

**Australian
Ethical**

Australian Ethical Investment Ltd FY22 Half Year Results

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Mark Simons, CFO

23 February 2022



Agenda

01 Highlights

02 Financials

03 Investment update

04 Business update



Highlights



Our strategic pillars

Purpose: Investing for a better world

01

Principled investment leadership

- Deliver leading products with long term competitive returns & portfolio resilience for investors.
- Be a powerful proof-point for ethical investing.

02

Advocates for a better world

- Fostering a coalition of co-investors in the cause for a better world.
- A bold voice harnessing people power and strength of community through purpose resonance and action.

03

Compelling client experience

- Deliver a seamless, modern, engaging and competitive client experience to support the creation of a better financial future for investors.

04

Impactful business

- Build scale and scalability through brand preference, channel and product breadth and efficient infrastructure.
- Delivering attractive shareholder returns and significant positive outcomes.

+

Leadership & Innovation: Drive a diverse high-performance environment and culture of innovation

FY22 H1 results

Strong headline growth continues

\$35.2m
Operating revenue

↑ 38%

\$5.4m
NPAT attributable
to shareholders¹

↑ 5%

\$5.4m
UPAT

↑ 12%

Diluted EPS
3 year CAGR*

+24%

\$0.60bn
Net flows

↑ 42%

\$6.94bn
Funds under
management

↑ 38%

Note

All financial results and metrics in this pack relate to half year ended 31 December 2021 with comparatives relating to half year ended 31 December 2020. All footnotes appear on slide 29.

FY22 H1 investment highlights

Long history of outperformance



Top quartile performance²

- for **Balanced Fund** over 6 months, 2, 3, 4, 5 and 10 years
- for **Diversified Shares Fund** over 6 months, 1 year, 2, 3, 4, 5 and 10 years
- for **International Shares Fund** over 6 months, 1 year and 3 years (and above median for 2, 4 and 5 years)
- for **Australian Shares Fund** over the 2, 3, 4, 5 and 10 years
- for **Emerging Companies Fund** over the 2, 3, 4 and 5 years



New product launches

Launched 2 new products: High Growth Fund & High Conviction Fund in October 2021
High Conviction ETF launched February 22



No.1

Australian Shares super option over 3, 5, 7 and 10 years³



No.2

Balanced option over 3 years³



No.2

Super fund* (MySuper) in the Your Future Your Super comparison – only retail fund to make the top 10⁴

* 7 year performance

Awards & recognition



Recognised as **Responsible Investment Leader** by RIAA – 1 of just 13 super funds*



ROY MORGAN

Top **100** most trusted brands in Australia by Roy Morgan, and **No.5** among non-bank financial services companies.



New brand awarded **Distinction** in the AGDA Design Awards 2021**

Managed Funds



Money Magazine Best of the Best 2022
Best Australian Equities ESG Fund for Diversified shares

Super



4 apples rating for super & pension
ChantWest



GOLD For MySuper, Choice & Pension
SuperRatings



Winner SuperRatings Infinity Award
Best sustainable super fund (3rd time awarded)



5th best default fund
Rainmaker***

Our Foundation

The Australian Ethical Foundation aims to unearth & fund the most effective charities and solutions addressing climate change.



\$0.7m

Accrued for impact initiatives in 1H22



>\$6m

allocated to not-for-profits since inception



10% of AEI profits

allocated to not-for-profit organisations¹¹



New Visionary Grants program

launched to fund innovative climate solutions

200+ applications received across our core focus areas:

- Stopping sources of carbon pollution
- Supporting carbon sinks
- Empowering women and girls

\$500,000 awarded to 8 organisations working on innovative climate change projects



Giving Green

The Foundation funded Giving Green - an initiative of global advisory, data analytics, and research organisation IDinsight which has researched and now launched a new guide to advise Australians on how to fight climate change with their donations.

Impact highlights

Investment Portfolio

Nil investment

- ⊗ in nuclear
- ⊗ in fossil fuel companies⁷
- ⊗ in tobacco⁷



Net zero emissions by 2040 target

for our private sector investments



77% less CO₂

produced by the companies we invest in, compared to benchmark⁶



13x more investment

in renewable power generation than benchmark^{6,9}



2.5x more impact

towards the Sustainable Development Goals⁸



Best for the World

for Customer & Governance by BCorps¹⁰

Financials

An aerial photograph of a rugged coastline. The image shows steep, dark rock cliffs on either side of a narrow path or cove. In the distance, a lighthouse is perched on a rocky outcrop overlooking the deep blue ocean. The water has a vibrant turquoise hue. The overall scene is dramatic and scenic.

02

Key financials

Key financials (\$'000)	1H2022	1H2021	Change (YoY)
Operating Revenue	35,225	25,609	38%
Other Revenue	-	399	
Total Revenue	35,225	26,008	35%
Operating expenses	(27,395)	(18,899)	45%
Profit before income tax expense	7,830	7,109	10%
Income tax expense	(2,324)	(1,768)	31%
Net profit after tax – statutory	5,506	5,341	3%
Less Net profit attributable to The Foundation	(82)	(169)	(51%)
Net profit after tax attributable to shareholders	5,424	5,172	5%
Underlying profit after tax (UPAT) attributable to shareholders	5,424	4,863	12%
Diluted earnings per share* – attributable to shareholders	4.83 cents	4.60 cents	5%
Diluted earnings per share 3-year CAGR	24.1%	30.9%	
Dividend per share	3.0 cents	3.0 cents	
Net PBT margin	22%	27%	

*EPS based on NPAT attributable to shareholders



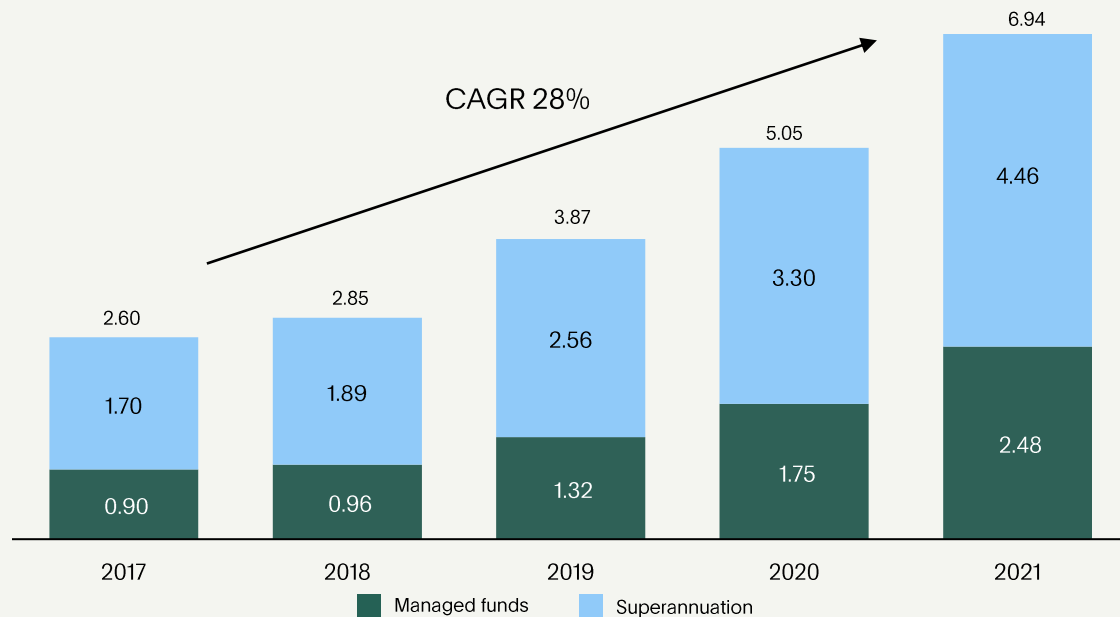
Key Themes

- Strong FUM and flows growth driving revenue growth
- Deliberate growth in operating expenses in line with strategy to drive business growth (refer slide 18 for detail)
- UPAT growth and PBT margin reflects reinvestment in the business
- 1H21 NPAT includes one-off revenue items including income from government grants (COVID-19 stimulus package) and an insurance settlement. These are excluded from 1H21 UPAT.
- Consolidated effective tax rate for the 1H22 was 29.7% vs 24.9% in 1H21. The corporate tax rate increased from 26% to 30% upon revenue exceeding \$50m. The lower prior year tax rate was driven by restatement of deferred tax balances.
- Interim dividend of 3.0c. Payable on 17 March

38% growth in FUM

FUM (\$bn)

As at 31 December of each year

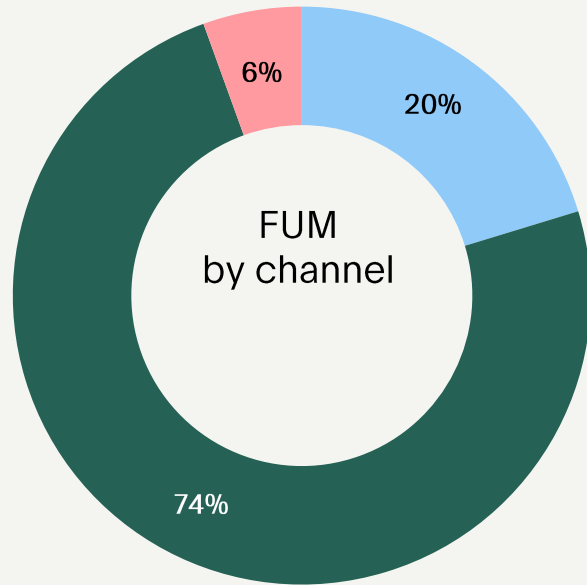


Funds under management (\$bn)	1H2022	1H2021	Change (YoY)
Opening FUM	6.07	4.05	50%
Super net flows	0.37	0.25	45%
Managed Funds net flows*	0.23	0.17	37%
Net flows	0.60	0.42	42%
Investment Performance (net of fees)	0.27	0.57	(52%)
Closing FUM	6.94	5.05	38%
Average 1H FUM	6.53	4.45	47%

* Includes SMA

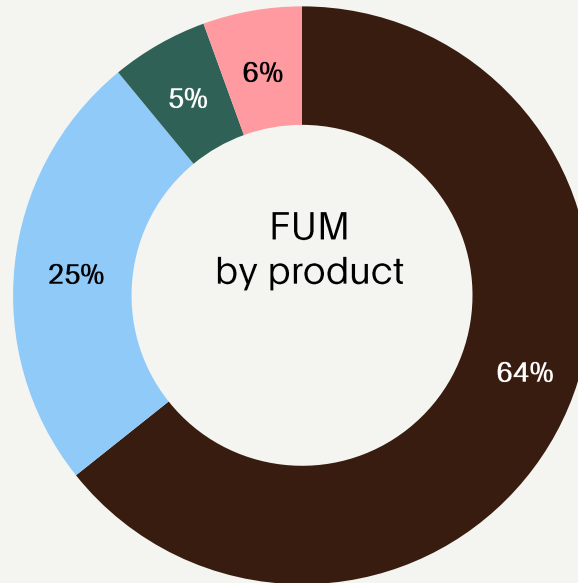
FUM by channel, product and fund

Adviser channel continues to grow following targeted investment



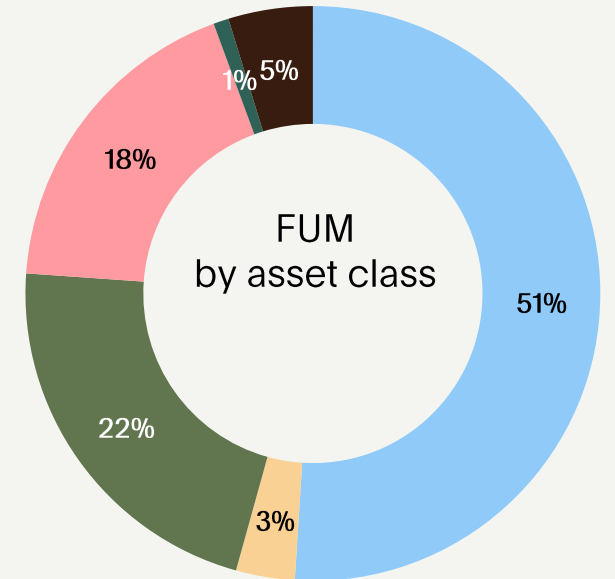
Institutional Advised Direct

FUM predominantly super, but managed funds FUM growing more rapidly as we execute on our strategy



Managed funds wholesale Managed funds retail
Managed funds institutional Superannuation

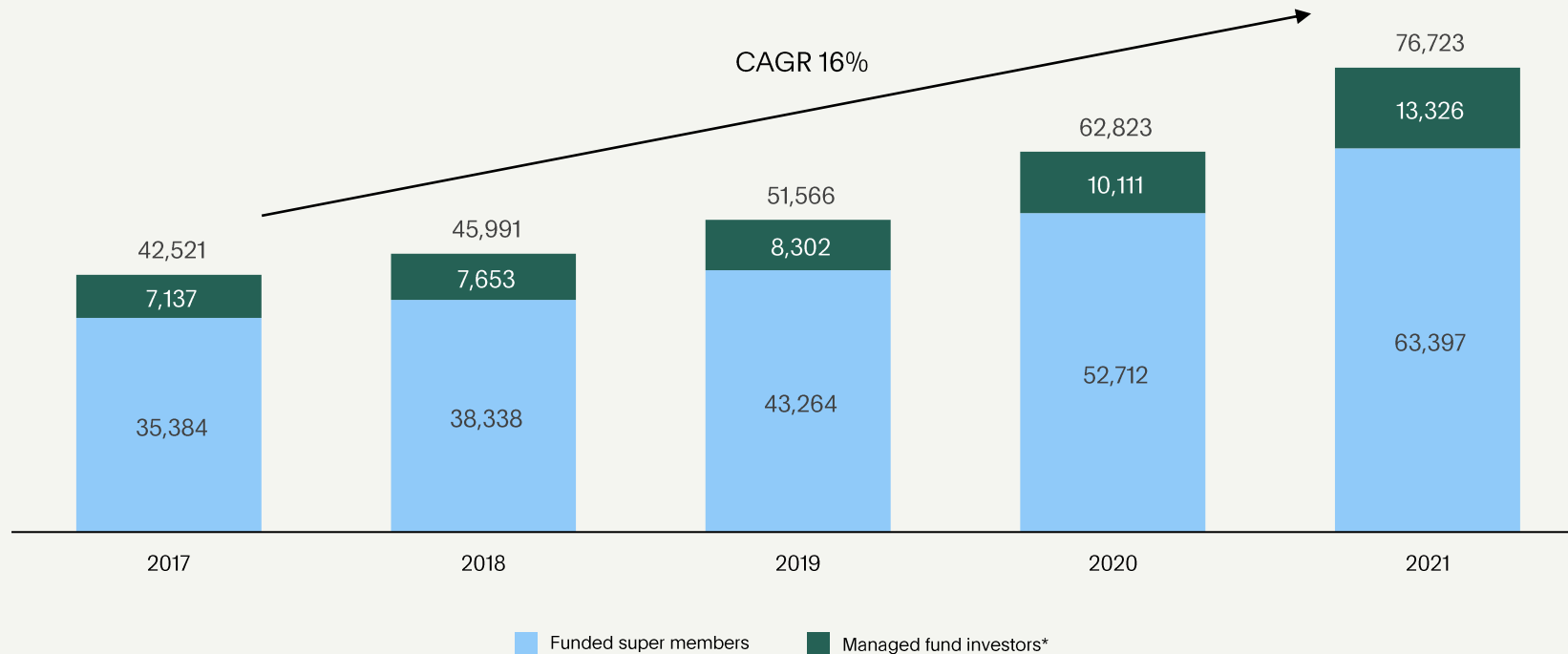
Domestic equities comprise 51% of portfolio



International Equity Unlisted Property
Fixed Income Domestic Equities (incl NZ)
Alternatives Cash

Strong customer growth in 1H22

Customers at 31 December



* Each platform is regarded as one investor (we have 24 platform accounts)
 Note: Super members may also be Managed Fund investors.

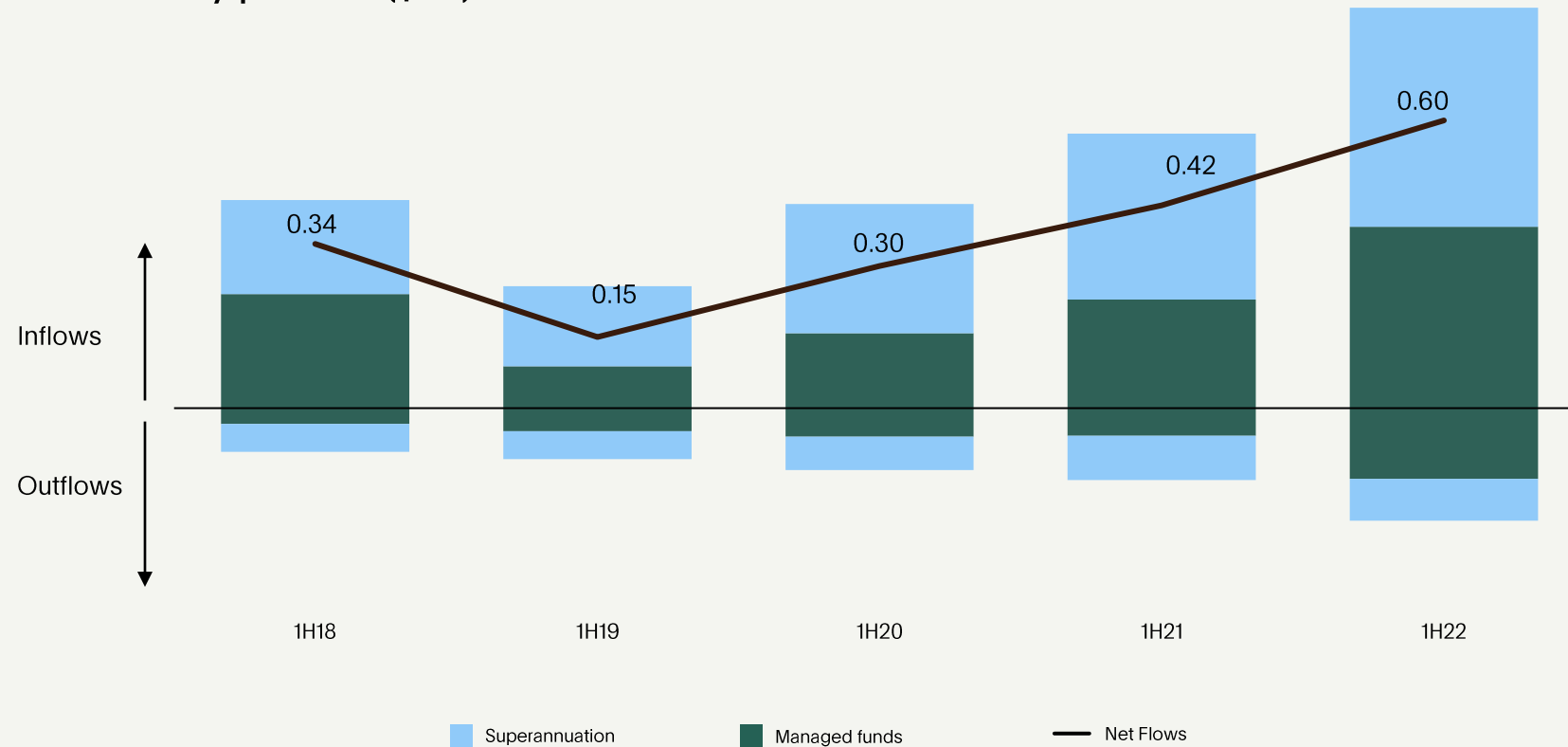


Key Themes

- Strong growth with funded customer numbers up 22%
- Managed fund customers have grown at a higher rate than super albeit off a lower base
- Managed fund customers are up 32% and super members grew 20%
- Platforms FUM grew 59% from 1H21 to 1H22. Note: Each platform is regarded as 1 investor as platforms don't disclose investor numbers.

Net flows up 42% in 1H22

Net flows by product (\$bn)



Note: Managed funds includes SMA



Key Themes

- Net flows of \$0.60bn, up 42% from 1H21
- Managed Funds net flows up 37% to \$0.23bn
- Super net flows up 45% to \$0.37bn
- Early release of super outflows of \$40m were included in the first half 2021
- Single large institutional managed fund redemption (\$0.05bn) impacting managed fund flows for 1H22
- Super outflow ratio one of the lowest in the industry - top quintile for highest retention⁵

Revenue margin

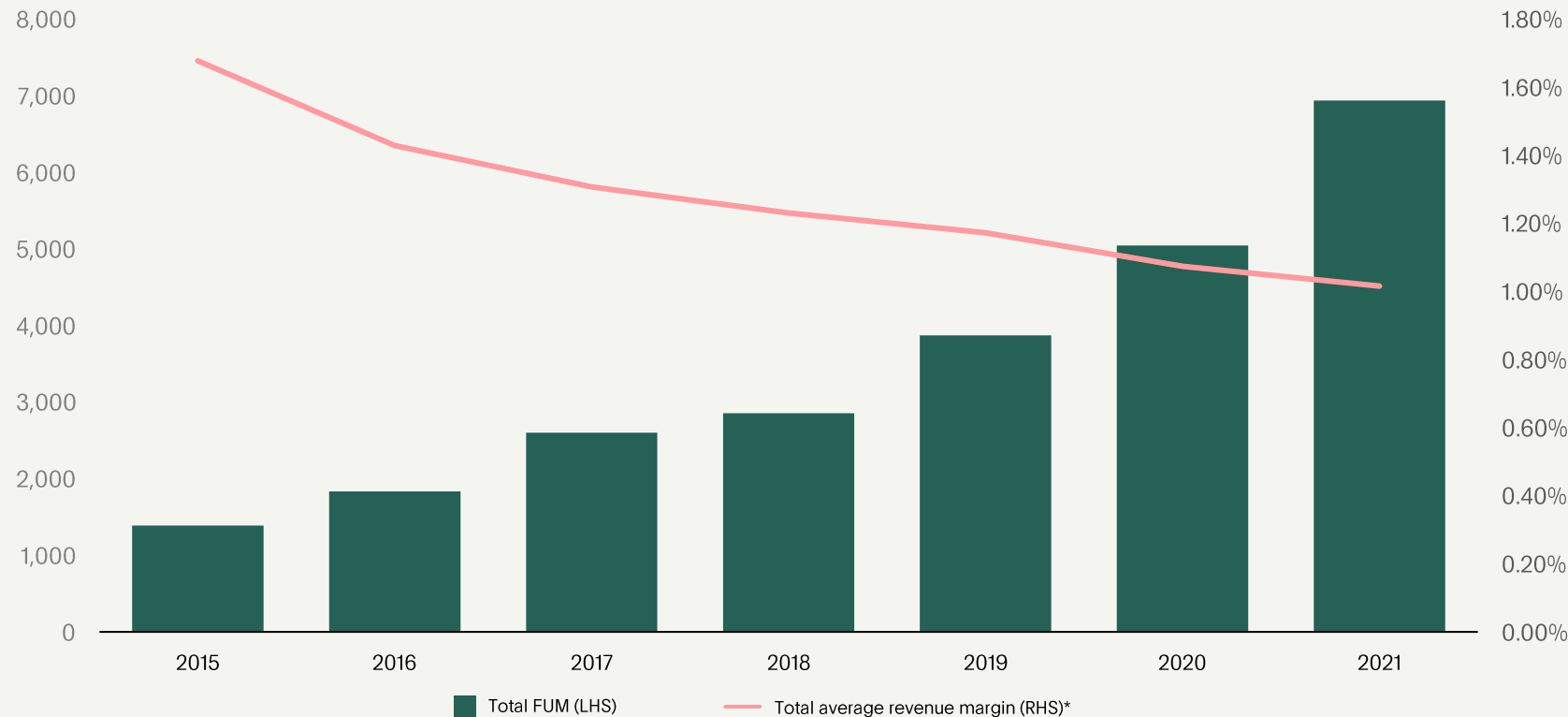


Key Themes

- Continued fee reductions to pass on benefits of scale to our customers & remain competitive
- Average revenue margin of 1.02% in calendar year 2021* down from 1.07% in calendar year 2020, with revenue margin of 0.99% as at 31 December 2021
- Fee reductions implemented in June 21 and October 21

FUM (\$bn)

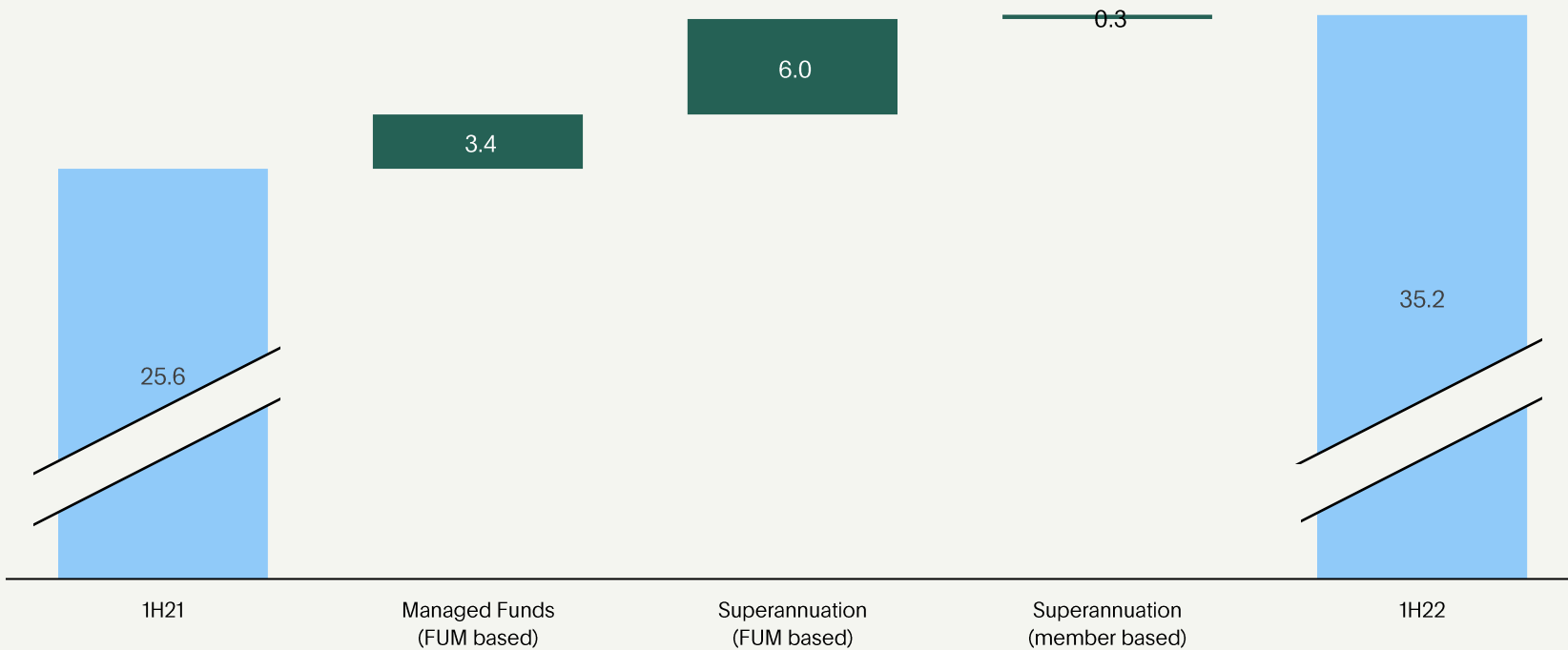
ARM%



* Average revenue margin calculated on FUM based revenue (excluding member based fees, & excluding performance fee) as a percentage of average annual FUM

Operating revenue increased 38%

Operating Revenue (\$'m)

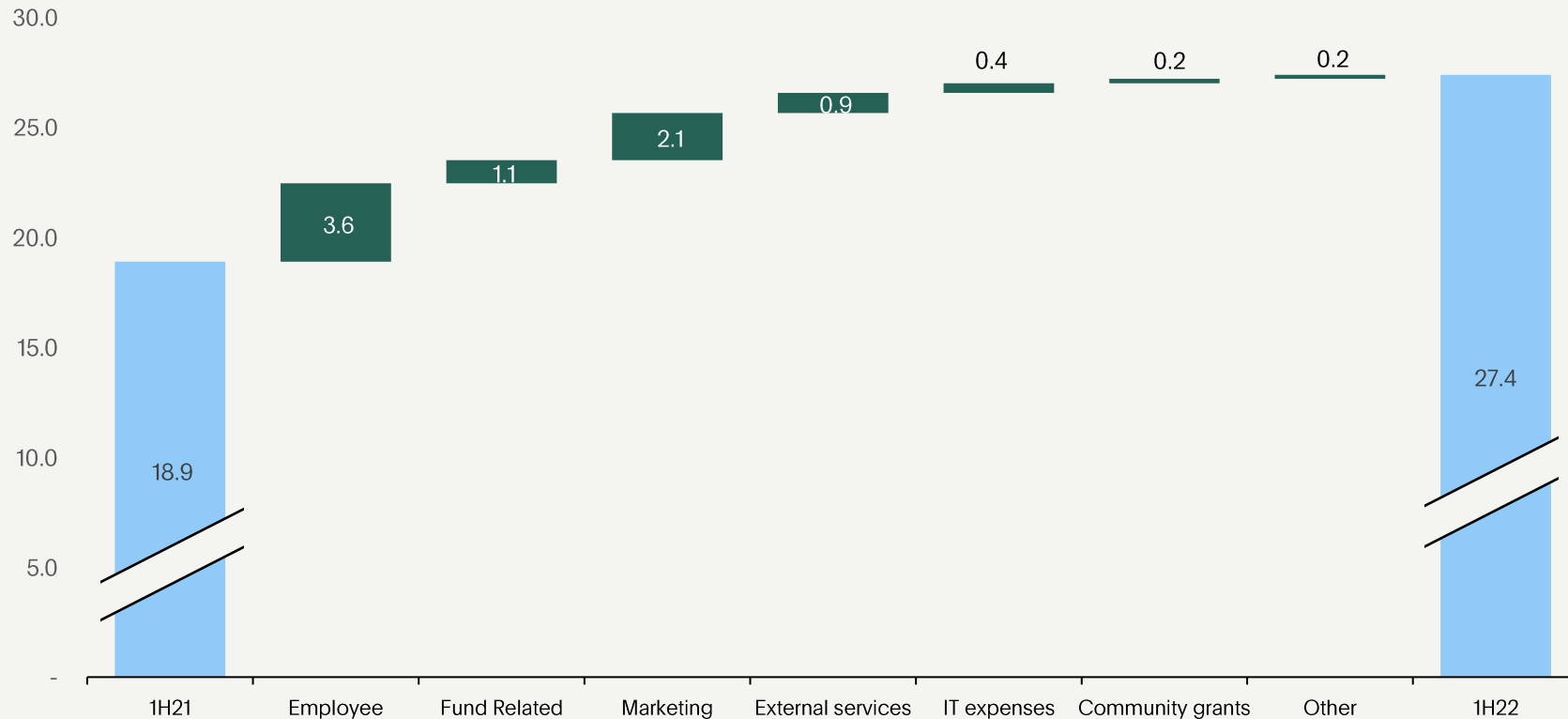


Key Themes

- Revenue growth driven by strong average FUM growth of 47%
- This growth is partially offset by the impact of fee reductions of \$1.1m. Fee reductions occurred in June and October 2021.

Expense drivers

Operating expenses (\$'m)

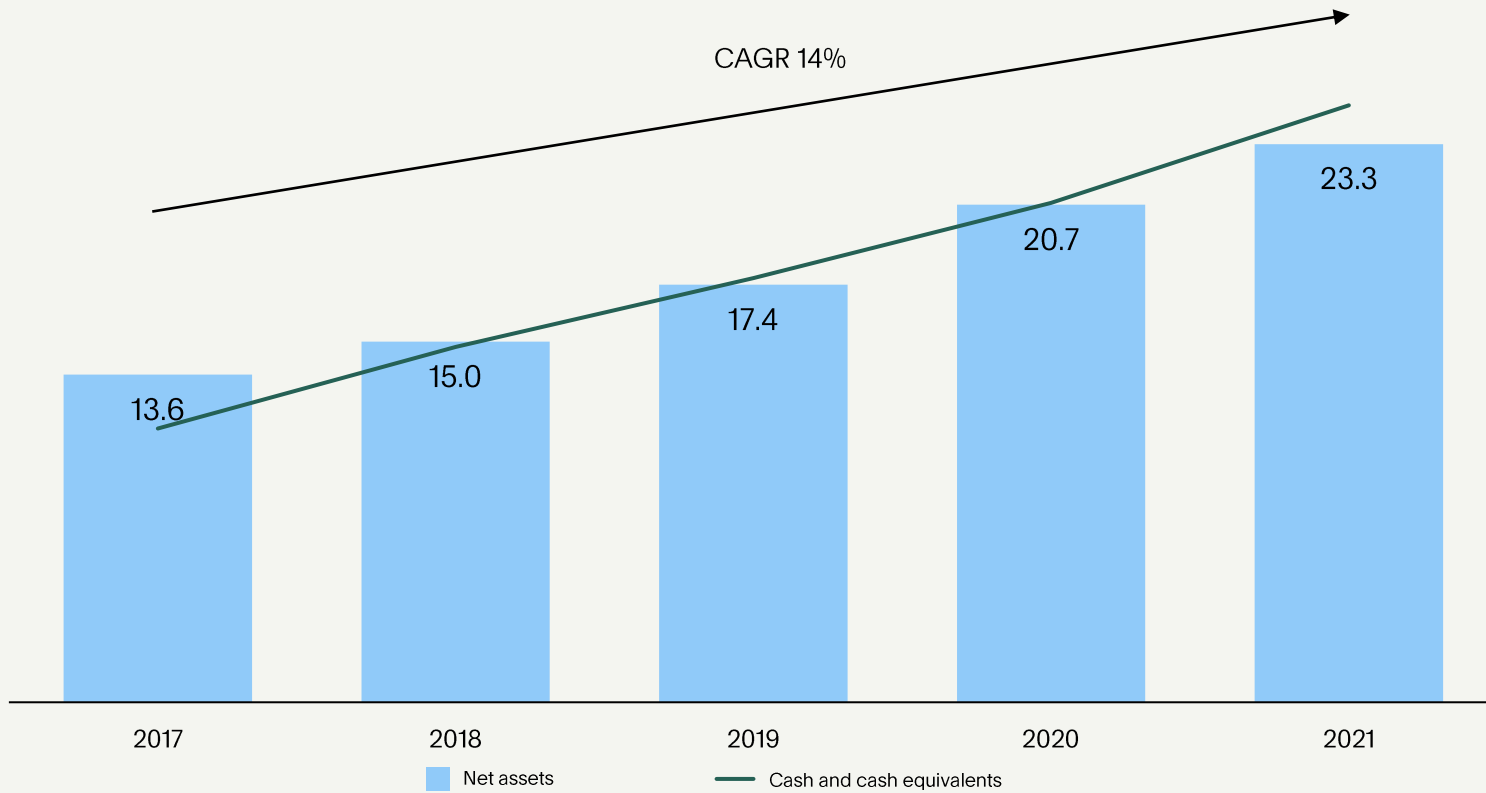


Key Themes

- Operating expenses increased 45% following targeted strategic investment in the business
 - Employee costs increased 40% following strategic capability hires in our investment, sales, data and technology teams and new innovation team. Hires were also made to support growth in the business.
 - Employee cost increase also reflects full run rate of hires in FY21, as well as remuneration increases following a remuneration review
 - Fund related expense increase driven by higher FUM and customer numbers and enhancements to our strategic asset allocation approach. Expense increase of 23% lower than volume growth due to reduction in administration costs post insourcing the contact centre
 - Significant increase in brand spend to improve brand awareness has driven up marketing costs.
 - External services increase driven by investment in strategic initiatives including new app, launch of new products, build of new 'cloud based' back office platform, and M&A due diligence costs.
 - IT expenses driven by headcount increase, and new licences related to technology initiatives

Balance sheet strength

Net assets (\$m)*



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



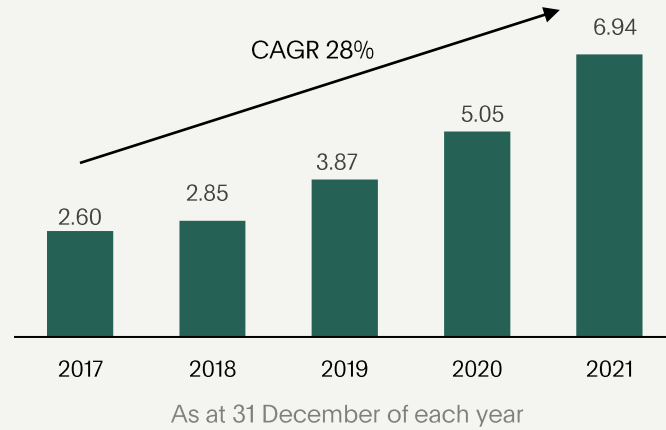
Key Themes

- Strong balance sheet with no debt
- Strong cash position
- Parent holds a surplus above regulatory capital of \$7.5m
- \$2.6m cash reserves were utilized during the period for a strategic M&A investment in Sentient Impact Group

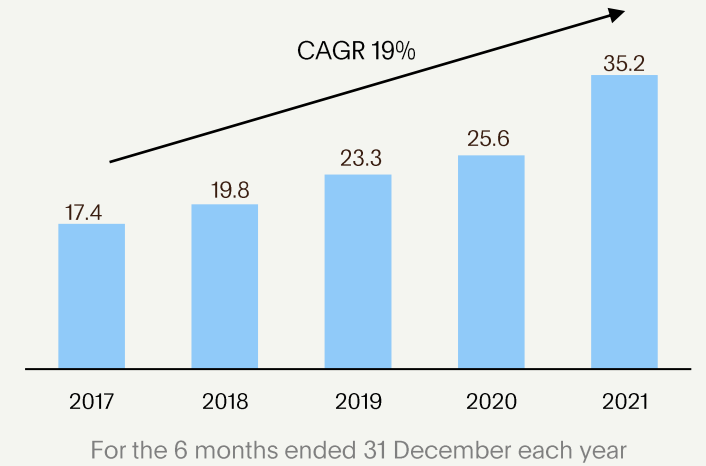


Key financials

Funds under management (\$bn)

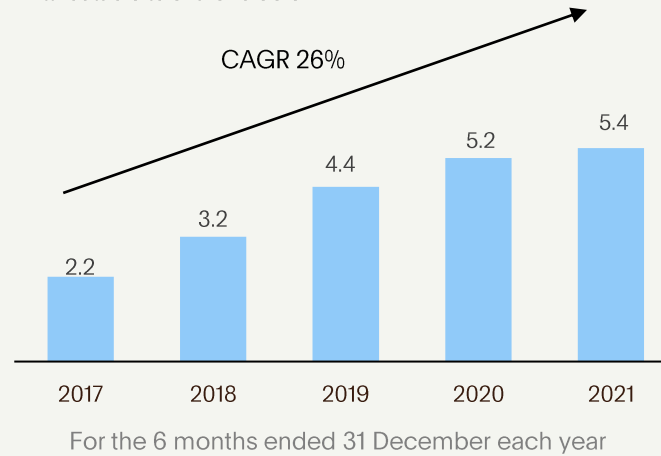


Operating Revenue (\$m)

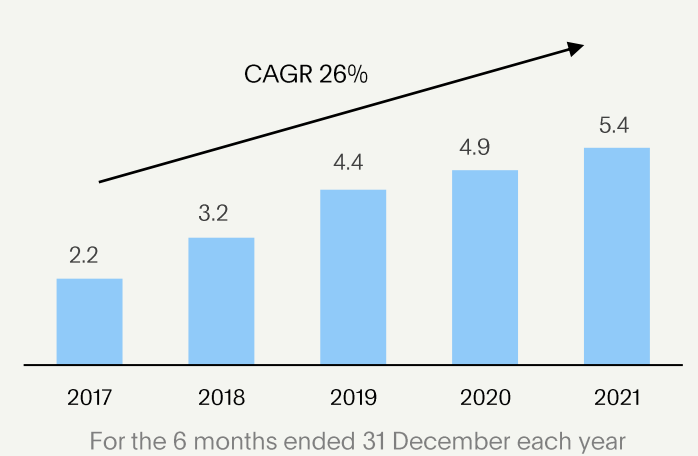


Profit after tax * (\$m)

* Attributable to shareholders



Underlying profit after tax * (\$m)

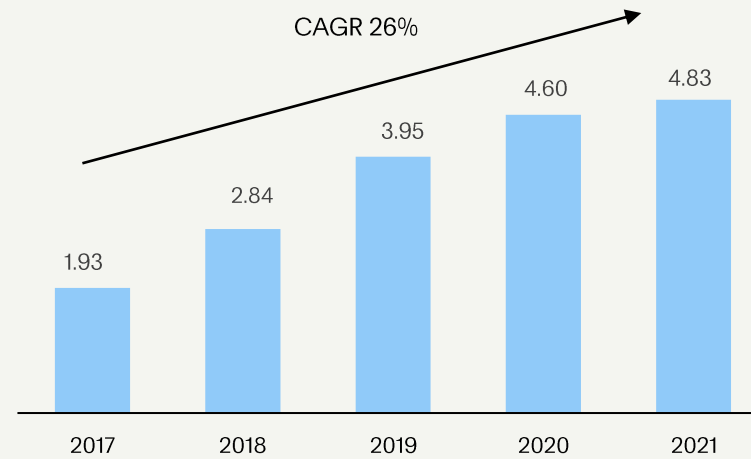




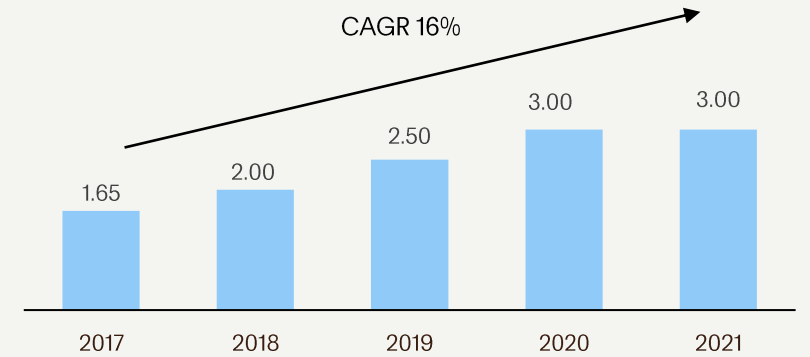
Key metrics

Diluted earnings per share * (cps)

*Based on NPAT attributable to shareholders



Interim Dividend (cps)



Investment update

03





Balanced Accumulation Option (MySuper)

Ranked 2nd
over 3 years³

2nd best scoring option for
investment performance and the
only retail fund to make top-10 list⁴

	6 mths	1Y	3Y (%pa)	5Y (%pa)	7Y (%pa)	10Y (%pa)	20Y (%pa)	Since inception (%pa)*
Absolute Performance ~	5.2%	12.7%	12.4%	9.3%	8.3%	9.0%	6.2%	6.8%
Performance gross of member fee	5.3%	12.9%	12.5%	9.4%	8.4%	9.1%	6.3%	6.8%
Benchmark#	4.3%	13.3%	10.5%	7.7%	6.6%	7.6%	5.4%	5.4%
Relative Performance**	1.0%	(0.4%)	2.0%	1.7%	1.8%	1.5%	0.8%	1.4%

~ After all fees, assuming average \$50k member balance. Performance calculated in accordance with FSC standard 6 and standard 10, and is as at 31 December 2021

* Inception Date: 31/12/1998

Benchmark changed from Morningstar Multisector Growth - Superannuation to SuperRatings SR50 Balanced (60-76) Index from 1 Dec 2019.

** Relative performance variances are due to rounding

Past performance is not a reliable indicator of future performance



Australian Shares Fund

Long track record of outperformance

Top quartile performance for periods 2 years and greater^{^^^}

	6 mths	1Y	3Y (%pa)	5Y (%pa)	7Y (%pa)	10Y (%pa)	20Y (%pa)	Since inception (%pa)
Retail*	5.0%	14.2%	20.3%	12.7%	12.9%	14.6%	10.0%	10.6%
Benchmark^^	4.0%	17.5%	13.6%	9.7%	9.9%	11.2%	7.3%	7.5%
Relative Performance	0.9%	(3.3%)	6.7%	3.0%	3.0%	3.3%	2.7%	3.1%
S&P/ASX 300 Accum Index	4.0%	17.5%	14.0%	9.9%	9.1%	10.8%	8.4%	9.3%
Relative Performance	0.9%	(3.3%)	6.3%	2.8%	3.8%	3.8%	1.6%	1.3%
Wholesale^	5.3%	15.0%	21.3%	13.9%	14.3%	n/a	n/a	15.8%
Benchmark^^	4.0%	17.5%	13.6%	9.7%	9.9%	n/a	n/a	10.8%
Relative Performance	1.3%	(2.5%)	7.7%	4.2%	4.4%	n/a	n/a	5.1%
S&P/ASX 300 Accum Index	4.0%	17.5%	14.0%	9.9%	9.1%	n/a	n/a	10.4%
Relative Performance	1.3%	(2.5%)	7.3%	3.9%	5.2%	n/a	n/a	5.4%

Table reflects performance after fees for the Australian Shares Fund. Performance calculated in accordance with FSC standard 6 and standard 10, and is as at 31 December 2021

* 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 & S&P/ASX 300 Accumulation Index thereafter

^^^ Mercer Investment Performance Survey of Wholesale-Equity - Australia - All Cap (Core) Universe - Dec 21

Past performance is not a reliable indicator of future performance



Emerging Companies Fund

Significant outperformance

Emerging Companies Fund has outperformed the benchmark for all time periods

Achieved top quartile performance for periods 2 years and greater[^].

	6 mths	1Y	3Y (%pa)	5Y (%pa)	Since inception (%pa)
Retail*	7.5%	14.3%	30.7%	19.4%	19.1%
S&P/ASX Small Industrials Accum Index	2.5%	13.7%	14.4%	10.2%	10.7%
Relative Performance	5.0%	0.7%	16.3%	9.3%	8.4%
Wholesale*	7.7%	14.9%	31.5%	20.2%	19.9%
S&P/ASX Small Industrials Accum Index	2.5%	13.7%	14.4%	10.2%	10.7%
Relative Performance	5.2%	1.2%	17.0%	10.0%	9.2%

Table reflects performance after all fees (including performance fees) for the Emerging Companies Fund. Performance calculated in accordance with FSC standard 6 and standard 10, and is as at 31 December 2021.
 * Inception Date: 30/06/2015
[^] Mercer Investment Performance Survey of Wholesale Equity Australia - Small Cap Universe- Dec 21
 Past performance is not a reliable indicator of future performance

Business update

04

Strong delivery of strategy in the first half of FY22

01	Principled investment leadership	Market leading returns*	Momentum in product development: High Growth & High Conviction incl first ETF to reach new segments	New capability: Investment Director & minority stake in Sentient Impact Group
02	Advocates for a better world	Announced a more ambitious net zero target of 2040 for our private sector investments	Strong visibility through COP26 with 7,500 investors profiled on front page of Financial Times	\$500k allocated to new Visionary Grants supporting innovative climate solutions
03	Compelling client experience	Maintained top NPS for HNW investors with a score of +51~	Commenced build of AE App & Portal to digitise and personalise investor experience	Maintained industry leading retention rates in super^
04	Impactful business	42% uplift in overall netflows H1 FY22 vs 1H FY21	Adviser channel gaining momentum with flows in the 1H equal to 85% of full FY21. Strong growth in direct HNW client number	Commenced digital transformation of backoffice systems to cloud based, scalable technologies
+	Leadership & innovation	Strategic Capability headcount increase of 12 in H1^^	New performance & remuneration framework aligned to high performance culture	Design led approach to product development pipeline & creation of new incubator team

* Refer slide 6 and 7

~ Investment Trends HNW Investor Report – November 2021

^ KPMG 2021 Super Insights Report – published May 2021, using statistics published by APRA and ATO as at 30 June 2020. 1H22 super outflows were 4.2% of FUM

^^ This includes 5 contractors to support strategic initiatives

Outlook

Despite challenging conditions, we remain committed to implementation of our strategy as we head into the second half



Flows growth

To continue into second half, although market sentiment expected to have some impact. Half on half revenue growth expected



Remain leveraged to investment markets

With market downturns having the potential to impact investment performance and FUM



Remain focused on our strategic agenda

We continue to have high conviction around the medium term growth opportunity and remain committed to our high growth strategy



Accelerating our investment in the business during second half

As the benefits of our strategy implementation play out, we will gain momentum on our strategic roadmap

A number of key initiatives launch in the second half, and we will continue to deploy resources in strategic growth areas while actively seeking out appropriate M&A opportunities

As such, expenses in 2H are expected to increase vs 1H



Well positioned to

Benefit from regulatory, policy, market and investor tailwinds, with our high quality team and our ethical pedigree

Footnotes

1. This excludes the results for the Australian Ethical Foundation Limited ('The Foundation').
2. December 2021 quarter Mercer Performance Survey - retail
3. Australian Ethical Super's Australian Shares option ranks no.1 out of 50 over 3 years, 5 years, 7 years and 10 years according to the SR50 Australian Shares Index - SuperRatings December 2021 survey as at 31 December 2021. Balanced Accumulation Option ranks no.2 over 3 years in the SR50 Balanced (60-76) Index - SuperRatings December 2021 survey as at 31 December 2021.
4. APRA MySuper heatmap tool
5. KPMG 2021 Super Insights Report – published May 2021, using statistics published by APRA and ATO as at 30 June 2020.
6. Carbon intensity (tonnes CO2e per \$ revenue) of Australia Ethical share investments compared to blended benchmark of S&P ASX 200 Index (for Australian and NZ shareholdings) and MSCI World ex Australia Index (for international shareholdings). Shareholdings as at 30 June 2021.
7. We don't invest in companies whose main business is fossil fuels, or in diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity). We have never invested in tobacco and support Tobacco Free Portfolios. For more information on our Ethical Criteria, visit: australianethical.com.au/why-ae/ethics/ethical-criteria/
8. Based on the 'sustainable impact' revenue earned by companies whose shares we invest in, compared to the blended benchmark. Shareholdings as at 30 June 2021.
9. Proportion of our share investments in renewable power generation compared to the blended benchmark. Shareholdings as at 30 June 2021.
10. B Corps 'Best for the World Honouree' Customer 2021 and Corps 'Best for the World Honouree' Governance. The Best for the World are B Corps whose score in the top 5% of all 3,500+ B Corps worldwide. This relates to the Australian Ethical entity, not the investment portfolio.
11. Before deducting bonus and grant expense.



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