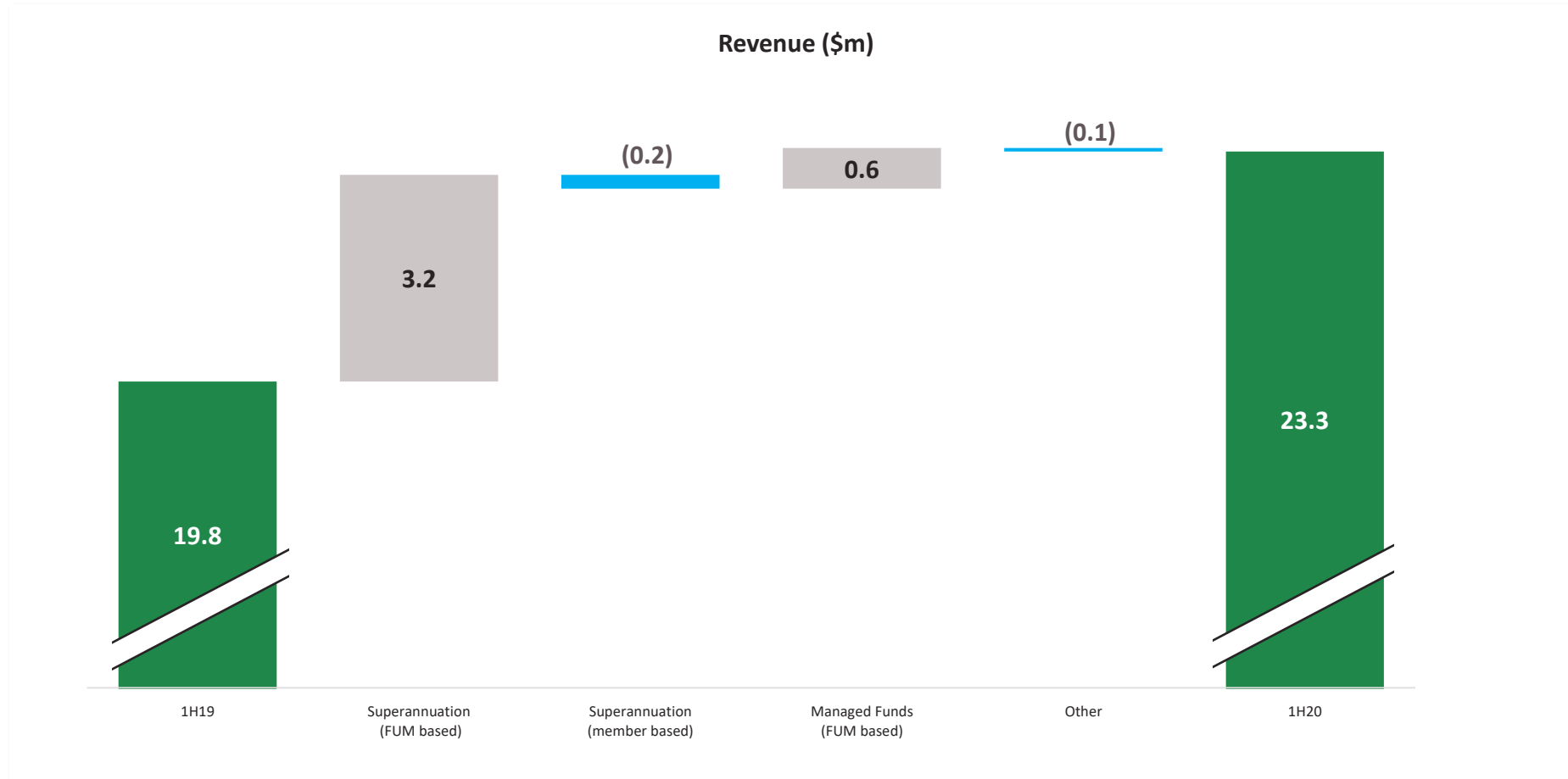
## Key themes

- Net inflows double that of corresponding period
- Super net inflows up 82%\* to \$199.4m primarily due to higher rollovers, driven by both increased member numbers and increased rollovers per member
- SG contributions increased 19%\* driven by membership growth and an increase in the number of members contributing (contribution rates)
- Managed Fund net inflows (incl institutional) up 150%\* to \$96.4m driven by improved investor sentiment and a low interest rate environment
- Industry leading super retention rates continue, however as FUM grows, absolute value of outflows increases

\* compared to first half FY19

# Revenue

## Key themes



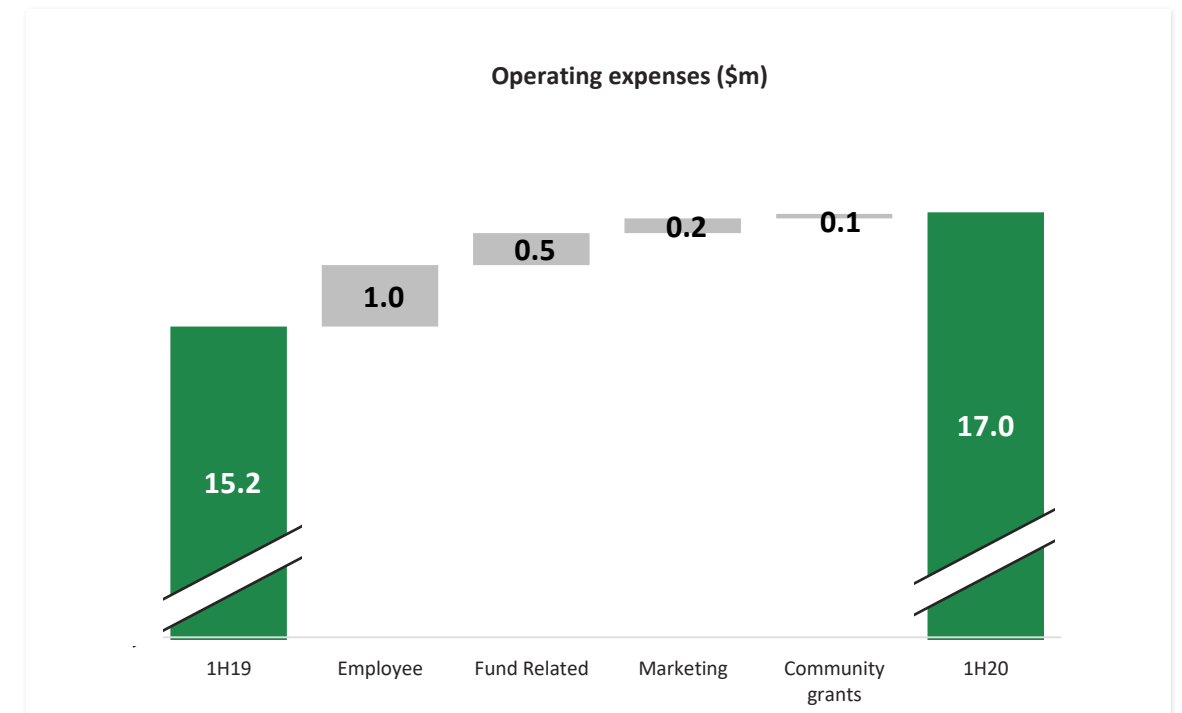
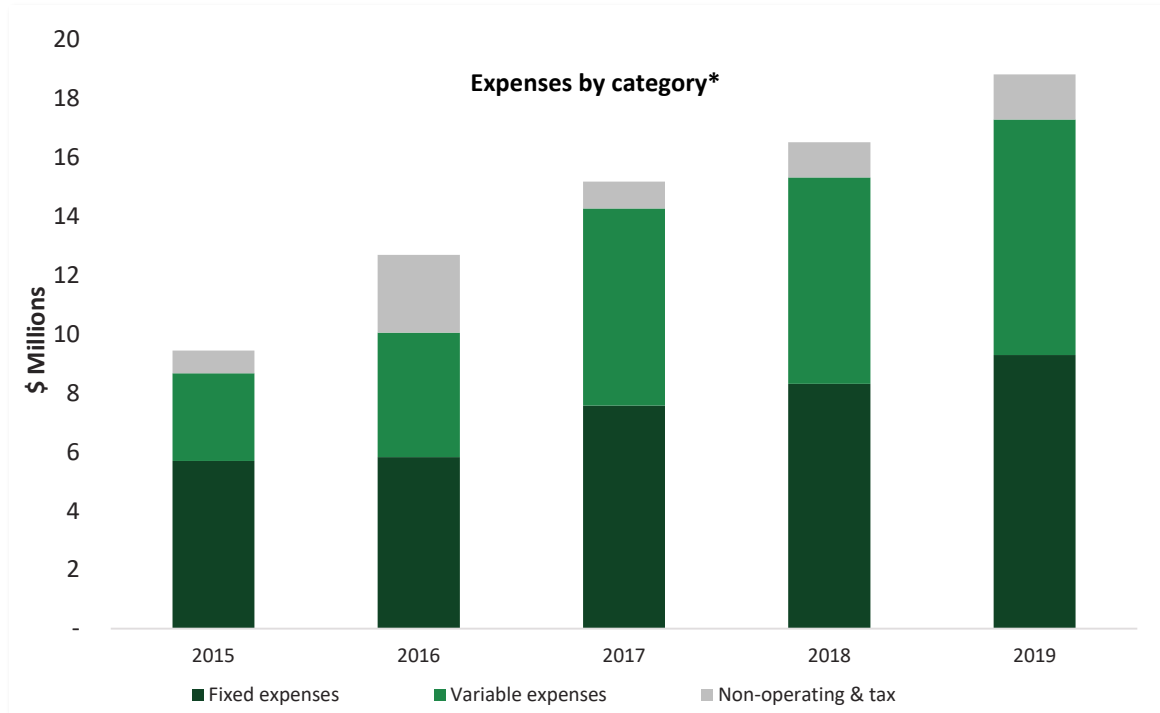
- Strong FUM based revenue growth underpinned by strong super and managed fund FUM growth, partially offset by full impact of October '18 fee reductions
- Removal of exit fees and 3% fee capping (PYS legislation) has reduced super member based revenue

# Expenses

*BUSINESS GROWING AND SCALE BENEFITS EMERGING*

## Key themes

- Increase in operating expenses driven by focused investment in the business as we build a sustainable platform to take advantage of growth opportunities, as well as responding to ongoing regulatory change:
  - increased employment costs due to new hires, full year impact of FY19 hires and salary increases as we continue to strengthen capability of our platform
  - Increased fund related costs as FUM and member numbers grow
  - Increased investment in brand and customer engagement (marketing costs)

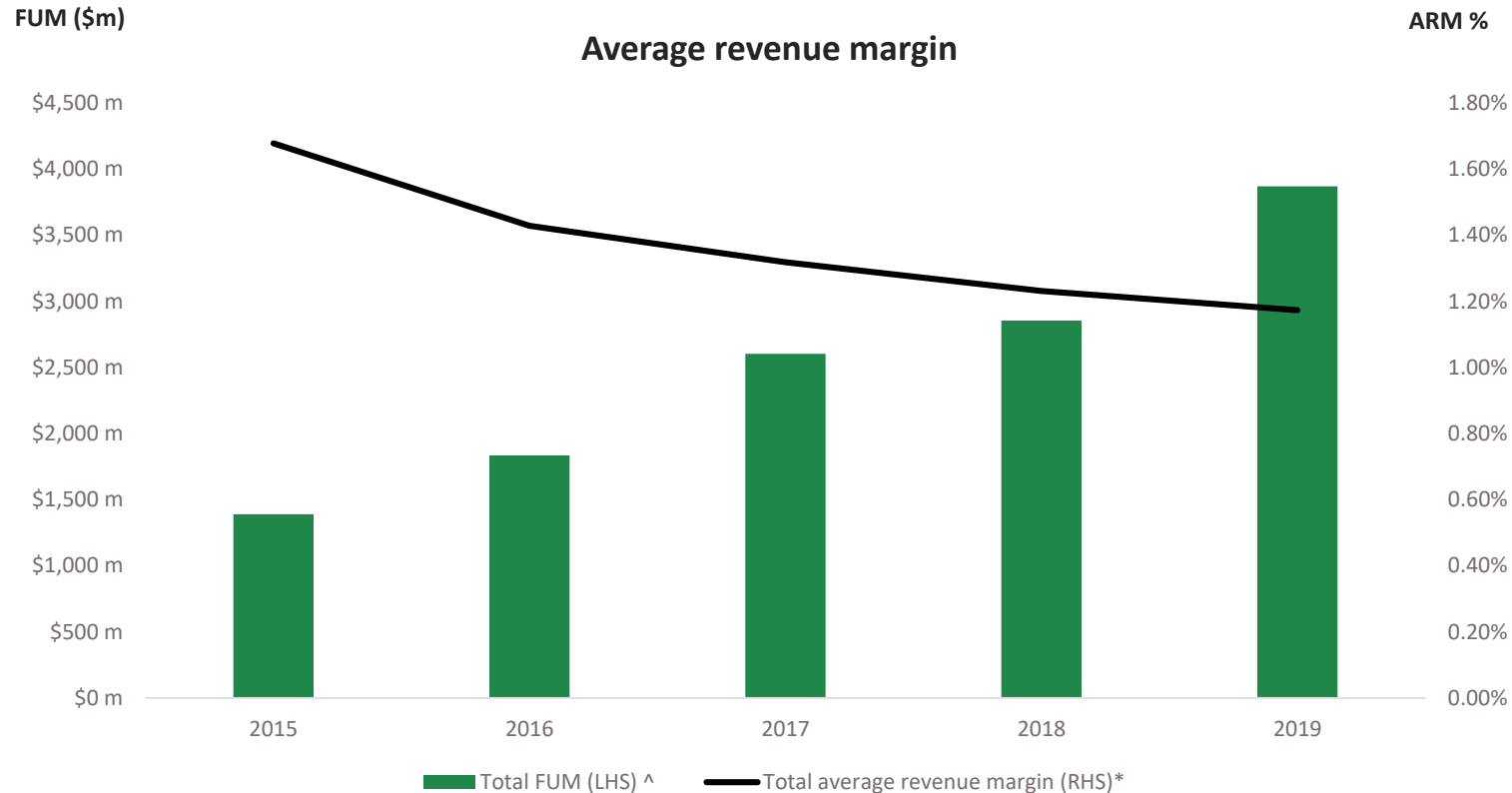


\*Represents expenses attributable to shareholders (excluding Foundation) as at 31 December 2019

# Revenue margin

## Key themes

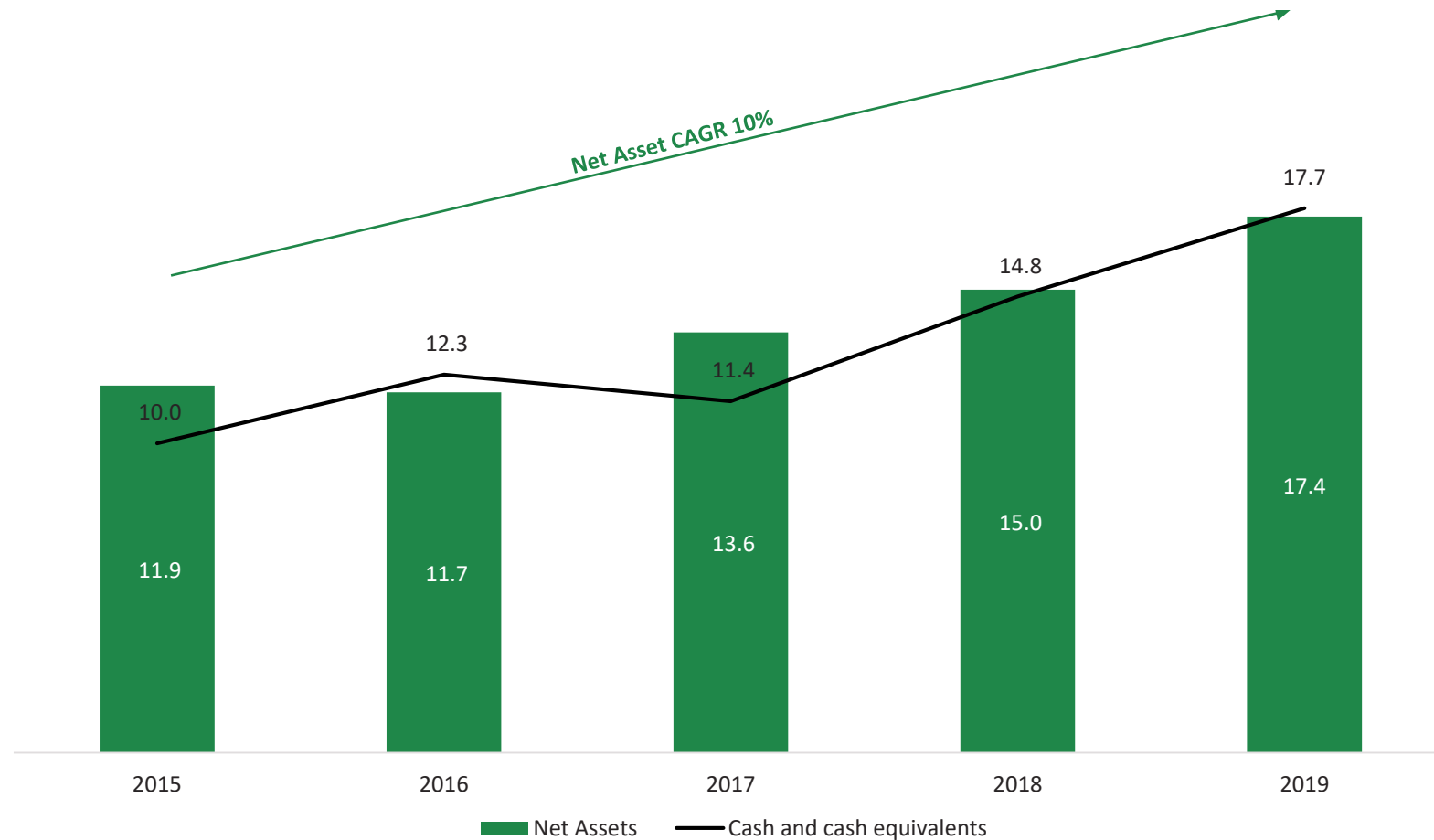
- Long track record of fee reductions
- Continued growth has allowed further fee reductions during the period with super fee reductions implemented for three options on 1 December
- Average revenue margin across products at 31 December is 1.16%



^ As at 31 December of each year

\* Average revenue margin calculated on last twelve months FUM based revenue (excluding member based fees) as a percentage of last twelve months average FUM

# Balance sheet strength



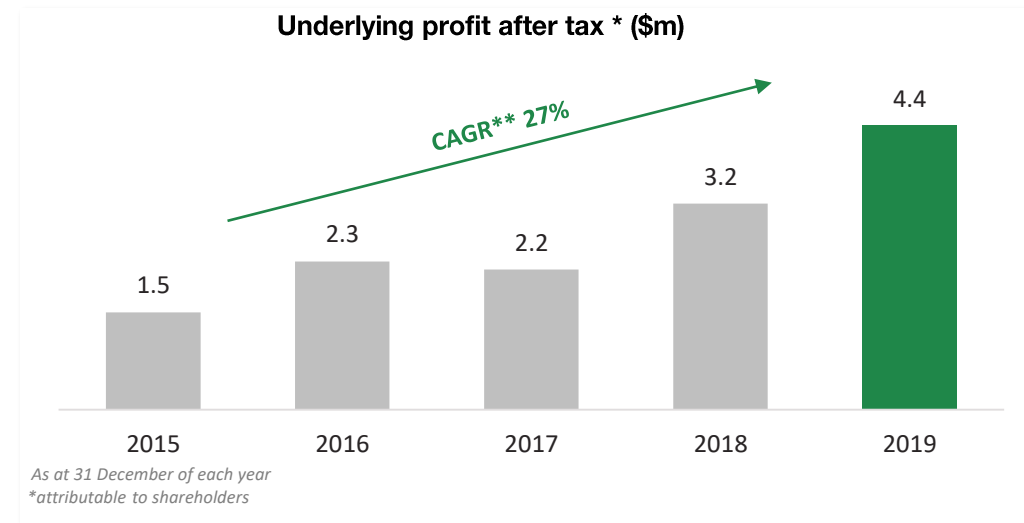
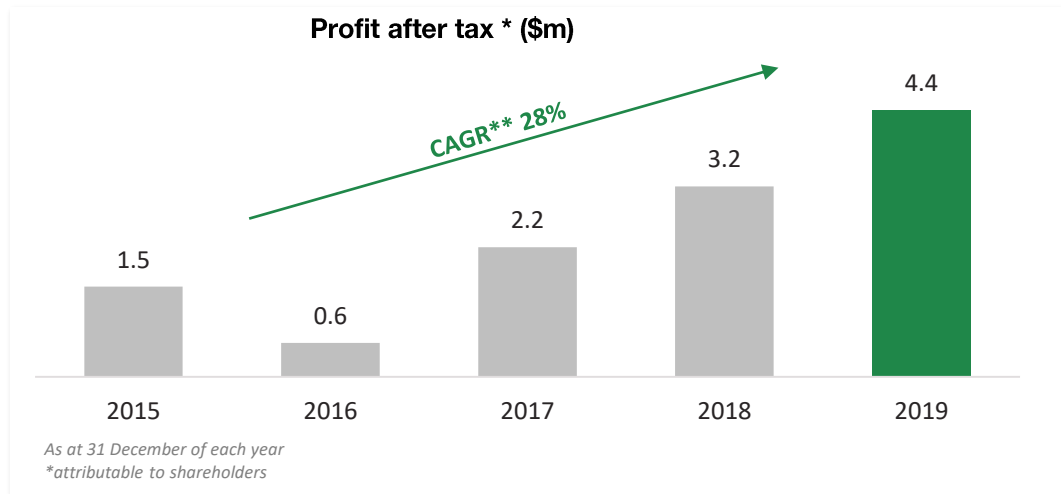
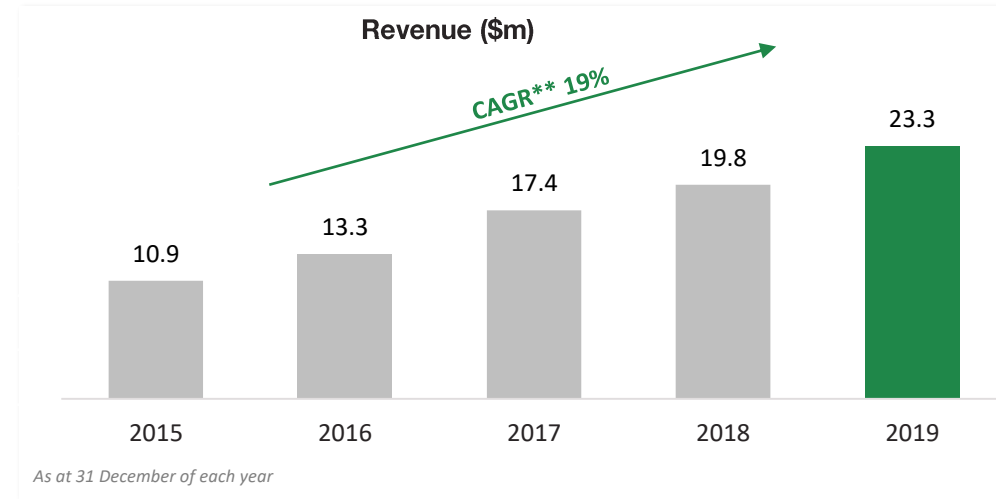
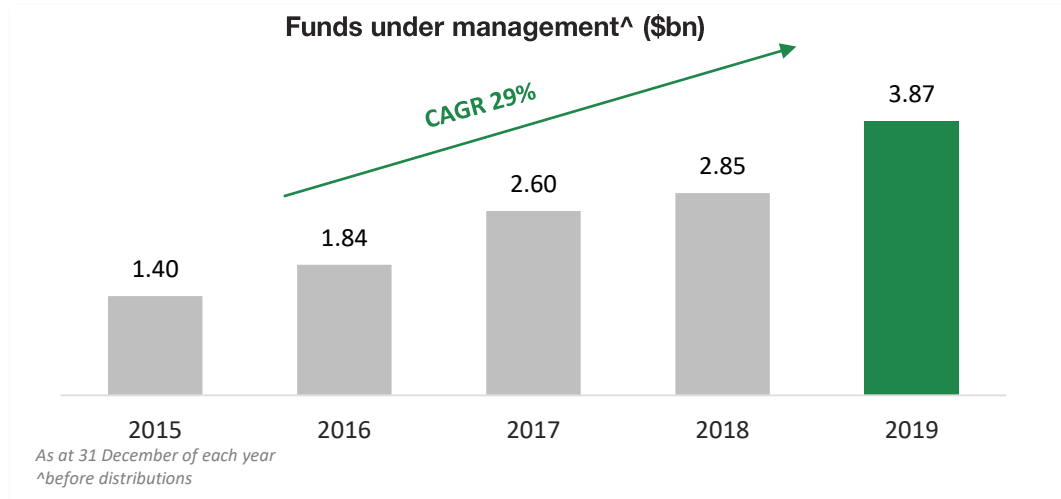
\* Represents total assets less total liabilities attributable to shareholders (excluding Foundation)  
As at 31 December of each year



## Key themes

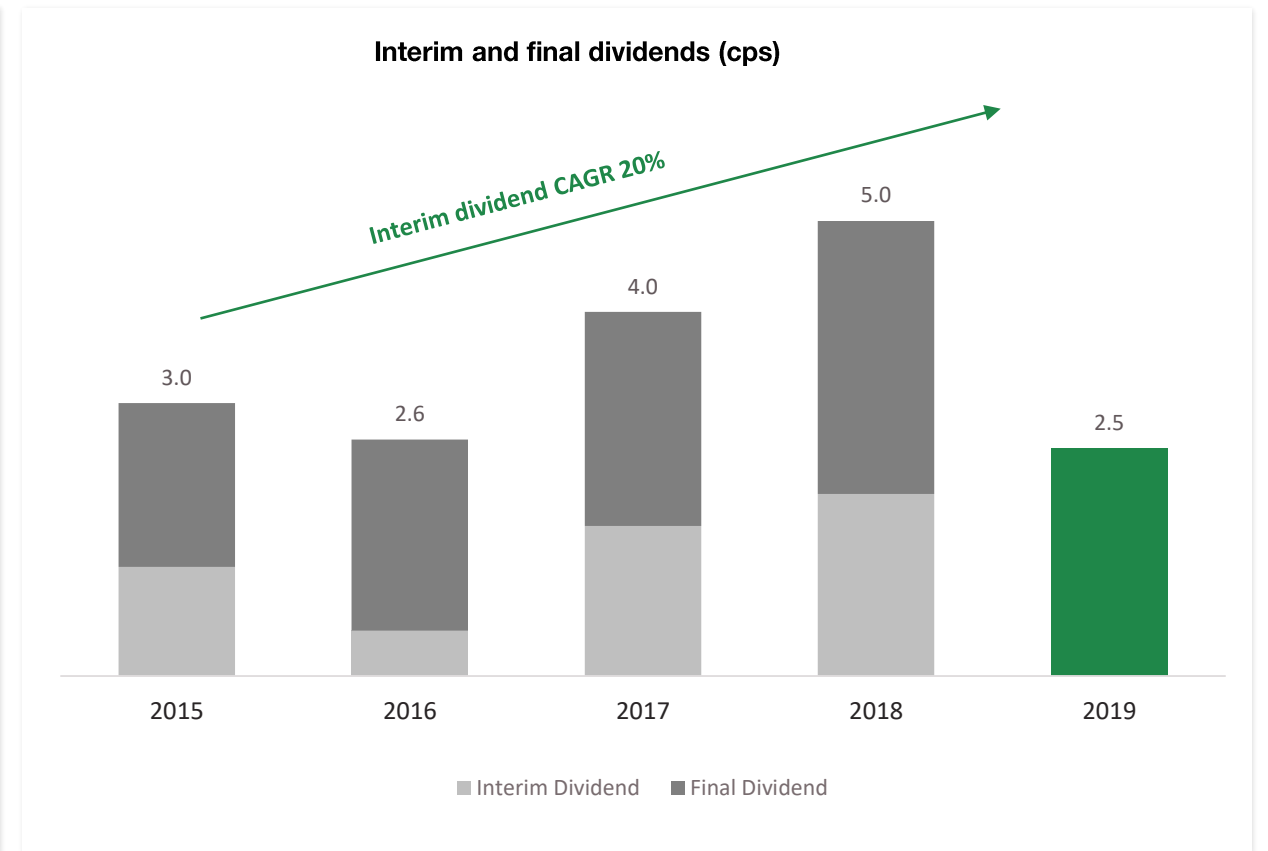
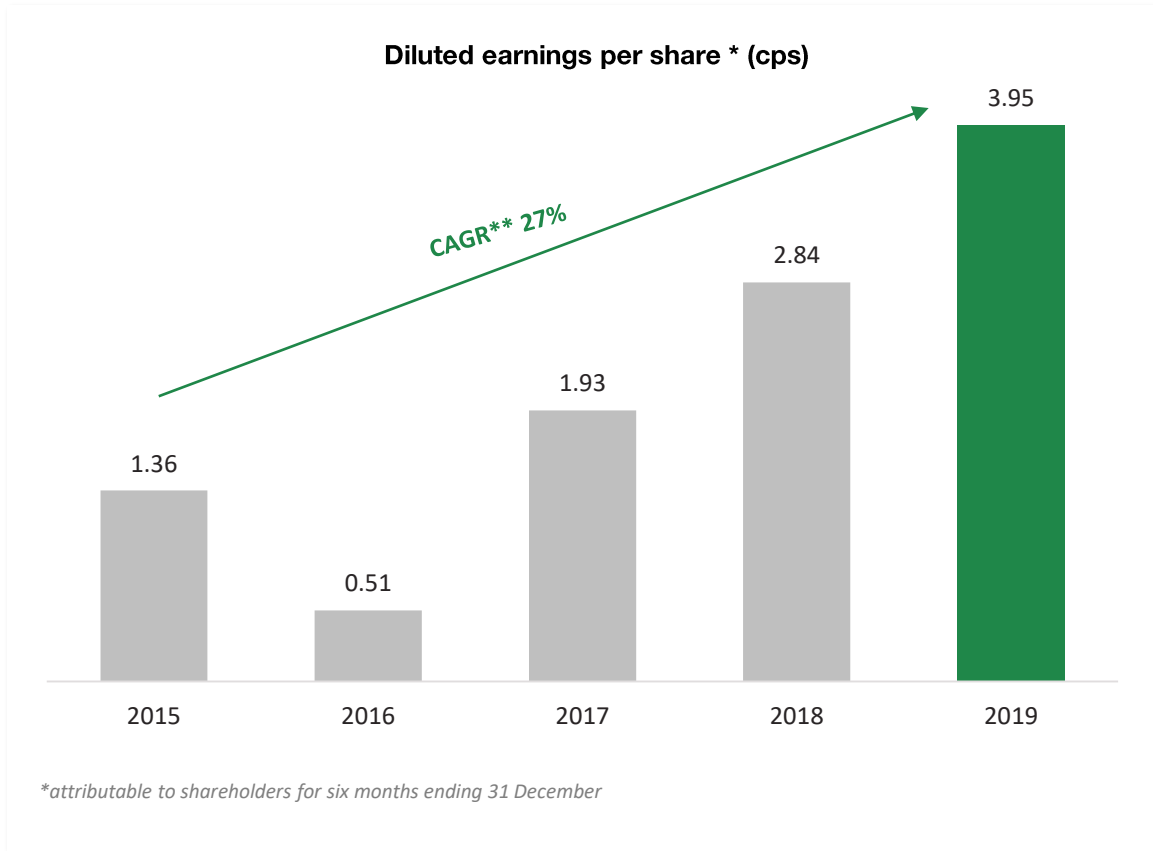
- Strong balance sheet with no debt
- Strong cash position
- Parent holds surplus regulatory capital of \$5.7m

# Key financials



\*\* CAGR based on calendar 12 month over 4 years

# Key financials



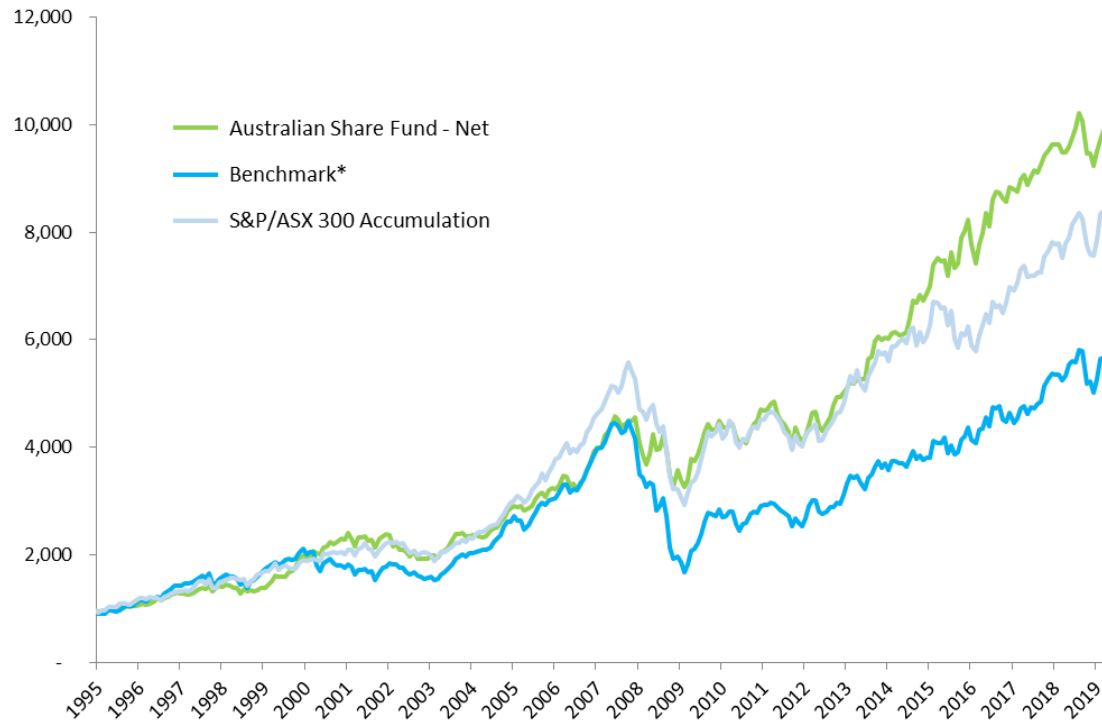
Six months ending 31 December. Historic data restated for share split.

\*\* CAGR based on calendar 12 month over 4 years

# Investment performance - strong returns, less risk

## AUSTRALIAN SHARES FUND: STELLAR RISK-ADJUSTED RETURNS

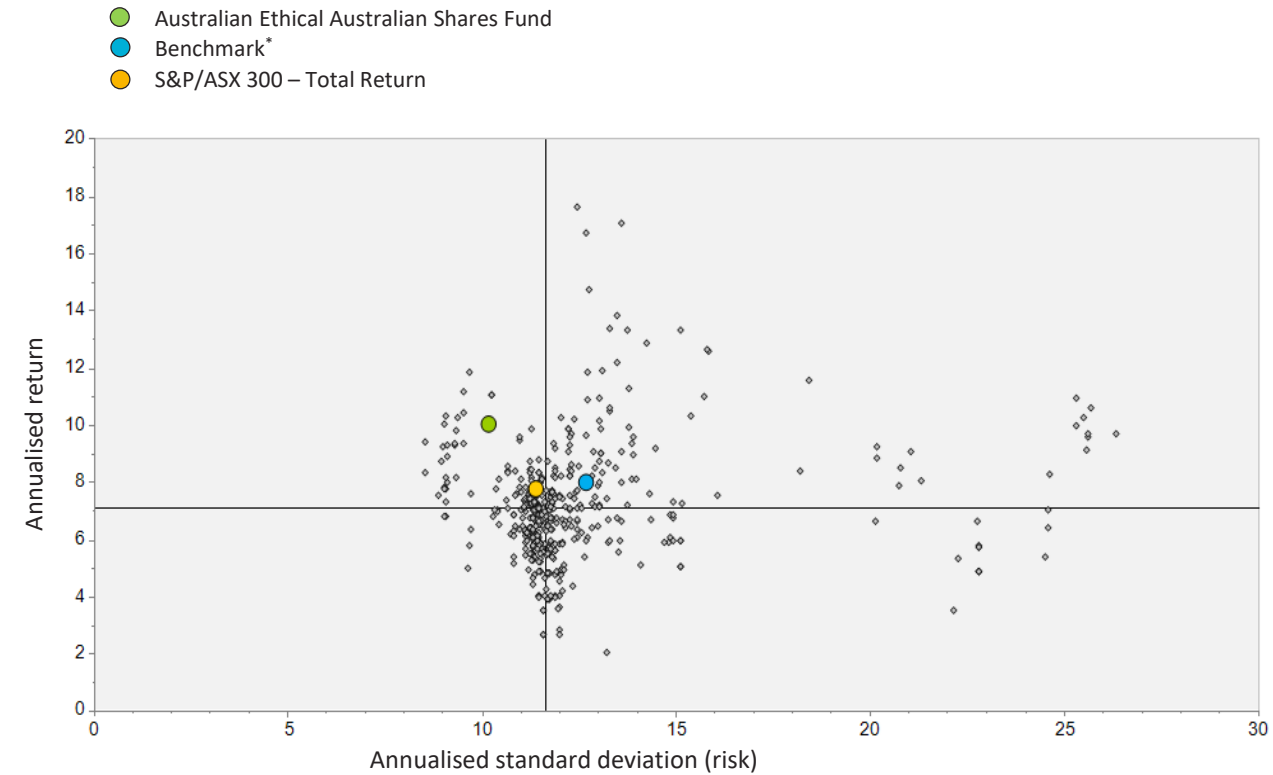
Value of \$1,000 invested since inception



As at 31 December of each period.

\* Benchmark is composite S&P/ASX Small Industrials Accumulations Index till 12 August 2019 and S&P/ASX 300 Accumulation Index thereafter

Risk/return over ten years to 31 December 2019



Source: Morningstar December 2019. 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

Our default MySuper option, the **Balanced Accumulation Option** has achieved its 5-year investment objective of meeting CPI +3.5% p.a., whilst also outperforming its peer based benchmark for the medium term

	6mths	1Y	3Y	5Y	7Y	10Y	20Y	Since Inception*
<b>Balanced Accumulation Option ~</b>	4.0%	16.6%	8.5%	7.5%	8.7%	6.7%	6.2%	6.4%
Investment Return Objective^	n/a	n/a	n/a	5.2%	n/a	n/a	n/a	n/a
<i>Relative Performance</i>	n/a	n/a	n/a	2.3%	n/a	n/a	n/a	n/a
Benchmark``	4.1%	15.3%	7.3%	6.0%	7.0%	6.1%	5.0%	5.1%
<i>Relative Performance</i>	(0.1)%	1.3%	1.2%	1.5%	1.7%	0.6%	1.2%	1.3%

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

\* Inception Date: 31/12/1998

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

`` Balanced option (MySuper: Benchmark changed to SuperRatings SR50 Balanced (60-76) Index, effective 1st of December 2019. The benchmark previously was changed from the Morningstar Multisector Balanced – Superannuation Fund peer group index to Morningstar Multisector Growth, effective 1 March 2015. The historical returns are calculated by combining the three indices.

# Long track record of outperformance

**Award winning Australian Shares Fund** continues to outperform the market over the short, medium, long and very long term. **8.3ppts above the benchmark for the 6 months\*\***

	6mths	1Y	3Y	5Y	7Y	10Y	20Y	Since Inception
<b>Retail*</b>	11.0%	27.0%	9.9%	11.4%	12.9%	10.1%	9.3%	10.1%
Benchmark ^^	3.2%	22.5%	9.8%	10.1%	10.2%	8.0%	5.5%	7.3%
<i>Relative Performance</i>	7.8%	4.5%	0.0%	1.2%	2.7%	2.0%	3.8%	2.8%
S&P/ASX 300 Accum Index	3.3%	23.8%	10.3%	9.1%	10.0%	7.8%	8.3%	9.3%
<i>Relative Performance</i>	7.7%	3.2%	(0.4)%	2.3%	2.9%	2.3%	1.0%	0.8%
<b>Wholesale^</b>	11.5%	28.1%	11.2%	12.9%	14.5%	n/a	n/a	15.3%
Benchmark ^^	3.2%	22.5%	9.8%	10.1%	10.2%	n/a	n/a	11.1%
<i>Relative Performance</i>	8.3%	5.6%	1.4%	2.8%	4.3%	n/a	n/a	4.2%
S&P/ASX 300 Accum Index	3.3%	23.8%	10.3%	9.1%	10.0%	n/a	n/a	10.7%
<i>Relative Performance</i>	8.2%	4.3%	0.9%	3.8%	4.5%	n/a	n/a	4.6%

Table reflects performance after fees for the Australian Shares Fund. Performance calculated in accordance with FSC standard 6 and standard 10

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

^^ Benchmark is composite S&P/ASX Small Industrials Accumulations Index till 12 August 2019 and S&P/ASX 300 Accumulation Index thereafter

\*\*Wholesale fund

Past performance is not a reliable indicator of future performance

# Outperformance of Emerging Companies Fund

Emerging Companies Fund continuing to show strong outperformance; **14.0ppts** above the benchmark for the 6 months \*\*

	6mths	1Y	3Y	Since Inception
<b>Retail*</b>	18.4%	44.7%	16.3%	16.8%
S&P/ASX Small Industrials Accum Index	4.8%	24.5%	10.4%	11.1%
<i>Relative Performance</i>	<b>13.6%</b>	<b>20.2%</b>	<b>5.8%</b>	<b>5.8%</b>
<b>Wholesale*</b>	18.8%	45.6%	17.1%	17.7%
S&P/ASX Small Industrials Accum Index	4.8%	24.5%	10.4%	11.1%
<i>Relative Performance</i>	<b>14.0%</b>	<b>21.1%</b>	<b>6.7%</b>	<b>6.6%</b>

Table reflects performance after fees for the Emerging Companies Fund. Performance calculated in accordance with FSC standard 6 and standard 10

\* Inception Date 30/06/2015

\*\* Wholesale fund

Past performance is not a reliable indicator of future performance

# Outlook

## ONGOING STRONG GROWTH UNDERPINNED BY SUSTAINABLE PLATFORM



**Strong start to 2<sup>nd</sup> half** with record **January net inflows of \$112m**, and **FUM reaching \$4.14bn**

- **Strong growth** expected to continue as ethical investment moves into the mainstream and more people realise that our approach is achieving **excellent returns** and **delivering social good**
- Continuing **investment in strengthening our platform** and **enhancing our customer experience** to maintain momentum and drive sustainable growth
- Alignment of resources and capability to respond to ongoing **regulatory change**
- Remain committed to **passing on scale benefits** to our customers through **fee reductions**. Plan to **reduce the percentage-based super administration fee** from 0.41% to 0.29%^ in April 2020, **improving outcomes** for current and future members, and **increasing competitiveness** of our super product
- Continued business growth will drive **growth in community impact** via The Foundation
- Any **performance fee** on Emerging Companies fund will only crystallise at 30 June 2020

^ Following fee reduction the Superannuation Fund's administration fee will be 0.29% pa of daily fund balance plus the fixed \$97pa per member, which remains unchanged

# Brand campaign

CLICK ON THE LINK BELOW TO VIEW OUR RECENTLY LAUNCHED BRAND CAMPAIGN



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