

Australian Ethical Investment Limited

Financial results for year ended 30 June 2020

ASX ANNOUNCEMENT

AUSTRALIAN ETHICAL ANNOUNCES RECORD PROFIT OF \$9.5M, UP 46%, DELIVERING SUSTAINABILITY AND OUTPERFORMANCE

(Comparisons are with financial year ended 30 June 2019)

Financial highlights

- Net profit after tax attributable to shareholders of \$9.5 million (up 46%)
- Underlying profit after tax (UPAT) of \$9.3 million (up 42%)
- Revenues of \$49.9 million (up 22%)
- Performance fee of \$3.6 million from outperformance of Emerging Companies Fund, up 350% from FY19's performance fee of \$0.8 million
- Excluding the impact of the performance fee, revenue and UPAT both increased by 15%
- Operating expenses of \$37.0 million (up 16%)
- Final ordinary dividend of 2.5 cents per share, fully franked; special performance fee dividend of 1.0 cent per share, fully franked; total dividend for year of 6 cents (up 20%)
- Strong balance sheet, no gearing

Operating highlights

- Group funds under management (FUM) of \$4.05 billion (up 19%)
- Net inflows of \$660 million (up 100%)
- Customer numbers up 20%
- Excellent performance across most funds in the investment portfolio with multiple industry awards and high industry ranking
- Net promoter scores: +63 (super) and +58 (managed funds) among the best in the industry¹
- Top quartile staff engagement score of 86%²
- Record amount of \$1.3 million provisioned for donation to The Australian Ethical Foundation
- Strong operating cash flow

¹ Australian Ethical brand research, Pollinate February 2020

² Culture Amp Survey, June 2020

Profit and revenue

Australian Ethical Investment is pleased to announce that net profit after tax for the year ended 30 June 2020 rose 46% to \$9.5 million, driven by continued growth in new customers, record net inflows, as well as the Emerging Companies Fund performance fee.

Underlying profit after tax was \$9.3 million, up 42% compared with the prior corresponding period.

Revenue increased 22% to \$49.9 million, up from \$41.0 million in FY19. This result includes a performance fee of \$3.6 million relating to the outperformance of the Emerging Companies Fund which delivered one-year returns of 20.6% above benchmark for retail investors and 21.4% above benchmark for wholesale investors.³

Excluding the impact of the performance fee, underlying profit after tax was \$7.0 million, up 15% on prior corresponding period.

Two separate fee reductions were implemented during the financial year⁴ as the benefits of scale are passed onto customers. This partially offset the FUM-driven revenue increase.

Funds under management

FUM for the full year increased by 19% to \$4.05 billion, up from \$3.42 billion reported for the previous period.

FUM grew significantly in the first half of FY20, increasing by 13% to reach \$3.87 billion on 31 December 2019 driven by strong net inflows and excellent investment performance. Despite COVID-19's impact on global markets and the Government's changes to early release of super, we continued to see strong inflows and FUM finished the full year at \$4.05 billion.

Inflows and customer growth

During FY20, Australian Ethical achieved record net inflows of \$660 million, a 100% increase over FY19. Record inflows were driven by a strong uplift in customer joins and inflows following the devastating bushfires in January, as well as successful impact-focused marketing campaigns executed during the year.

Australian Ethical's customer base grew by 20%, with managed fund customers increasing by 16% and super members by 20%. Australian Ethical remains one of the fastest growing super funds in the country by both number of members and funds under management.⁵

Costs and operating expenses

Operating expenses increased by 16% to \$37 million during FY20, up from \$31.8 million in the prior corresponding period. Cost growth reflected the continuing investment in growing business capability, higher fund-related costs driven by increasing FUM and customer numbers and the delivery of key strategic initiatives such as product development, upgraded technology platform and a brand campaign.

³ Benchmark is the S&P/ASX Small Industrials

⁴ Investment fees were reduced on the Defensive, International Shares and Advocacy superannuation options and on the Defensive and International Shares pension options. This took place in December 2019. The percentage-based super administration fee was reduced from 0.41% to 0.29% on 1 April 2020 across all superannuation and pension options

⁵ KPMG 2020 Super Insights Report – published May 2020 using statistics published by APRA and ATO as at 30 June 2019

John McMurdo, Chief Executive Officer at Australian Ethical, said: “It has been an extraordinary year for everyone including for Australian Ethical.

“We have seen record inflows, delivered market-leading returns and executed strategic projects all while transitioning effectively to remote working as part of our business continuity management during a highly unusual pandemic. During this time our business model has proven to be resilient, agile and adaptable.

“Our strong performance is testament to the strength of our people, our brand and our position in the market as Australia’s leading ethical investor.”

Australian Ethical Foundation Limited

In FY20, a record \$1.3 million has been provisioned for the Foundation to deliver philanthropic impact initiatives via Community Grants and strategic marquee grants.

During the financial year, the Foundation supported 31 charities and provided emergency relief funding related to the bushfires and COVID-19 pandemic.

The Foundation was established in July 2015 as a vehicle to manage the portion of profits distributed to charitable, benevolent and conservation causes in line with the Australian Ethical Constitution. To date, more than \$5 million has been distributed to not-for-profit organisations. All income received and net assets of the Foundation are restricted to the Foundation’s activities and are not available for distribution to Australian Ethical Investment Limited’s shareholders.

Summary of Group profits

	FY20 (\$m)	FY19 (\$m)
Consolidated statutory profit	9.5	6.6
Profit attributable to The Foundation	-	0.1
Net profit after tax attributable to shareholders	9.5	6.5

Final dividend

The Board declared a fully franked final dividend of 2.5 cents per share for the full year ended 30 June 2020, as well as a special performance fee dividend of 1 cent per share, bringing the total dividend for the year to 6 cents per share, an increase of 20% on the previous year. The record date for the dividend is 4 September 2020 with payment on 16 September 2020.

Outlook comments from the CEO

McMurdo said: “Our business model, our investment philosophy and our commitment to our purpose have enabled Australian Ethical to rise to the challenges posed by COVID-19. Looking forward, we will continue to prioritise the safety and well-being of our employees and deliver financial security with positive impact for our customers, as well as our three pillars of people, planet and animals.

“However, while our people, operations and infrastructure have adapted and responded well to the COVID-19 crisis, like all fund managers we are highly leveraged to the markets at a time when economic uncertainty remains high, interest rates low and COVID-19 still unbeaten. FY21 will be a difficult year as market volatility continues and our revenue growth is partly suppressed by the full year impact of the super fee reductions we

implemented for the benefit of future and current members. We are also aware that any performance fee generated by the Emerging Companies Fund is not guaranteed year-on-year.

“Despite this, we are in a strong position heading into FY21 with no debt, strong cashflows and positive net inflow momentum. We are focused on investing in the long-term growth of our business and realising the potential of our ethical investing portfolio construction.

“We will continue to invest in brand awareness and our intermediated channels, along with business capability and product development. We also plan additional enhancements to our operating platform in FY21 to improve customer experience and will continue to invest in our digital strength and innovation.

“And while the pandemic has exposed the deep vulnerabilities in the way things were, it has also been the most significant test of ethical investing which we have passed with flying colours.”

This announcement is authorised by the Board.

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About Australian Ethical

Australian Ethical is Australia’s leading ethical investment manager. Since 1986, Australian Ethical has provided investors with wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which shapes our ethical approach and underpins our culture and vision.

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Australian Ethical has \$4.05bn in funds under management across managed funds and superannuation – as at 30 June 2020.