

ASX Code: AEF

29 October 2014

Australian Ethical Investment Limited

Chairman and Managing Director's Addresses to AGM

Stephen Gibbs, Chair

Ladies and gentlemen,

It's been over just over 18 months since I took over as Chair and it has been an extremely busy and transformative period for everyone and overall a very positive one in terms of results and progress.

The 2013/14 period was in many ways unprecedented. This time last year I spoke about how exciting the results for the first three months of the period had been and I'm pleased to say that they continued for the duration of the financial year.

In the past 12 months, we have seen the restructures and changes to the company come to fruition. Obviously those restructures and changes involved some pain. Phil Vernon, his management team, and indeed all the staff have been working extremely hard to establish strong foundations for the business and it has really paid off. I believe that we are now very well placed to enter a period of sustained growth.

We have the right team in place, with the skills and experience necessary to take Australian Ethical to the next level. We have the systems in place that will allow us to scale efficiently and effectively. And we have a focus on our clients and our community in order to deliver the best possible experience and to grow the business sustainably.

Whilst Phil will go into the detail, some of the highlights of note that I'd like to share include:

- Net profit after tax was up 139% to \$2.5m;
- Funds under management were up 25% to \$887 million from \$708 million, the highest in our almost 30 year history. While last year I remarked that funds under management increases could only be attributed to market movements, in the 13/14 financial year it was driven equally by market movements and net inflows into our investment products.

As was announced to the market only last Friday, our funds under management for the first quarter of this financial year have pushed closer to \$1 billion, at \$960 million, despite fluctuating markets. This is in part due to \$35 million of net inflows. I want to repeat that number- net inflows of \$35 million in one quarter- it was not too long ago that net inflows of \$35 million in a year would have been hailed as a very good result.

This essentially matches the net inflows from the last quarter of the 2014 financial year which is an amazing achievement as the last quarter of a financial year has historically been the highest period of flows for the industry let alone Australian Ethical.

The Directors of the company are the same as at last year's AGM and I trust will be with us for some years to come. When I became Chair I promised Board renewal and I am particularly pleased with the composition of the current Board. I believe we have the right mix of skills and experience on the Board with the Directors demonstrating a clear and strong commitment to the company and its strategic direction.

Looking forward to the next few years, our strategy is to continue on this path of sustainable growth. We are looking at ways to evolve our business model and transform the company further to not only get us past \$1 billion but to get us to the next billion and really make our mark and impact on the financial services industry, Australia and the world.

I am aware of a letter that was sent by one shareholder- Mr. Pender- to some shareholders. I do not know to whom this letter was sent. Mr. Pender did not advise the company as to who was sent the letter, he did not send a copy to me or any of the Directors and he did not give the company the opportunity to point out inaccuracies contained in the letter. The letter did contain errors of fact and also included defamatory statements. We will be responding to Mr. Pender. I would ask shareholders who would like to see a copy of that response to contact me.

I would now like to hand over to our Managing Director and CEO, Phillip Vernon who will go through some of the key initiatives and more detailed results for your company.

Thank you.

Phillip Vernon, Managing Director

Introduction

Good morning.

It gives me great pleasure to be reporting to you on our performance for the past year.

We have been on a journey over the past 5 years to improve every aspect of the business and 2014 has been the year in which those improvements have really worked together to deliver.

Our new business is well above industry averages, our investment performance has beaten mainstream benchmarks, our people continue to be highly engaged and our operations are increasing in their efficiency and productivity.

We are almost at \$1 billion in funds under management, our profits are at record levels and our share price has doubled in the past 12 months.

Profits and Results

Profits

Our profit for the financial year to 30 June 2014 is something to be extremely proud of increasing by 139% over the previous year of 2012/13. This increase has been due to strong revenues off rapidly growing funds under management while keeping our costs relatively steady.

Funds under management

Funds under management were \$887m at 30 June an increase over the previous year of 25% and compares to the industry average of 15%. This increase of \$180m was made up roughly equally between market movements and net inflows. Our FUM continues to grow strongly with FUM at 30 September being \$960m. The \$1 billion beckons!

Record new monthly clients and net flows

Our new business in both new clients and net inflows continues to grow dramatically.

Net inflows for the year were \$92 million compared to just \$2 million for the previous year. This is split \$78 million for our super product (up from \$18m) and \$14 million for managed funds (up from *negative* \$16m). Our super fund membership grew by almost 20% last year compared to a static industry (-0.1% growth) and despite being the smaller number we are particularly pleased to see the turnaround in managed fund flows.

We also tripled the rate of new super employer clients signing up to use the super fund during the year showing that, as we expected, obtaining our MySuper license was vital to our future and worth the effort and cost to the business in the short term.

Sales and marketing

Our sales and marketing team have been extremely effective with a range of initiatives implemented over the past few years working extremely well.

Our digital communication and social media strategy provides us with a low cost of acquisition, important for a business with a limited budget, high client engagement and is an effective way of improving our reach.

Our 'followers' on social media have increased tenfold from 2,500 to 25,000 and are currently at 30,000 and our 'engagement' levels – those talking about the brand as a percentage of total 'likes' – also remain extremely high by industry standards proving to be a steady stream of new clients and an untapped potential for influence and advocacy.

We were awarded the *'Judges' Selection Award: Social Media Engagement & Growth Strategy'* by ASFA. ASFA is the Association of Superannuation Funds of Australia, the peak industry body for the superannuation industry in Australia.

Improvements in our online joins process and sales follow up have also helped to maximize the efficiency and effectiveness of growing net flows.

Investment performance

We've strengthened the quality of our investment team and processes over the past few years in order to deliver on our mission of strong performance with best practice ethics.

A survey of managed funds published by consulting firm Mercer, in 2014, shows we have consolidated our position as a strong player amongst wealth management companies.

The performance of our funds continues to be strong over the long term with most having performed in line with or above the median fund in their relevant Mercer surveys.

Our flagship fund, which recently celebrated its 20th anniversary is ranked number 1 over 7 years and number 2 over 10 years. This is not compared to its ethical peers but all Australian equity funds. The fund has returned 10% per annum on average over its 20 year history, far exceeding its benchmark index.

In recognition of the performance of our International Equities Trust, the fund was recently awarded the best international fund at the prestigious Australian Fund Manager Award. This was the first time an ethical fund has ever been awarded any of their prizes.

Efficiency

Over the past few years we have made continual cost and efficiency improvements allowing us to scale funds under management into the future without having to increase staffing costs dramatically. This was necessary to be able to steadily reduce our fees which I will touch on in a minute. As a broad indication of these improvements over the years, we now manage close to \$1 billion with 34 people whereas three years ago we managed \$600 million with 50 people.

Staff engagement

We work hard to provide a place to work that is fulfilling and rewarding for our employees and when we surveyed our employees again this year, this was reflected in the extremely positive results.

This year, we have moved from an employee engagement survey conducted internally, to an externally and independently run best practice survey with consulting firm Aon Hewitt which has benchmarked Australian Ethical against the best employers in Australia and New Zealand.

We were extremely pleased with the results being placed in the top quartile with an overall engagement score of 78 compared to Hewitt's Best Employers for 2014 of 82.

Key achievements/Initiatives

I'd like to talk now about our major achievements and initiatives throughout the year.

Fee reductions

I've reported regularly that there is increased fee pressure in the market largely stemming from increased regulation in superannuation. On 30 June this year we reduced administration fees on our superannuation fund from 1.43% to 0.83%, a reduction of 42%. This was in recognition of the fact that our fees were significantly out of step with comparable products (especially MySuper) and was aimed at passing some of the benefits of recent growth to our members.

This reduction has gotten us "in the pack" but only barely. We plan to progressively reduce the fees over coming years to increase the fee competitiveness, whilst maintaining acceptable levels of returns to shareholders.

MySuper approval

As touched on at last year's AGM, in September 2013, we received approval from APRA to offer a MySuper product. This authorisation allows us to accept employer super contributions where the employee has not made a choice of funds.

Launch of Australian Ethical Fixed Interest Trust

In December we launched our Fixed Interest Trust to the public. The Trust offers investors an opportunity to generate income from a portfolio of ethical diversified interest-bearing investments. It is the first ethically screened managed fund available to Australian retail investors that invests in longer-term bonds.

Whilst initial uptake by investors has been slow we are starting to see a steady stream of investment into the fund, including most recently a \$400,000 investment by a high net worth individual.

Purchase of Ethical Investor

As part of our broader digital communications strategy, we also purchased *Ethical Investor*. The publication has been a respected source of industry news and information for over 10 years. Since acquiring it we have refreshed the website and newsletter, increase engagement with subscribers and built the subscriber base. Having a non-branded or semi-branded channel for content is an emerging marketing strategy that has been implemented successfully by a number of leading financial services companies and is aimed at growing the awareness of ethical investing generally amongst the socially conscious consumer.

Appointment of a Head of Ethics

We have cemented our position as the leader in ethical investment in Australia in the past year by continuing to maintain the highest ethical conviction in our investment selections as well as taking strong stands in encouraging more ethical behaviour in the corporate and broader community.

We consider it critical that we have in-house ethical expertise rather than rely on a fully outsourced model as we have to date and during the year we appointed Dr Stuart Palmer as Head of Ethics and Corporate Advocacy.

Previously Head of The Practice at St James Ethics Centre, Stuart has also been a partner in a law firm and worked in investment banking. His professional experience has given Stuart a strong background in the practical application of ethics, as well as commercial and market experience and the critical thinking required for his role at Australian Ethical.

Advocacy

The sustained growth in our business has allowed us to have greater influence over the companies that we invest in through investment and advocacy activities that aim to influence the way that they do business.

In the past year we have been involved in activities such as, engaging with Santos on CSG, advocating against Lend Lease's involvement in the Abbot Point coal terminal, and divesting from Petrathern.

We are also currently engaging with the 'big four' Australian banks about improving their disclosure and governance in lending to the fossil fuel sector and are participating in a global project involving major domestic and international institutional investors and lenders to develop global guidelines for the reporting of the greenhouse gas emissions intensity of lending and investment activities.

Industry Awards and Recognition

B Corp Status

Australian Ethical is driven to redefine how people invest their money – not just for financial gain, but for the good of society and the environment.

In recognition of our leadership in this area, in Feb 2014 we earned certification as a registered B Corporation. B Corporations – the B standing for benefit – are a growing global movement dedicated to using the power of business for the good of society and the environment.

Certification is evidence of meeting high standards of social, environmental and governance performance across the entire business. Australian Ethical is the first publicly listed company in Australia to be certified and one of only a few worldwide.

The B Corp platform is another way in which we have an influence to encourage better business behaviour. We've been actively involved in growing the network and encouraging businesses to have themselves certified.

Benefit Corporations in the US are also challenging the current business model having introduced a new legal structure that explicitly recognizes the social purpose of the company in law and

protects directors for pursuing its social purpose over profit maximization. The B Corp team in Australia has formed a “brains trust” to explore the issues in this country.

Other awards

We continued to be recognized by our peers as leaders within the superannuation industry and more broadly for our performance in the areas of fund management, sustainability, ethics and marketing.

We received awards from respected not-for-profit the Banksia Foundation for 'Leading in Sustainability - Setting the Standard for Small to Medium Businesses Award' and from Green Lifestyle magazine who recognised Australian Ethical for our excellence as a 'Sustainable Large Business (over 15 employees).

External environment

Apart from market impacts there are two main dynamics in the external environment that will be key impacts on our business in the coming year.

Regulatory change

The regulatory regime in Australia continues to evolve. The superannuation landscape in particular became even more stringent with the commencement on 1 July 2014 of the new Prudential Standards. These were the most significant changes to financial services in many decades and have significantly increased the responsibility of trustees of superannuation funds and the regulatory over-site by APRA. This has increased significantly the management time and resources dedicated to governance and we have invested in our risk and compliance resources to meet and hopefully exceed the increased requirements.

Divestment movement

The other dynamic has been the rapid growth and impact of the divestment movement. This has led to some of our growth as members recognize where their funds are invested and switch to low carbon exposed funds as ours. Many funds have revised their approach to investing in fossil fuels and there is some confusion in the market regarding the definitions. This has also led to us often being questioned when we might “go fossil fuel free”.

Our response to this question is as follows:

- We are already far ahead in decarbonising our portfolio than the rest of the market. For example, our Australian company investments have a carbon footprint 73% lower than the ASX 200, as assessed by Trucost, an international leader in carbon footprint analysis. This is described on page 34 of our Annual and Sustainability Report released on Friday, 26 September 2014.
- We consider ourselves leaders in the field and the fact that we are not labelling our investments as “fossil fuel free” does not mean that we are not in the vanguard of responding to the climate change emergency. Such definitions don't take account of the portfolio as a whole or the positive impacts of other sectors in which we are heavily invested such as enabling technologies in energy efficiency and waste recycling. Overall, we are far in advance of any credible alternative.

- From this low base, we are committed to decarbonising the remainder of our portfolio within a timeframe consistent with addressing global warming and to encourage and work with the global investment community to do the same. Two recent initiatives were launched which we will be supporting in this regard:
 - the Montreal Pledge – a pledge by institutional investors to disclose the carbon footprint of their portfolio;
 - the Portfolio De-carbonisation Coalition – a coalition of global institutional investors agreeing to work together to decarbonize their portfolios.
- This has obvious investment implications and needs to be done in the context of our obligations under the superannuation legislative regime. We will report on progress in our annual sustainability report or as otherwise appropriate.

Conclusion

In conclusion, it has been a fantastic year for the company with improvements made across the business over the past few years all paying dividends together.

I'd really like to thank and congratulate our people for all their efforts and achievements over the course of the year. We have a fantastic and highly motivated team and they all deserve to be proud of what we have achieved as a company. I would also like to thank Steve and the board, including the Superannuation Fund board who are not here today, for their efforts and support in what is a continually challenging regulatory and external environment.

Moving forward we are exploring opportunities to evolve the business to be a broader based ethical wealth management company and further strengthening our position as the leader in this space. I'm looking forward to the coming year with excitement.

Thank you.