

**ASX Code: AEF****22 November 2012**

## **Chairman and Managing Director's Addresses to the Annual General Meeting**

### **Steve Gibbs – Chairman, Australian Ethical Investment Limited**

Ladies and Gentlemen

I became Chair on 1 March this year following the decision by Andre Morony, the previous chair, to step down from that position that he held since 23 March 2011, I will return to this a little later.

The 2012/2013 financial year was a very good one for AEI. Net profit after tax was up 164% from the previous year with underlying profit up 95%. Unfortunately the company's building in Canberra was again revalued downwards and with the change of Federal Government the prospects for the property market in Canberra do not look promising.

Funds under management in 2012/13 were up 12.9% from \$627 mill to \$708 mill. Almost all of this increase was due to market movements. Net flows to our managed investment schemes were down \$17 mill whereas net flows to superannuation were up \$18 mill. Whilst the net flows to the managed investment schemes were down by \$17 mill this is really quite a good result compared with many others in this sector- some of whom have suffered outflows of disastrous proportions.

So whilst 2012/13 was a very good year for AEI what is really exciting is what has happened in the first 3 months of the 2013/14 financial year. Funds under management to the end of September 13 was \$785.9 mill- an increase of 10.4% since June 30 2013. What is very pleasing is that net flows were \$17 mill up for the first 3 months of this financial year compared to net inflows of \$1mill for the entire 12/13 year. And as we have announced to the market Net profit after tax for the first 6 months of 13/14 is expected to be between \$0.97 mill and \$1.18 mill up 121% on the corresponding period in 12/13. In fact, this is over 350% above NPAT for the first 6 months of the financial year 2 years ago.

It would appear that many of the substantial and somewhat painful changes that have been made- that had to have been made-are starting to deliver. In recent times some 80% of new members to our superannuation fund are consolidating any other super fund monies that they have into their AEI account.

The necessary restructuring and change to our business continued during 2012/13. We changed the outsourced administrator of our super fund to Russell. This transition was accomplished with as little disruption as possible. Unfortunately Russell sold its superannuation administration business to Link just as the transition for AEI was underway yet even this potential distraction did not prove to be a problem for our staff who delivered an excellent result. During the year we also revamped and substantially improved our

insurance offering through our super fund making it one of the best insurance arrangements in the market.

An enormous amount of effort was also expended in applying to APRA to receive My Super authorisation for the balanced option in Australian Ethical Super. This authorisation was finally received on 16 September 2013 and this was another excellent result which justified the inordinate amount of time put in by all concerned.

There have been a number of changes at Board level during the year. This has been an orderly process aimed at achieving Board renewal. Justine Hickey announced at last year's AGM, when she stood for election, that this would be her last term as a Director and she subsequently resigned as a Director on 26 April 2013. Stephen Newnham, who was originally appointed as an independent director and subsequently became an executive director (when he stepped into a management role following some staff departures), decided accept employment elsewhere during the year and consequently resigned as a director on 24 July 2013. I would like to publically thank Justine and Stephen for the time they spent on the Board and for their outstanding contributions.

As mentioned earlier Andre Morony decided to step down as Chair at the end of February this year and agreed to remain a Director to ensure a smooth transition. Andre has decided not to seek re-election so he will cease to be a Director of AEI from the conclusion of this meeting. Andre was a Director and then Chair through what has surely been the most dramatic period of change in the company's history. We understand his decision to not seek re-election but his contribution will be sorely missed and he deserves the highest accolades for that contribution.

We have been extremely fortunate to attract 3 new Directors who bring outstanding experience and skills to the Board- skills that are different and complimentary. I urge you to support the election of Mara Bun, Tony Cole and Kate Greenhill.

Finally, Phil Vernon and his management team, indeed the entire AEI staff, have done a fantastic job and thoroughly deserve everyone's congratulations.

**Phil Vernon, Managing Director, Australian Ethical Investment Limited**

Good morning everyone.

We've had a great year at Australian Ethical. It has been the culmination of the changes we made and the goals we set ourselves over the past few years have borne fruit.

We have been on a journey to address key areas to ensure that we survive and thrive in what is a vastly different world for financial services companies.

Regulatory reform has reshaped our industry leading to lower fees and much stronger regulatory oversight. Five years of lower and volatile markets have left their mark on investors who are far more discerning about how they invest.

Our clients love what we do and how we do it. But increasingly they too are becoming more discerning about fees, client service and investment performance. They want us to be ethical leaders but also as commercial as anyone else.

**Our Journey**

So, over the past few years we've been on a journey to address all of these issues and reposition the company so that it would have every chance of success in the new environment. We wanted it to be the company that we believed it could be – a company that offered a way for its clients to invest for their retirement without compromising on their values or performance.

To date we have:

- Progressively lowered and restructured our fees to increase our competitiveness. Our biggest achievement has been managing through the impact of our own version of the "fiscal cliff" – the loss of well over \$1m in upfront fees that exceeded our profits and were banned from the start of the last financial year.
- We have invested in the skills of our people and strengthened our systems and operations. This has dramatically improved our service levels and productivity and lowered our risk. Unfortunately since the end of the year we've had to make some further redundancies which is never easy but was necessary to ensure we have an effective operating structure moving forward.
- We have centralised and strengthened our investment team. Our equities team is now all based together in Sydney allowing greater communication and teamwork, essential to a healthy investment process.
- We've seen an evolution of our brand to penetrate our natural market more deeply and broaden our appeal to a wider group. Ethical investing is not the preserve of a chosen few. I've spoken before that we believe our natural market is of the order of 1m people and we have 18,000 clients. We want to close that gap and as I'll discuss in a minute when I get to our results we're on our way.

## **Achievements of the past year**

Going into the last year we knew that it was going to be a resource intensive, operationally focused year driven by four key projects:

- **Transferred our superannuation administration**

This was a critical project. Poor outsourced client service had frankly been losing us clients for years and we needed to fix it. Getting our administration right was strategically important to us.

It was also a massive project in terms of resources for a company of our size but was a spectacular success compared to 5 years ago when we went through the last change of administrator.

- We were offline to our clients for no more than 3 weeks compared to 9 months
- Unreconciled amounts were only \$50 instead of hundreds of thousands
- Only 40 clients (out of over 14,000) had issues to be resolved during the switch. Five years ago we saw massive outflows of clients and damage to our relationships with advisers, something it has taken us years to repair.

- **New insurance**

We introduced new insurance arrangements for our superannuation members bringing our product up to market standard. Not having such arrangements was costing us business in our key market – ethical employers.

Our default members now receive automatic insurance on an opt out basis without having to undertake a medical and our rates are some of the most competitive in the market for our predominant demographics.

- **MySuper**

We obtained authorisation to offer a MySuper option this year. MySuper is a superannuation product introduced by the government under legislation last year. In order to retain existing employer clients and become the default fund for new ones it was critical for us to obtain this authorisation.

Each of these projects were resource intensive particularly for a company of our size. Getting them across the line was a massive effort and their success is due to many, factors not least the unbelievable effort and commitment of our team, particularly Meagan Brayne and Beth Hutchison.

- **Regulatory change**

The past few years have seen the greatest regulatory reform in decades and much of that came to implementation in the past year. It's been estimated that \$1.5bn has been

spent by the industry in getting ready for these changes.

- **Digital communication**

Extending off the branding work of last year we have invested significantly in our online footprint including a new website, increased social media presence and digital communications directly resulting in new business.

The investment in communications has been a great success with regular rich content being distributed daily. This has led to a far greater engagement with our clients at times when others are struggling. Our clients now talk more to their friends, families and colleagues about Australian Ethical. Word of mouth is still the single biggest driver of direct client growth and this is not by accident.

The mechanics of our website have also been enhanced to improve the take up rate and allow people to sign up much more easily. You can now join the super fund in a few minutes and have your other funds consolidated to us almost with the touch of a button. This, combined with a 30% increase in visitors to our website in the last year, has had a huge impact on client growth.

Finally our follow up process with new clients has been strengthened ensuring that they complete the process and start investing as soon as possible.

## **Results**

Our results speak for themselves:

- **Record funds under management**

Our funds under management at 30 June were \$708m an increase of 12.9% over the previous period. At 31 October they increased a further 15% to \$814m

- **Dramatically improved net flows**

Our net flows have improved dramatically to net inflows of \$1m for the year compared to net outflows of \$5m the previous year and continue at \$17m for the quarter to 30 September. October continues this trend with \$6.8m in net flows for the month alone.

The turnaround has been twofold.

In Managed Funds it's largely due to improved investor sentiment. For the past 5 years our managed funds flows have followed industry trends and been negative to sluggish. This improved during the last quarter of the past year which was the first positive quarter for 2 and a half years and has continued into the first quarter of this year.

Our super flows have always been consistently strong but they are also showing an almost doubling of the run rate. We attribute a lot of this to our improved sales and marketing efforts and product improvements where we're securing steady stream of client rollover monies from other funds.

◦ **Record superannuation fund members**

For the year to 30 June our superannuation members grew 7.5% to 14,868. For the quarter to 30 September our members grew a further 3.6% to 15,368 compared to an industry growth rate of just 0.1%.

◦ **Record new monthly clients**

For the year to 30 June our average monthly new client take on rate was 153 per month an 18% above over the previous year. For the quarter to 30 September this has increased even further to 228 a month, 78% above over the previous corresponding period. This last quarter for the first time we had over 300 new clients in just one month. Importantly, the number of clients leaving us has not increased as we grow.

◦ **Top quartile investment performance**

Our investment performance has really hit its straps and a number of the trusts and superfund investment options are currently ranked number 1 (or in the top 10) in the Mercer Investment Performance survey across multiple periods.

Particularly pleasing was the Smaller Companies Trust ranking number 1 out of a field of 71 over 7 years and our international fund returned about 50% in the last year.

◦ **High staff satisfaction**

We were delighted that this year's staff survey results again showed improvements across many of the measures. This was particularly pleasing given the fact that we had a very intense and busy year with significant changes and external disruption. But the results show that we have highly engaged people with a great sense of camaraderie that truly believe in what the company stands for and where it's heading.

The results are on page Key results were:

- Satisfaction with current role – 95% (2012 - 100%), (2009 - 79%)
- Communication – 86% (2012 – 74%), (2009 – 59%)
- Training – 77% (2012 – 78%), (2009 – 43%)
- Appraisal process – 64% (2012 – 77%), (2009 – 39%)
- Personally valued – 82% (2012 – 77%)
- Confidence in board – 86% (2012 – 77%), (2009 – 37%)
- Confidence in MD and management team – 95% (2012 – 81%)

Further detail is set out on page 30 of the sustainability report.

◦ **Industry awards**

And finally, we continue to be recognised by our peers as leaders in sustainability and ethics. In the past few months we won two awards:

- The first award from the Banksia Foundation, a respected not-for-profit that recognises environment and business excellence, was for '*Leading in sustainability – Setting the standard for a Small to Medium Business*'.
- The second award from leading consumer publication, Green Lifestyle, was to recognise Australian Ethical for their excellence as a '*Sustainable Large Business (over 15 employees)*'.

Finally, tonight our own Meagan Brayne is one of three finalists in the inaugural Women in Financial Services awards for the Executive Officer Super category. Good luck tonight!

**Profits – Near record Underlying Profits**

As a result of all these enhancement and necessary changes we reported the second highest underlying profit on record at \$1,675m. This is a remarkable achievement given the adjustments we have made to our fees and the investments we have made in the business over the past few years.

**Thank You Andre**

On a final note I would like to add my own personal thanks to Andre for his time as Chair. As Steve said he took over as Chair at a very challenging time. He did what was required in the best interests of the company as a whole and endured some quite disgraceful personal attacks as a result. The support he showed myself and the management team was commendable and very much appreciated by all of us.

**In conclusion**

We've had a great year and I'd really like to thank all the staff and the board for their enormous efforts and contribution over the past year. We have found the winning formula of a high conviction to ethics, strong and consistent investment performance, vastly improved communication and engagement with its clients, high quality client service and robust operations.

We're a very special company that occupies a unique place in the Australian financial services landscape. We are well placed to be the leader in serving the growing social consciousness of people and their desire to behave, consume and invest in a more ethically and responsible way.