

Australian  
Ethical

# Australian Ethical Investment Ltd FY22 H1– Analyst pack

23 February 2022

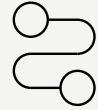


# Overview & history



## Our purpose

Investing for a better world



## 35+ years

offering investment and super solutions using our leading ethical investing approach



90+ employees and growing



## Our vision

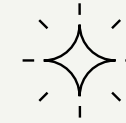
Money as a force for good



## Best for the World

for Customer & Governance by B Corps<sup>#</sup>

<sup>#</sup>Top 5% of same-size B Corps globally



## 10% of annual profits<sup>\*</sup>

donated through our Foundation to charitable organizations

<sup>\*</sup>after tax and before bonuses



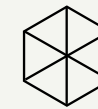
## Managing \$6.5bn+

as an ASX 300 listed investment manager, on behalf of members and investors



## Multi award-winning

Investment portfolio with strong track record of excellent investment performance

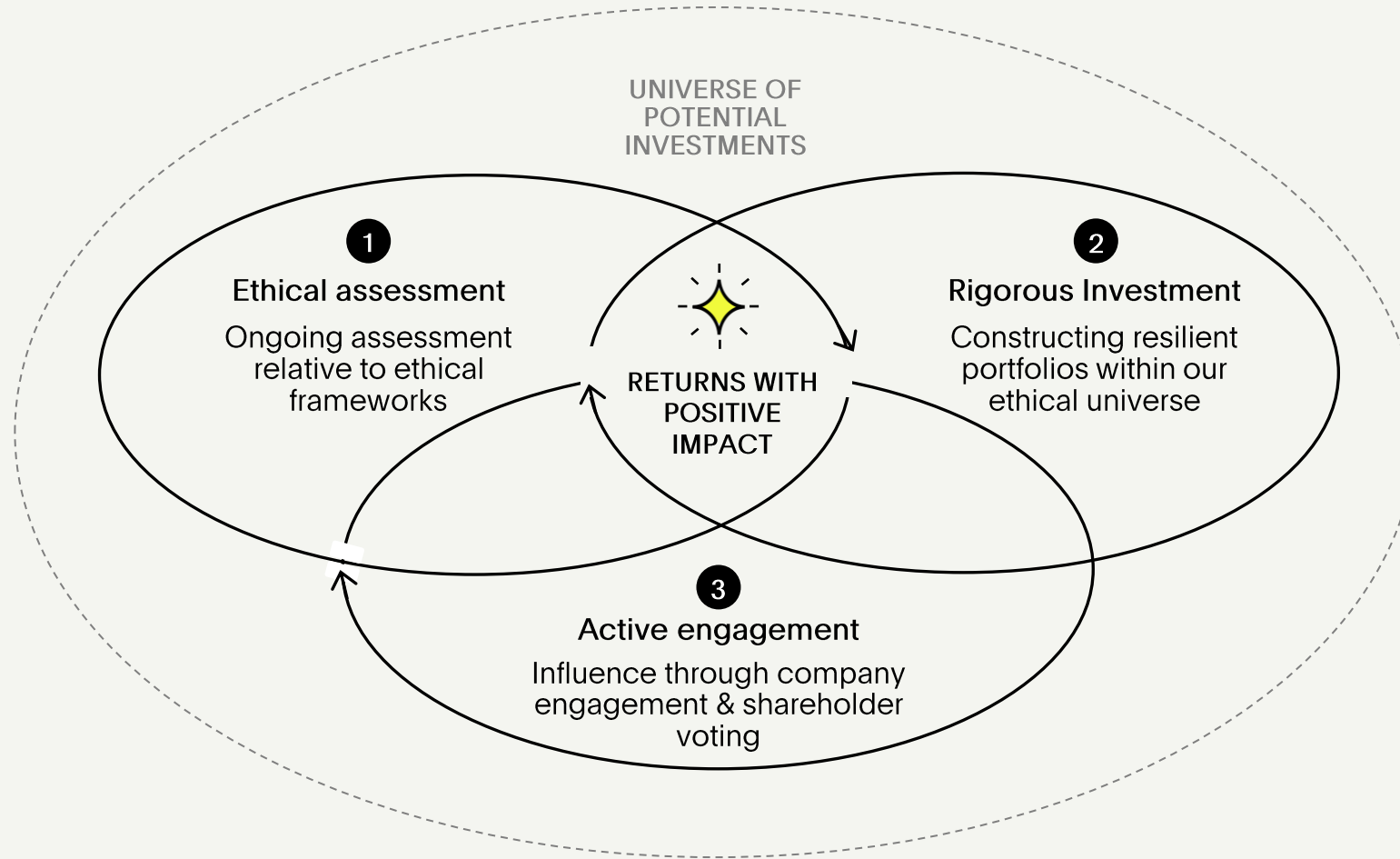


## 1 of just 6 global leaders

for ESG commitment<sup>^</sup> – the only asset manager in Australia

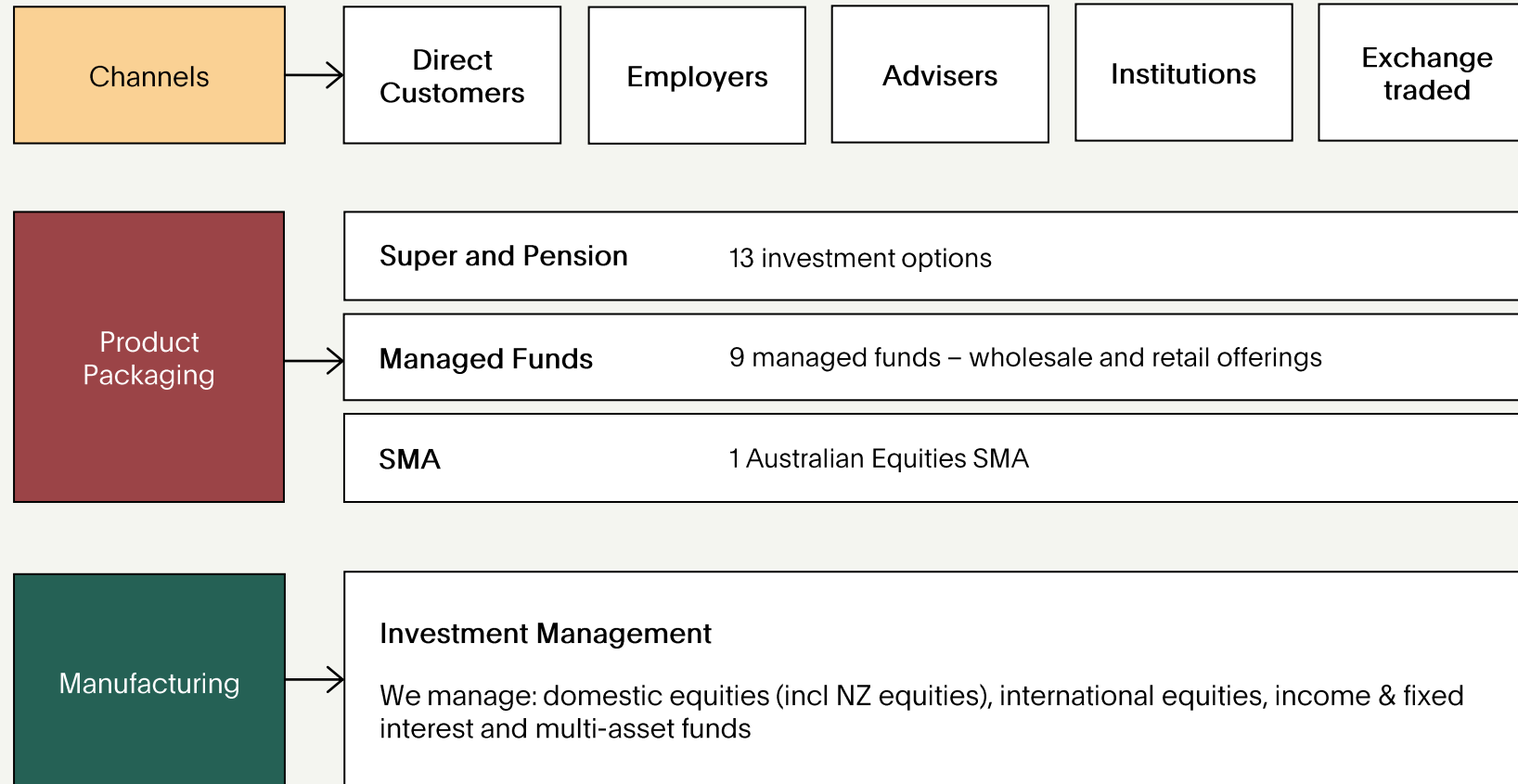
# How we invest

Creating returns with positive impact



# Our business model

We offer a broad range of products for five different audience segments.



## Key Themes

- 84% of net flows acquired via direct channel.
- Investing in growing advised channel and HNW segment, whilst continuing to foster direct channel
- New High Conviction ETF launched on 1 February 2022, our first ETF
- Externally managed property and alternative assets ~6% of FUM

# FUM summary – Asset Class

Asset Class	FUM at 31 Dec 21 (\$bn)
Domestic Equities*	3.54
Cash	0.23
International Equity	1.51
Fixed Income	1.27
Alternatives	0.06
Unlisted Property	0.33
<b>Total</b>	<b>6.94</b>

\* Including NZ equities

# FUM summary – Managed Funds

Fund/option	Current Management Fee	FUM at 30 Jun 21 (\$bn)	Net flows for 1H22 (\$bn)	Reclass. and switches (\$bn)	Performance for 1H22 (\$bn)	FUM at 31 Dec 21 (\$bn)
<b>Managed Funds – Retail</b>						
Income, Fixed Int, Int'l, Diversified, High Growth	0.20%, 0.50%, 0.99%, 1.39%, 1.39%	0.03	0.01	(0.01)	0.01	0.03
Balanced Fund	1.52%	0.09	0.03	(0.03)	0.00	0.10
Australian Shares	1.69%	0.21	0.02	(0.02)	0.01	0.22
Emerging Companies	1.69%	0.02	0.01	(0.01)	0.00	0.02
<b>Total Managed Funds Retail</b>		<b>0.35</b>	<b>0.07</b>	<b>(0.06)</b>	<b>0.02</b>	<b>0.38</b>
<b>Managed Funds – Wholesale</b>						
Income Fund	0.20%	0.01	0.00	0.00	0.00	0.01
Fixed Interest	0.30%	0.04	0.00	0.00	0.00	0.04
International Shares	0.59%	0.09	0.01	0.00	0.01	0.10
High Conviction Fund	0.80%	0.00	0.00	0.00	0.00	0.00
Balanced Fund	0.86%	0.19	0.02	0.03	0.01	0.24
High Growth Fund	0.90%	0.06	0.01	0.00	0.00	0.07
Diversified Shares	0.95%	0.27	0.02	0.00	0.02	0.30
Australian Shares	1.10%	0.57	0.09	0.01	0.00	0.67
Emerging Companies	1.20%	0.20	0.06	0.01	0.01	0.27
<b>Total Managed Funds Wholesale</b>		<b>1.41</b>	<b>0.21</b>	<b>0.06</b>	<b>0.05</b>	<b>1.71</b>
Institutional		0.41	(0.05)	0.00	0.02	0.38
<b>Total Managed Funds</b>		<b>2.17</b>	<b>0.23</b>	<b>0.00</b>	<b>0.08</b>	<b>2.48</b>

Note:

- FUM is calculated based on cum-div net market value (after fees)
- Management fees includes ICRs
- Total Managed Funds includes SMA which is not shown here separately due to the small FUM size

- In addition to the management fee, Emerging Companies Fund & High Conviction Performance Fund also receive performance fees
- FUM represents external investments only ie excludes AE superannuation amounts invested in these funds.
- High Conviction Fund inception date 1 October 2021

# FUM summary – Superannuation

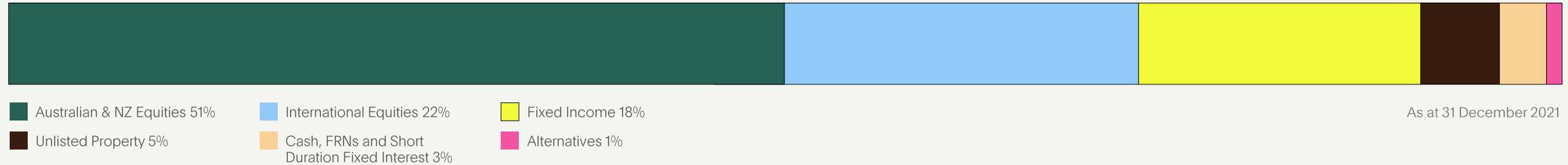
Fund/option	Current Management Fee	FUM at 30 Jun 21 (\$bn)	Net flows for 1H22 (\$bn)	Performance for 1H22 (\$bn)	FUM at 31 Dec 21 (\$bn)
<b>Superannuation</b>					
Defensive	0.20%	0.09	0.00	0.00	0.09
Conservative	0.63%	0.13	0.00	0.01	0.15
Balanced Accum / Pension	0.64% / 0.67%	2.17	0.30	0.05	2.52
International Shares	0.89%	0.10	0.00	0.01	0.12
Growth	0.99%	0.56	0.03	0.05	0.64
High Growth	0.99%	0.18	0.01	0.03	0.22
Australian Shares	1.20%	0.67	0.02	0.03	0.72
<b>Total Superannuation</b>		<b>3.90</b>	<b>0.37</b>	<b>0.19</b>	<b>4.46</b>

Note:

- FUM is calculated based on cum-div net market value (after fees), and super units are valued at sell-price
- In addition to the management fee, there is also an administration fee of 0.29% and a fixed fee of \$97 per member per annum

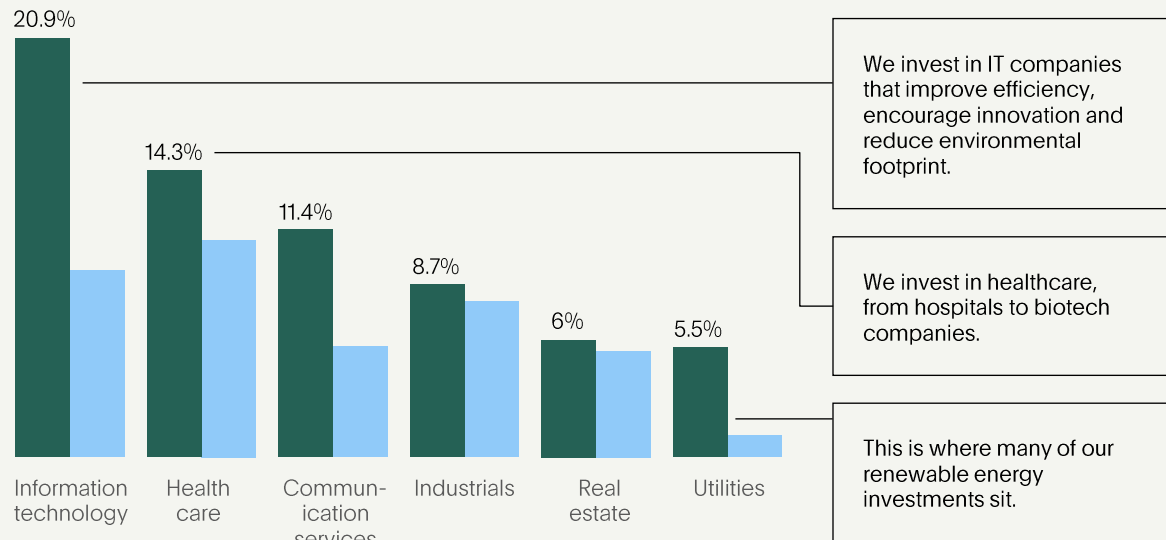
# Our investments by sector & asset type

## By asset type

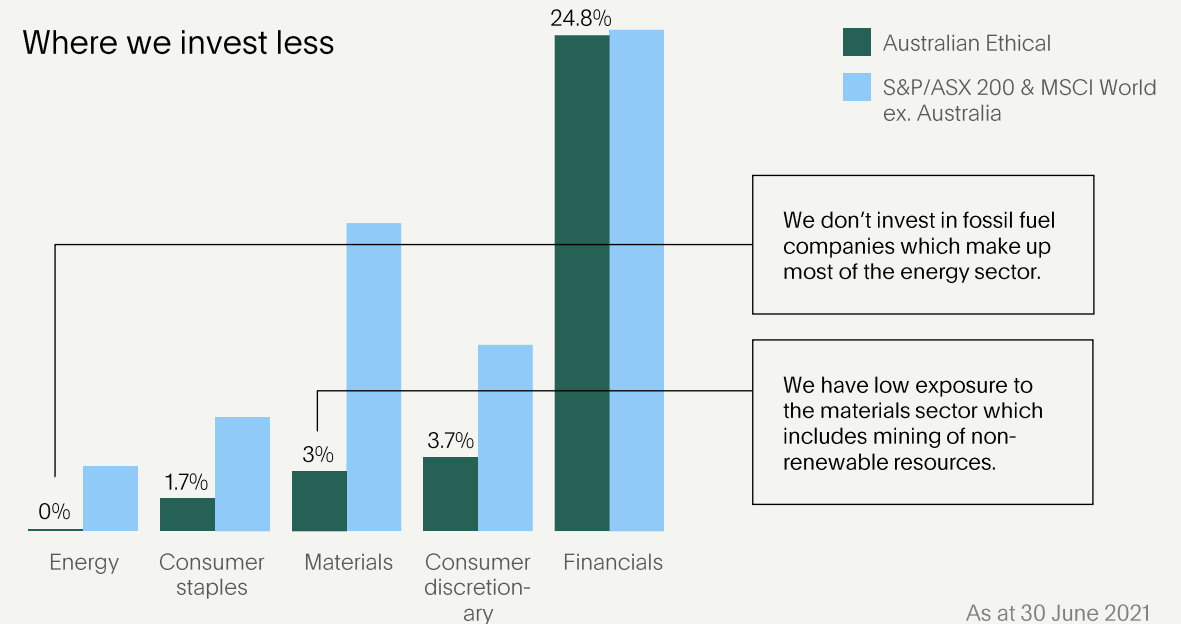


## By sector compared to the market

### Where we invest more



### Where we invest less

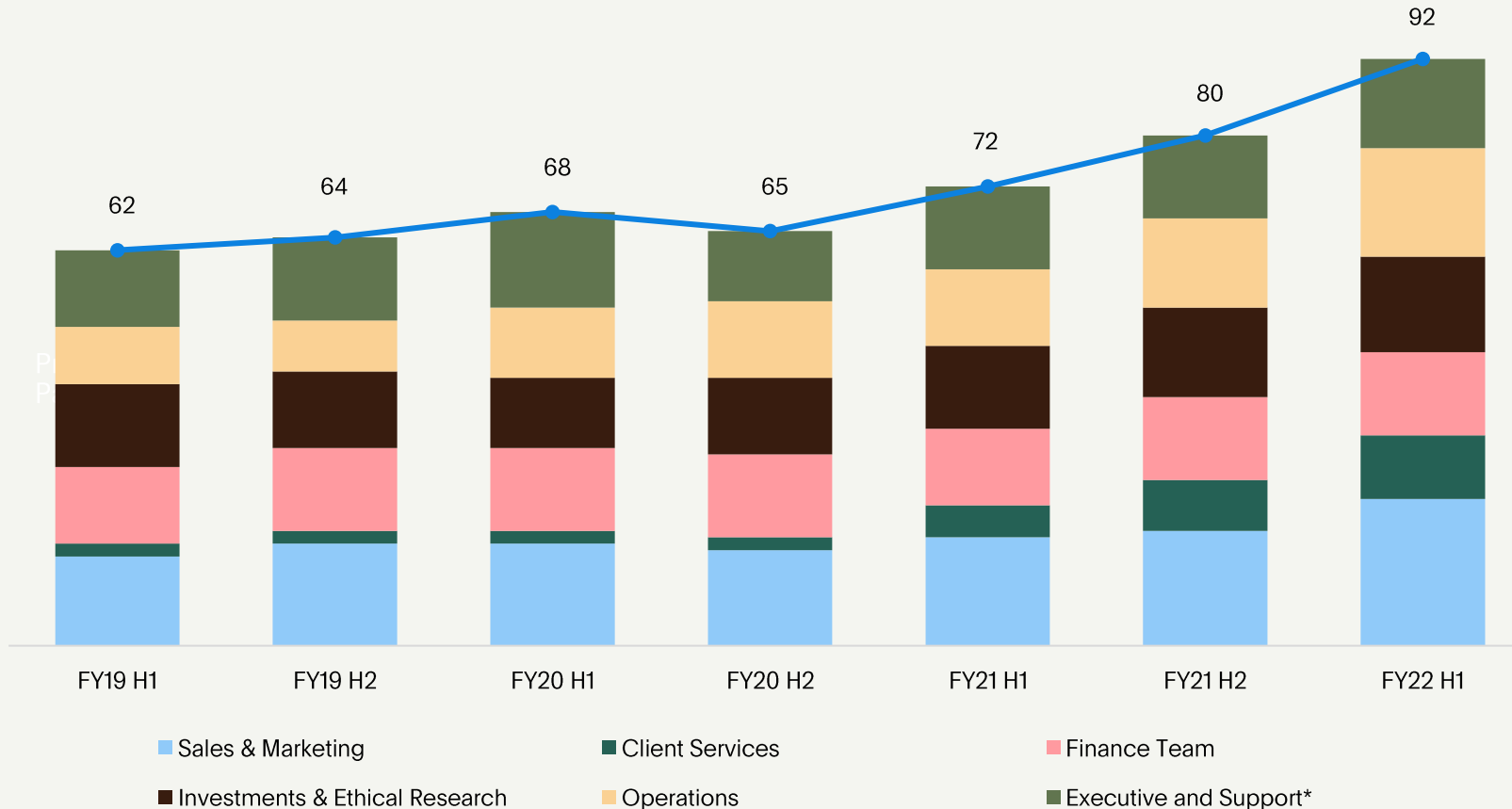




# Headcount Summary



## Key Themes



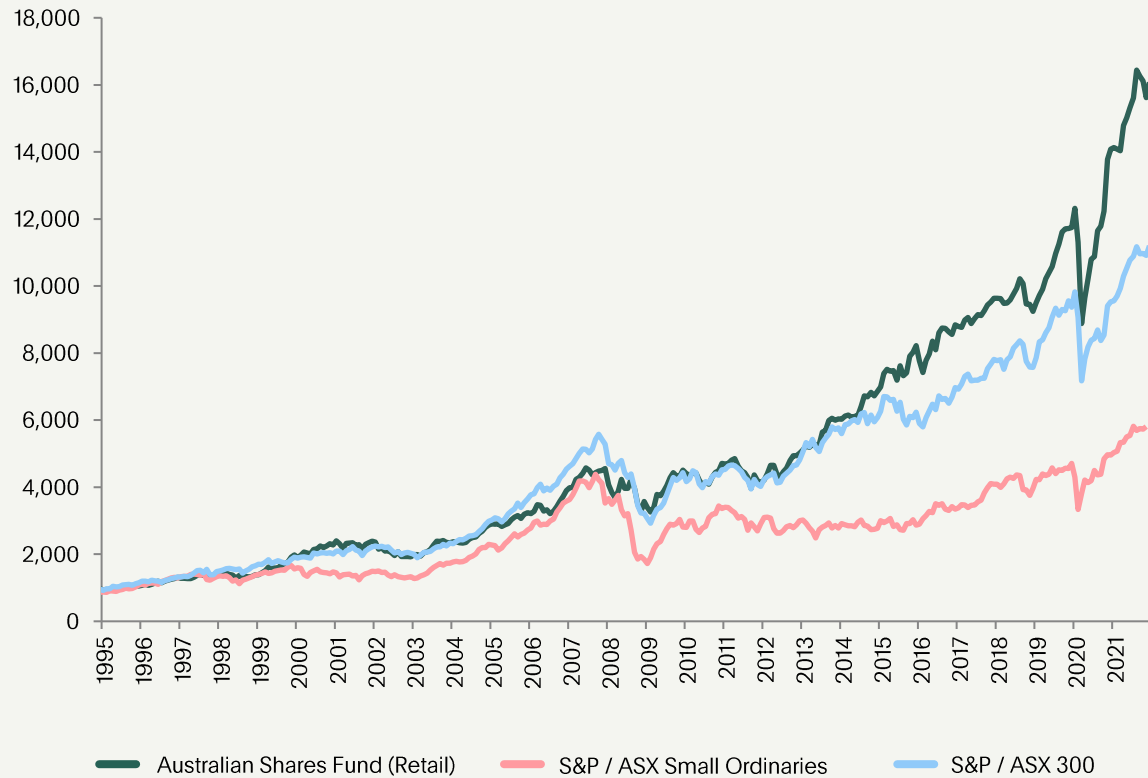
- Headcount has increased by 12 employees (15%) since June 2021 as we gain momentum on our strategic growth agenda
- The first half 2022 saw investment in capability (11), as well new hires resulting from growth in the business (3). There were 2 departures during the period which were not yet filled at December 2021.
- Capability was added to:
  - ✓ Investment team – new equities analyst to support the investment team following the promotion of previous analyst to Head of Domestic Equities
  - ✓ Sales team – 2 new BDs and a Sales & Events Co-ordinator to support strategic growth in the adviser channel
  - ✓ New incubator team – new role within a new team to embed innovation culture and develop new product offerings
  - ✓ IT team – Head of Data & Technology to increase data analytics & data management capability
  - ✓ Contract hires to support strategic projects in lieu of consultants
  - ✓ Client services team has grown to support the increase in super and managed fund volumes, as well as the increase in adviser calls following deeper penetration in this segment
- A Finance Graduate was recruited to support growth in back office volume as the business grows

\* Executive and Support Team headcount includes Executive Officer Superannuation and Risk and Compliance, Legal, People & Culture and Office of MD teams

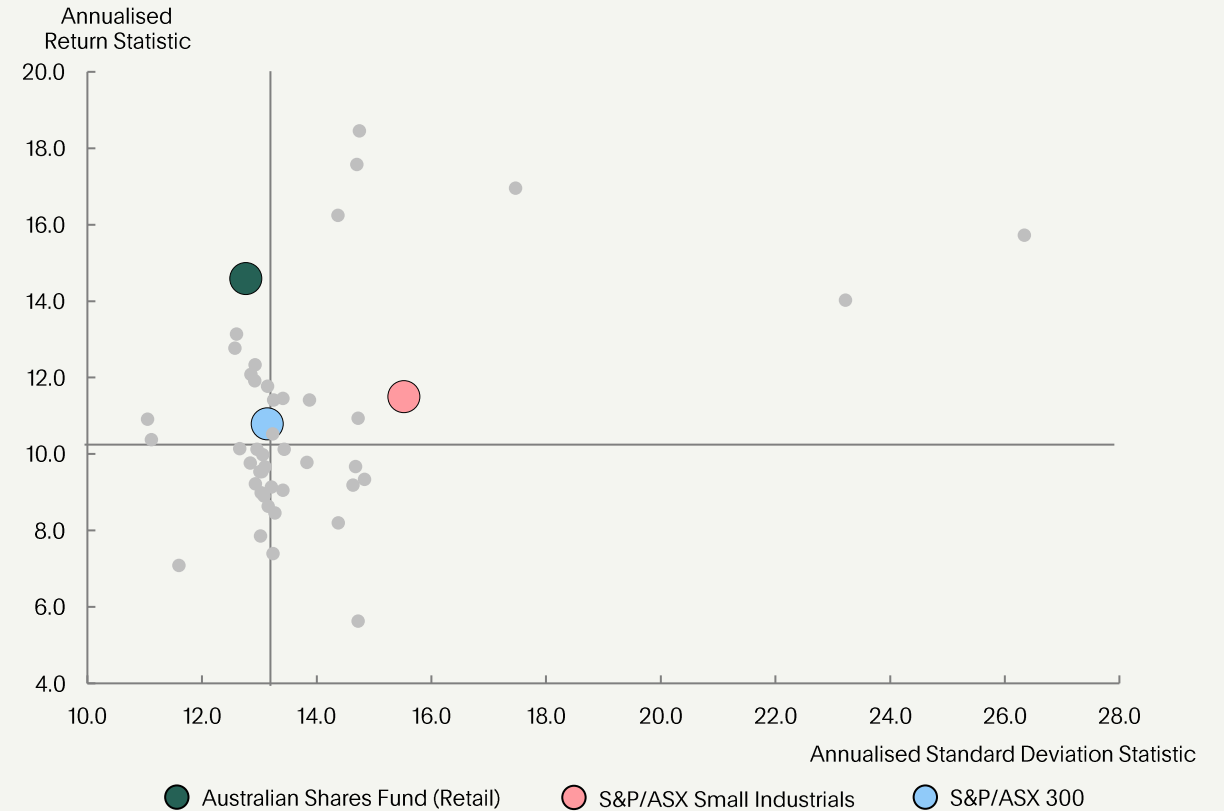
# Investment leadership

Strong returns, with lower risk | Australian Shares Fund

Value of \$1000 invested since inception



Risk/return over ten years to 31 December 2021



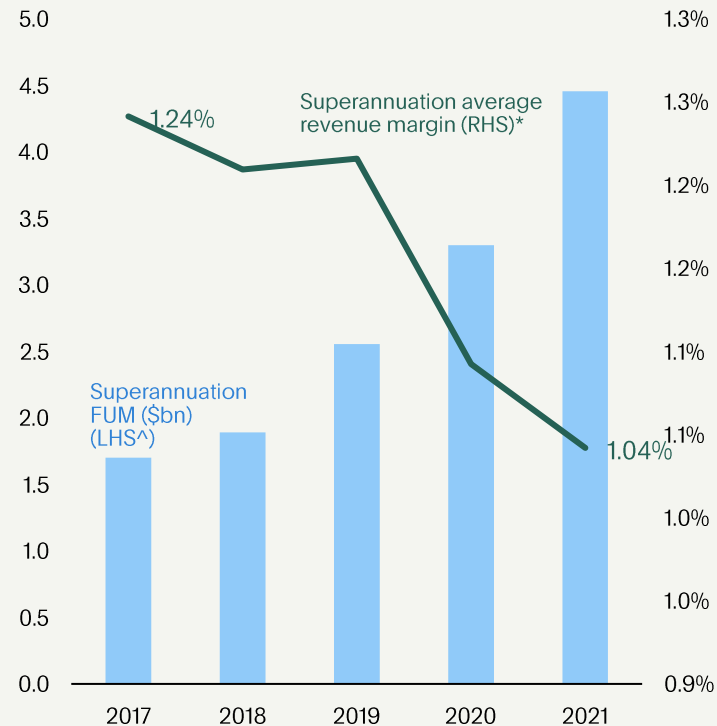
Source: Mercer (31/12/2011 to 31/12/2021).

# Fees



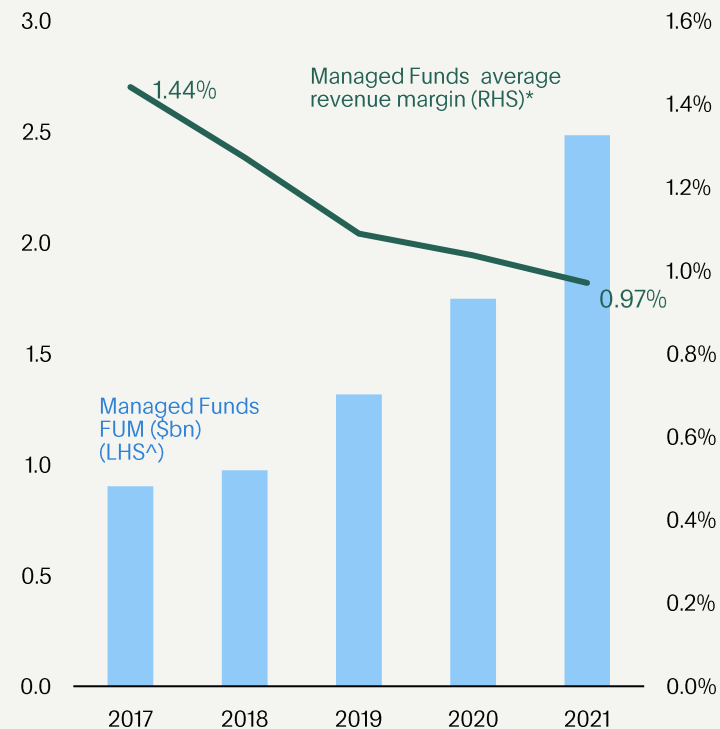
## Additional information

### Superannuation average revenue margin



### Managed Funds average revenue margin<sup>~</sup>

Includes retail, wholesale and institutional



<sup>^</sup> As at 31 December of each year

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

In addition to FUM based fees, we also charge a super member fee of \$97 per member, which funds super administration costs

<sup>~</sup> Managed Funds includes SMA

- Margins have reduced over time as we continue to pass on benefits of scale to investors and members through fee reductions.
- Our funds continue to generate excellent post fee investment performance.
- Average margin across all products (including institutional) was 1.02% for the 12 months to December 2021 (Super 1.04% and Managed Funds 0.97%).
- Overall margin at 31 December 2021 was 0.99% (super and managed funds, including institutional).
- Looking forward, as part of our fee strategy, we will continue to reduce fees as we grow, to increase our competitiveness, balanced for all stakeholders.
- Performance fees on the Emerging Companies Fund and High Conviction Fund crystallise on 30 June each year, if the Fund achieves the benchmark outperformance targets



# Investment team

Team member	Position	Tenure	Experience
David Macri, CFA	Chief Investment Officer	13 years at AEI CIO since 2012	20+ years of investment experience Previously at Macquarie Securities, Credit Suisse, Mellon, Mercer
Angus Dennis	Investment Director	Commenced February 2022	20+ years of investment experience Previously at Vanguard, CoreData and AMP Capital
Michael Murray, CFA	Head of Domestic Equities	5.5 years at AEI	20+ years of investment experience Previously at Integrity, AMP Capital Analyst Coverage – Healthcare, Bio-technology
John Woods, CFA	Head of Asset Allocation	1 years at AEI	15+ years of investment experience Previously at MLC, CLSA, Macquarie
Andy Gracey	Portfolio Manager	17 years at AEI PM since 2007 (Australian Shares/Emerging Companies)	20+ years of investment experience Previously worked at ANZFM, Friends Provident
Ray Gin	Portfolio Manager/ Analyst	9 years at AEI PM since 2017 (Diversified Shares/International Shares)	30+ years of investment experience Previously at ING, Deutsche Analyst Coverage – Financials, REITs, Misc Industrials
Tim Kelly	Portfolio Manager	20 years at AEI PM since 2011 (Fixed Interest/Income)	15+ years of investment experience
Mark Williams, MBA	Equities Analyst	6 years at AEI	14+ years of investment experience Previously at Morgans, ABN AMRO Analyst Coverage – Infra/Utilities, Media, Telco, Misc Industrials Managing the SMA portfolio since March 2020
Deana Mitchell, CFA	Equities Analyst	4 years at AEI	15+ years of investment experience Previously at Macquarie Securities Analyst Coverage – Diversified Financials, Technology, Education
Jason Korchinski	Equities Analyst	Commenced September 2021	8+ years of financial services experience Previously at KPMG, SuperChoice Services & Ord Minnett. Analyst coverage – Small cap healthcare, agriculture & travel & leisure.
Jason Huang	Quantitative Analyst	6 years at AEI	9+ years of investment experience Previously at BBY Ltd
Julian Richman, CFA	Investment Analyst	5 years at AEI	4 years of investment experience Assisting Balanced Fund and REITs coverage



# Ethics team

Team member	Position	Tenure	Experience
Stuart Palmer	Head of Ethics Research	8 years at AEI	<ul style="list-style-type: none"><li>• 30+ years experience in the financial, investment and legal sectors</li><li>• Previously Head of Ethics Services at St James Ethics Centre, helping develop strong organisational leadership and culture to guide good decision making in the corporate, government and not for profit sectors</li><li>• Former law firm partner (practicing in finance and investment) and banker (Head of Asset Securitisation at ABN AMRO Australia). Stuart's doctorate is in philosophy of mind</li></ul>
Amanda Richman	Ethical Stewardship Lead	4 years at AEI	<ul style="list-style-type: none"><li>• Previously Senior Associate at law firm Allens specialising in competition law</li><li>• Experienced animal law advocate, Director of Animal Law Institute, former Chair of NSW Young Lawyers Animal Law Committee</li><li>• First class honours in law; Dean's awards for outstanding contributions to Macquarie Law Community and for outstanding academic achievement in law</li></ul>
Olivia Webster	Senior Impact Analyst	2 years at AEI	<ul style="list-style-type: none"><li>• Previously Sustainability Analyst at Westpac Group, developing best practice approaches to Sustainability Governance</li><li>• University medallist for Information Technology degree</li></ul>
Persephone Fraser	Ethics Analyst	15 months at AEI	<ul style="list-style-type: none"><li>• Previously research analyst for Common Capital and research assistant at UNSW's Climate Justice Initiative, developing reports on environmental and ethical impacts and policy.</li><li>• Worked in policy and research at Reconciliation Australia and in the office of Senator Mehreen Faruqi.</li><li>• MA in Political Economy, BA in Political Science &amp; Philosophy. She received the Leon Fink Institute Grant for study in Jerusalem, the Dame Eadith Campbell Walker Bursary and the Harry Senior Bequest from The University of Sydney.</li></ul>

# Growth metrics

AE growth metrics	FY21	FY20	FY19	1H22	2H21	1H21	2H20	1H20	2H19	1H19
FUM – managed funds (\$bn)	2.17	1.33	1.16	2.48	2.17	1.75	1.33	1.32	1.16	0.96
FUM – super (\$bn)	3.90	2.72	2.26	4.46	3.90	3.30	2.72	2.56	2.26	1.89
<b>FUM - total (\$bn)</b>	<b>6.07</b>	<b>4.05</b>	<b>3.42</b>	<b>6.94</b>	<b>6.07</b>	<b>5.05</b>	<b>4.05</b>	<b>3.87</b>	<b>3.42</b>	<b>2.85</b>
Investor numbers	11,793	8,995	7,776	13,326	11,793	10,111	8,995	8,302	7,776	7,653
Member numbers (funded)	59,480	48,819	40,530	63,397	59,480	52,712	48,819	43,264	40,530	38,338
Net new funded members	10,661	8,289	4,048	3,917	6,768	3,893	5,555	2,734	2,192	1,856
Net flows – managed funds (\$m)	415.3	187.2	82.6	230.4	247.2	168.1	90.8	96.4	44.2	38.4
Net flows – super (\$m)	613.6	469.0	249.7	368.0	360.3	253.4	269.5	199.4	140.4	109.4
<b>Net flows - Total (\$m)</b>	<b>1,028.9</b>	<b>656.1</b>	<b>332.3</b>	<b>598.4</b>	<b>607.4</b>	<b>421.5</b>	<b>360.3</b>	<b>295.8</b>	<b>184.5</b>	<b>147.8</b>
Managed funds flows drivers (\$m)	FY21	FY20	FY19	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Managed funds (excl insto) inflows	461.3	247.5	156.6	377.3	283.1	178.1	121.7	125.8	71.3	85.3
Managed funds (excl insto) outflows	(123.0)	(119.0)	(84.2)	(96.9)	(65.5)	(57.4)	(59.5)	(59.5)	(45.1)	(39.2)
Insto net flows	77.0	58.6	10.3	(50.1)	29.6	47.4	28.5	30.1	18.0	(7.7)
Outflow % FUM annualised (excl insto)	(9%)	(12%)	(10%)	(10%)	(8%)	(10%)	(12%)	(12%)	(10%)	(9%)
Super flows drivers (\$m)	FY21	FY20	FY19	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Rollovers in	453.4	409.3	193.4	274.6	230.8	222.6	239.0	170.4	105.7	87.7
SG contributions	207.6	157.4	128.5	124.5	116.4	91.1	86.6	70.8	68.9	59.5
Other contributions	104.7	63.5	49.4	56.4	72.9	31.8	35.8	27.8	29.7	19.8
Total super inflows	765.7	630.3	371.3	455.4	420.1	345.5	361.3	268.9	204.3	166.9
Total super outflows	(152.0)	(161.3)	(121.5)	(87.4)	(59.9)	(92.2)	(91.8)	(69.5)	(64.0)	(57.6)
Outflow % FUM annualised~	(5%)	(6%)	(6%)	(4%)	(3%)	(6%)	(7%)	(6%)	(6%)	(6%)
Outflows % FUM annualised (excluding early release of super)	(3%)	(6%)	(6%)	(4%)	(3%)	(4%)	(4%)	(6%)	(6%)	(6%)

~ 2H20 and 1H21 outflows includes early release of super outflows

Note: Managed Funds includes SMA



## Additional metrics<sup>^</sup>

- Average age of current super members is 38\*
- Average super account balance is \$70k\*
- Average rollover in is \$45.6k<sup>#</sup>

<sup>^</sup> As at 31 December 2021

\* Average of funded accounts

<sup>#</sup> excluding rollovers from ATO

# Financial metrics

Financial metrics	FY21	FY20	FY19	1H22	2H21	1H21	2H20	1H20	2H19	1H19
FUM based revenue (ex performance fee) (\$m)	51.6	39.1	35.3	32.9	28.1	23.5	17.6	21.5	17.6	17.7
Performance fee (\$m)	2.9	3.6	0.8	-	2.9	-	3.6	-	0.8	-
Member based revenue (\$m)	4.1	3.2	3.7	2.3	2.1	2.1	1.6	1.6	1.9	1.8
<b>Operating revenue (\$m)</b>	<b>58.7</b>	<b>49.9</b>	<b>41.0</b>	<b>35.2</b>	<b>33.1</b>	<b>25.6</b>	<b>26.6</b>	<b>23.3</b>	<b>21.2</b>	<b>19.8</b>
UPAT – pre performance fee (\$m)	9.2	7.0	6.1	5.4	4.3	4.9	2.7	4.4	2.9	3.2
Performance fee (ex tax & community grant impact)	1.9	2.3	0.4	-	1.9	-	2.3	-	0.4	-
UPAT – post performance fee (\$m)	11.1	9.3	6.5	5.4	6.2	4.9	4.9	4.4	3.4	3.2
NPAT (\$m)	11.3	9.5	6.5	5.4	6.1	5.2	5.0	4.4	3.3	3.2
Cost to income ratio – pre performance fee (%)	77%	79%	79%	78%	80%	74%	83%	74%	81%	78%
Cost to income ratio – post performance fee (%)	74%	74%	78%	78%	74%	74%	74%	74%	78%	78%
Effective tax rate (%)^	28.0%	27.6%	27.6%	30.0%	30.0%	25.5%	28.6%	26.5%	27.9%	27.4%
Headcount	80	65	64	92	80	72	65	68	64	62
<b>Earnings per share (cents)</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>		<b>2H21</b>	<b>1H21</b>	<b>2H20</b>	<b>1H20</b>	<b>2H19</b>	<b>1H19</b>
Basic	10.19	8.62	5.92	4.89	5.51	4.68	4.57	4.05	3.02	2.90
Diluted	10.02	8.42	5.77	4.83	5.42	4.60	4.47	3.95	2.94	2.84
<b>Dividend per share</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>		<b>2H21</b>	<b>1H21</b>	<b>2H20</b>	<b>1H20</b>	<b>2H19</b>	<b>1H19</b>
Dividend (cents)	8.00*	6.00*	5.00	3.00	5.00*	3.00	3.50*	2.50	3.00	2.00
Dividend franking (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
NPAT annual payout ratio#	80%	71%	87%	62%	92%	65%	78%	63%	102%	70%
<b>Capital Management</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>		<b>2H21</b>	<b>1H21</b>	<b>2H20</b>	<b>1H20</b>	<b>2H19</b>	<b>1H19</b>
Cash & cash equivalents (\$m)	27.8	21.5	18.9	24.9	27.8	21.3	21.5	18.2	18.9	15.3
Net assets	23.7	20.2	16.4	23.3	23.7	20.7	20.2	17.4	16.4	15.0
Net assets per basic share (\$)	0.21	0.18	0.15	0.21	0.21	0.19	0.18	0.16	0.15	0.14


Note the above is attributable to shareholders and excludes The Foundation  
 ^ The 1H21 effective tax rate includes an income tax credit of 4.1% relating to restatement of deferred tax balances following corporate tax rate change to 30%


\* 2H21 and 2H20 includes a special dividend of 1.00 cent  
 # Payout ratio calculated on Diluted EPS (dilution includes employee shares).  
 Above may include variances due to rounding




# Contacts


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# Disclaimer

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