

## **Australian Ethical Investment Limited**

### **AGM 2016**

**Tuesday, 25 October 2016**

#### **Phil Vernon – Managing Director**

Thank you Steve, and welcome everybody.

As Steve said it has been an extraordinary year for Australian Ethical but it hasn't happened by accident. It is the culmination of many years of hard work by the team.

We have a core purpose of making money do good for both our clients and the planet underpinned by a core set of beliefs:

- a new model for business is needed as a pure profit motive will kill our planet
- such a model does not need to come at an economic cost – the two can exist in harmony
- properly harnessed money has enormous power to do good
- individuals have enormous power to influence change through making ethically conscious choices in how they spend and invest their money
- to lead by example and just get on and do it

If an organisation can get this right then the decision becomes an obvious “why wouldn't you?”

We've been working hard over the past 5 years to get this right – to deliver professional, fully featured and competitive products whilst remaining true to our ethics.

The past year's success is simply the results of this effort.

I'd like to now take you through our strategy that has led to the past year's strong results.

#### **Our Opportunity**

Our target market remains the 1.5m ethically conscious investors – that is, those for whom ethics are a key consideration in everything they do. We have 27,000 clients so our opportunity is large. However, based on our research, the majority of this group do not want to compromise on price, features or performance. They want it all. Offering a product that is focussed purely on ethics or activism without addressing all the others needs of clients won't cut it. Nor will a tokenistic sustainable product that is not authentic in its ethical commitment.

We don't believe there is any other provider that offers the combination of professionally managed, fully featured, competitive products with a conviction to ethics across the entire business – not just being an ethical screen on a product.

## Trends to 2020

In looking toward 2020 we are mindful of the following key external trends in the marketplace that inform our thinking:

- the rise of the conscious consumer
- the increasing savings pool
- digital disruption
- increasing client expectations for exceptional service
- continual fee pressure driven by both regulatory and competitive dynamics
- volatile markets and long term low interest rate environment

## Our Strategy

Against this context, our strategy to grow falls into three main areas:

- initiatives aimed at growing the ethical investment market and educating ethically conscious consumers on their options
- initiatives aimed at differentiating ourselves within that market as having high conviction ethics whilst delivering professional, fully featured and competitive product
- initiatives aimed at conversion and retention by ensuring a consistent brand experience across all client touch points

## Key drivers of performance

Results in each of these areas are as follows:

- Growth of the ethical investment market
  - The ethical investment market has grown 63 in the past year, doubled in the past two years and increased its share of the overall market from 2.7% to 4%
  - Moreover the message is increasingly getting out that returns can outperform the broader market over extended periods of time
- Growing our share
  - Our social media community has grown to almost 100k followers in just a few years
  - Moreover they are a highly engaged community
  - Our investment performance is consistently top quartile over long periods of time. Our long history is also an asset
  - We continue our strategy to ensure that products are cost competitive
- High engagement
  - Staff engagement scores are high at 77% close to best employers score. Having a highly motivated team aligned with the purpose of the company is critical for delivering exceptional service to our clients
  - Client engagement is high with an Net Promoter Score of +55

## Long term financial results

This has led to the following extraordinary results:

- Strong recent growth of net inflows
- Combined with our investment performance this has led to strong growth of funds under management
- Underpinning is this primarily is our strong growth in new superannuation members, way above system growth. We are a net beneficiary of movement throughout the system due to improved ease of transfer following the introduction of Superstream
- This has led to growth in shareholder returns across a number of measures

## Financial results for the year ended 30 June 2016

Key highlights for the results for the past financial year were:

### *Funds under management*

- Net flows increased by 78% to \$319m
- Funds under management increased by 33% to \$1.56bn

### *Revenue*

- Revenue increased by 8.8% to \$23m
- Revenues increased by lower than funds under management growth due to our continued fee reduction as well as a lowering average revenue margin due to increasing proportion of lower margin wholesale investment flows

### *Expenses*

- Total expenses were up by 4.3%
- Staff costs were relatively flat due an increased amount last year due to the transition in our remuneration structure. This has been explained in our remuneration reports
- We incurred a further impairment in relation to our building in Canberra
- We have made a provision of \$900k against potential compensation in respect of a unit pricing error in relation to our superannuation fund. Investigations continue in respect of these errors and costs are being incurred. Further updates will be provided when there is sufficient certainty around the impact of these investigations and remediation costs on the expected half year profit.

## Funds under management and net inflows for quarter to 30 September 2016

Our strong growth continues as revealed in our recently released quarterly update on funds under management and net inflows which showed that our funds under management for Superannuation increased by 12% over the previous quarter and for Managed Funds by 6% leading to a total increase in funds under management of \$155m or 10% over the quarter. This \$155m was made up of \$102m in net inflows and \$53m in asset movements.

## Community grants 2016

And finally, our Community Grants program is a core aspect of what this company represents channelling 10% of our profits each year to charitable causes and social enterprise. This year we made two enhancements to our program:

- We involved for the first time in the voting for the finalists our clients, in addition to our employees and our shareholders; and
- We provided 3 year commitments to two recipients (Orangutan project and Free to Shine) allowing them to better plan for their projects.

I'd like to finish by thanking our exceptional staff who have made these fantastic results possible.

I'd also like to thank our board for their ongoing support and guidance throughout the year.

# Annual General Meeting

**Phil Vernon**  
Managing Director  
25 October 2016

# Our story

It's been 30 years since a group of progressive, like-minded friends got together to make money do good – for their clients and the planet.



# Our purpose

**We make money do good for our clients and the planet.**

**We invest for our clients and manage our business, conscious of the impact that our actions have on the world around us. We do not compromise on ethics or financial performance. We achieve both.**



# Our beliefs

**A new model is needed**

**No need to compromise**

**The power of money**

**The power of the individual**

**Take action and lead**

A focus solely on profits and returns places our planet at great risk

Ethical and financial outcomes can be achieved together

Capital has both normative and transformative power

Individuals can make a difference through their collective purchasing and investing power

We believe in taking action to make a difference

-  
We lead by example and inspire others





# What we want to be

## Vision to 2020



### **Our clients:**

The go-to financial services for conscious consumers; broader based services

### **Our people:**

Personal and professional fulfilment; an inspiring place to work

### **Our impact:**

Greater scale directs more capital to good things.  
Better measurement

### **Our shareholders:**

Maximise long-term returns while remaining true to our purpose

# **Our strategy**

# Trends to 2020

## Rising social consciousness



There is an increasing social consciousness with a consequent impact on ethical consumerism and investment. 40% of consumers consider themselves ethical and act ethically, whilst money flowing into ethical funds have doubled in the past two years.

## Client expectations



Clients will be increasingly demanding as the “have it now” culture continues. Success will increasingly be driven by features, service, and how “easy you are to deal with”.

## Growing savings pool



Whilst aspects of superannuation will change, there is bipartisan support for increasing the level of savings over time, leading to an increased savings pool over time.

## Fee pressure



As the superannuation savings pool continues to grow, concern about the efficiency of the system and fees charged by participants have been the focus of policy reviews and regulation. There is a general consensus that overall superannuation fees should reduce over time at about 1% of FUM.

## Digital disruption



The impact of digital technology affecting every industry is profound, no more so than in financial services. It will impact the way in which products are marketed and delivered, and improve efficiency and productivity.

## Volatile markets



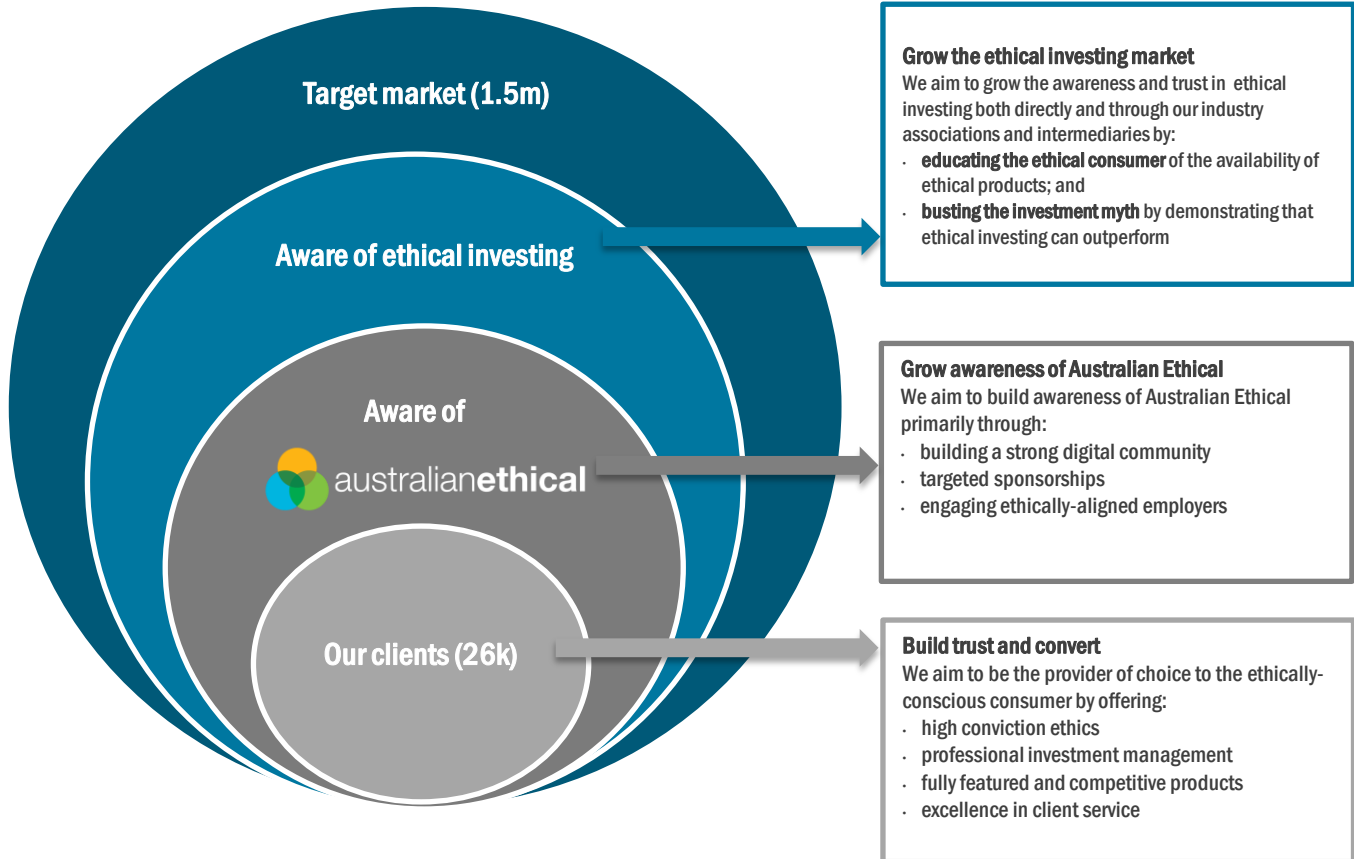
Global markets are likely to remain volatile until a sustained recovery is more evident. In the near term prospects of recovery are being held back by sluggishness in Europe and the slowdown in growth in emerging economies, particularly China.

# Our opportunity – potential target market of investors

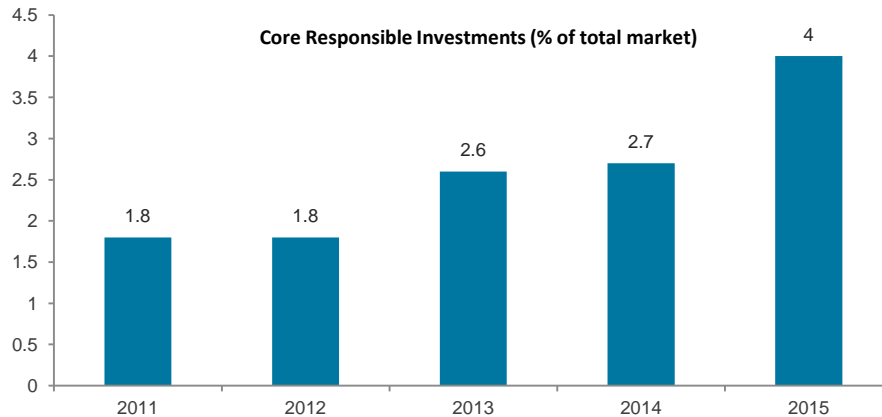
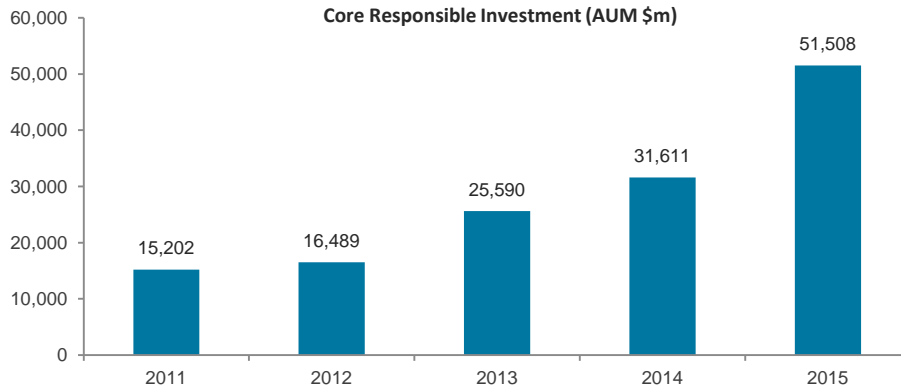
Ethically conscious consumers = 10% = 1.5m investors



# Our opportunity – how will we respond?

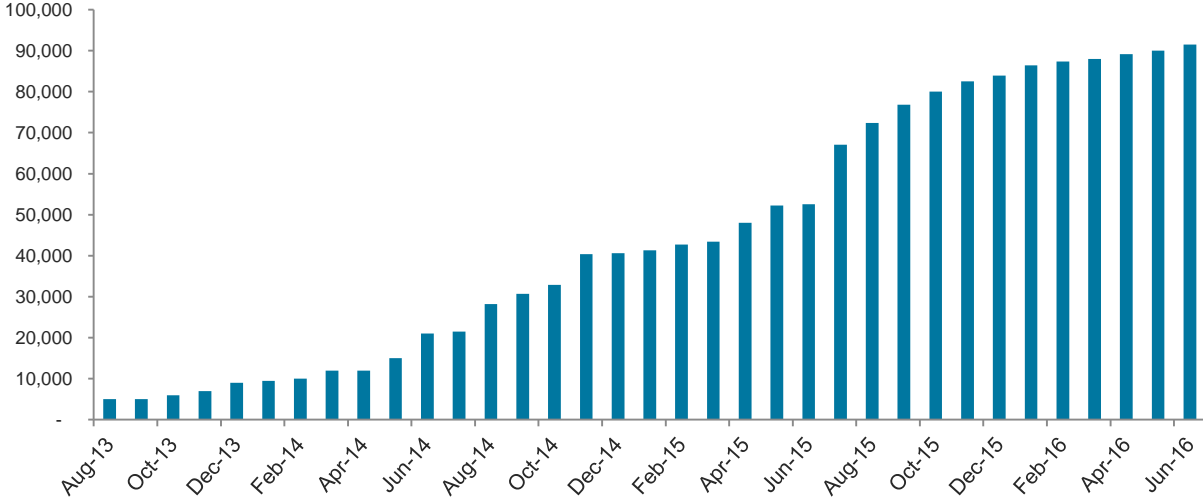


# Growing the ethical investment market



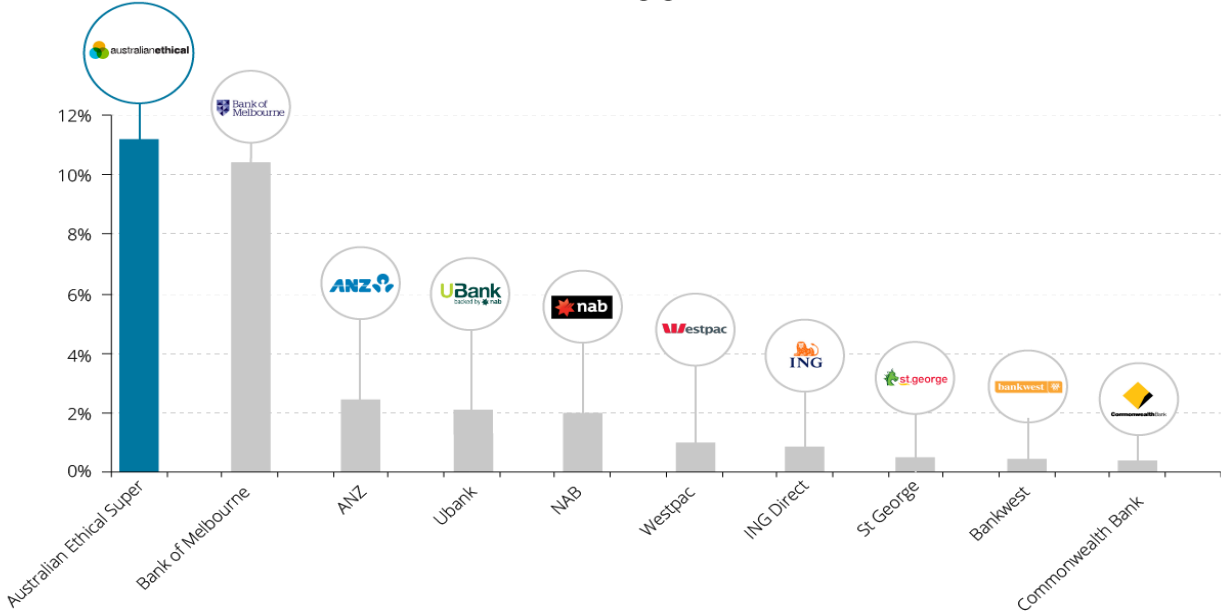
# Building our digital community

Australian Ethical Facebook Followers



# Building our digital community

Facebook Engagement Rate

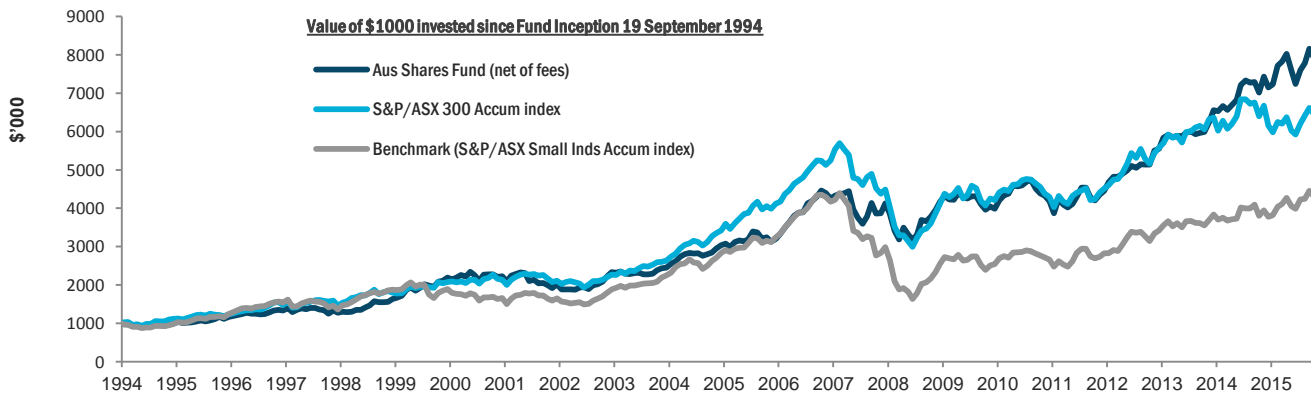




# Delivering consistent investment performance

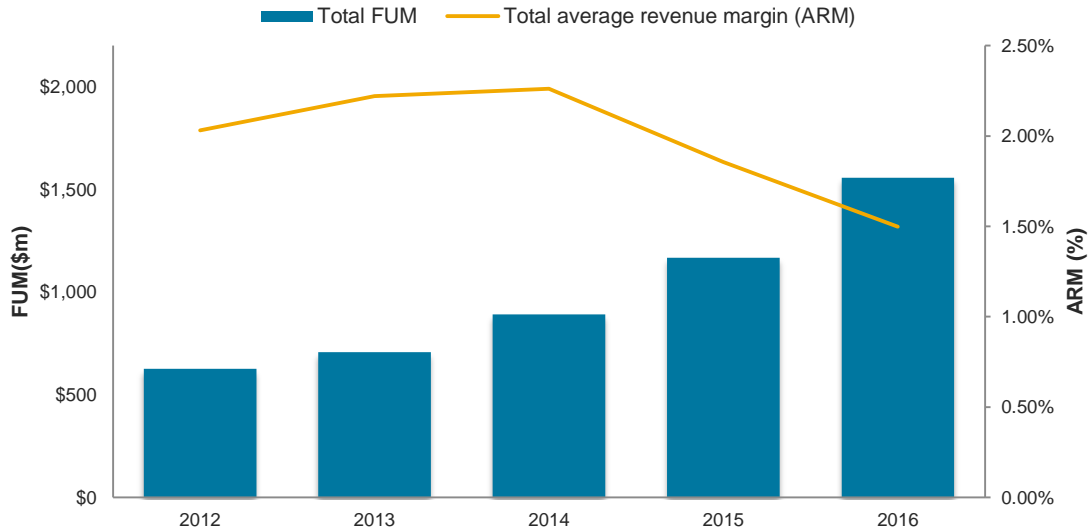
MANAGED FUNDS	1 year	3 years	5 years	7 years	10 years
	Quartile	Quartile	Quartile	Quartile	Quartile
Balanced	1st	1st	1st	4th	2nd
Australian Shares (retail)	1st	1st	1st	1st	1st
Diversified Shares (retail)	1st	1st	1st	3rd	2nd
Advocacy (retail)	1st	1st	1st	-	-
International Shares	1st	2nd	4th	4th	-
Cash	4th	2nd	2nd	1st	2nd
Fixed Interest	3rd	-	-	-	-

Source: Mercer Peer Comparison as at 30 June 2016



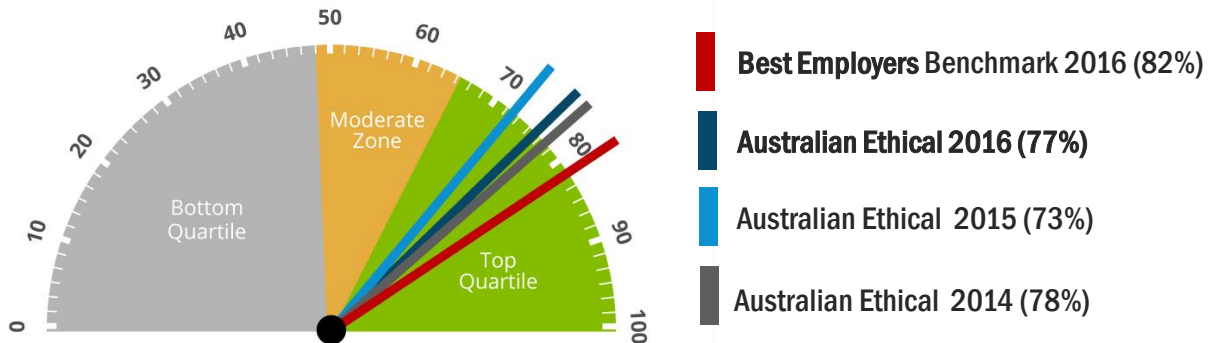
Period ending 30 June 2016. Performance shown net of fees.

# Ensuring our products are competitive



Average revenue margin is FUM-based revenue as a proportion of average FUM over the year. FUM-based revenue is one component of total revenue. Other revenue includes member and withdrawal fees, interest and rent. Details can be found in Note 2 of the 2016 Financial Statements.

# Engaging our people



# Acquiring and retaining clients



## Fundamentals

Brand refresh, client  
journey mapping

## Control the experience

Uplift service capability

**Our purpose  
reflected in every  
touch point with  
our clients**

## Better information

CRM, analytics

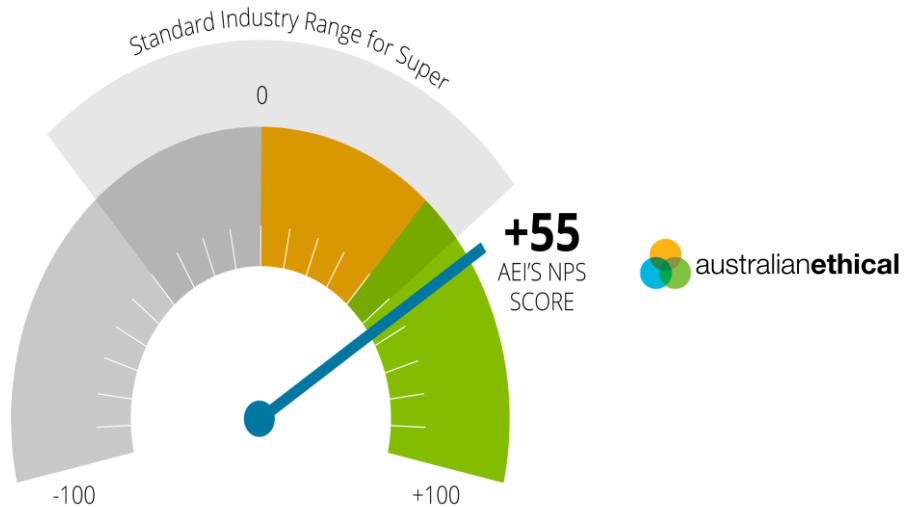
## Better conversations

Provide limited financial  
advice



# Improving client satisfaction

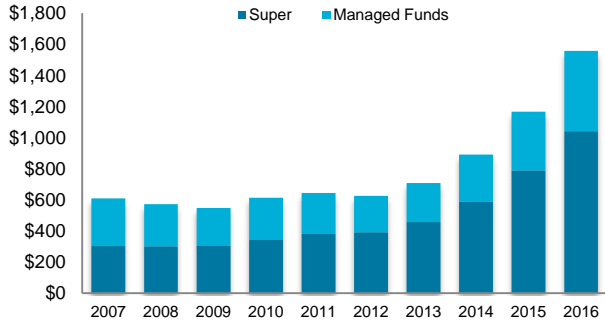
**Our NPS for customer service is one of the highest in the industry**



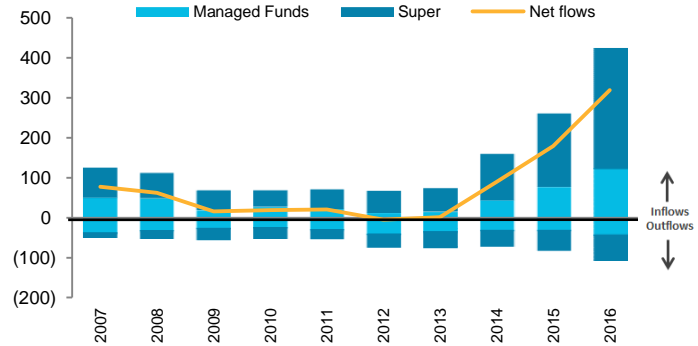
**(Net promoter score = promoters LESS detractors)**

# Has led to strong growth

## Funds under management (\$m)



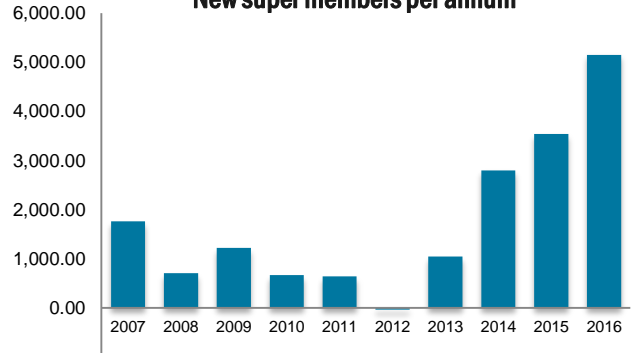
## Net inflows (\$m)



## Total super members

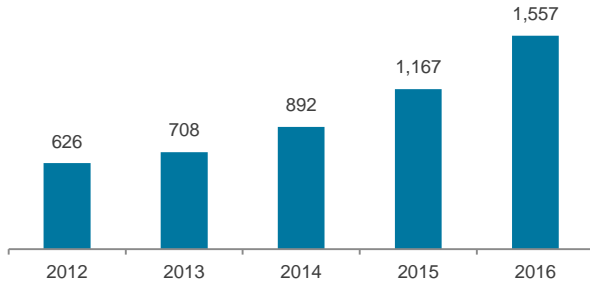


## New super members per annum

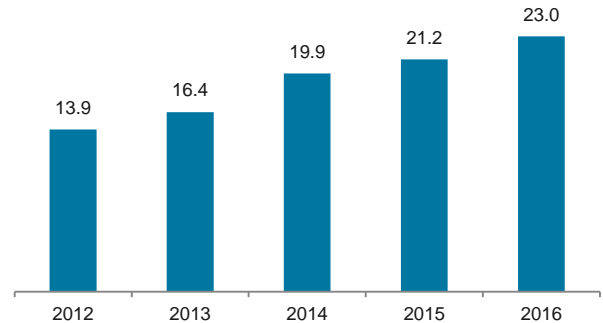


# ... and delivering exceptional shareholder returns

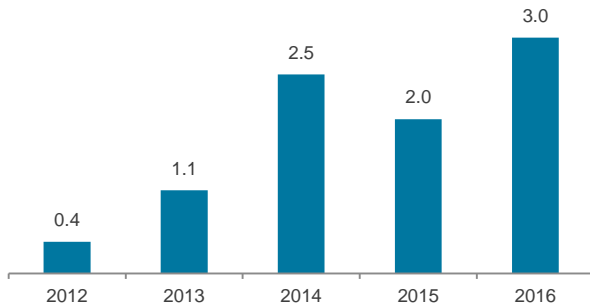
Funds Under Management (\$m)



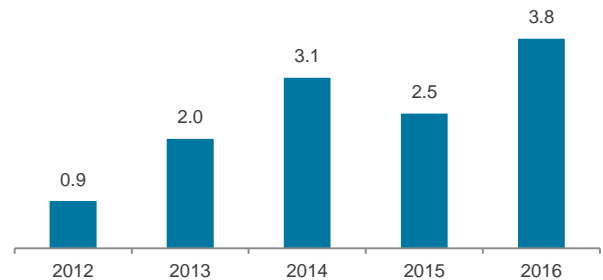
Revenue (\$m)



Profit After Tax (\$m)

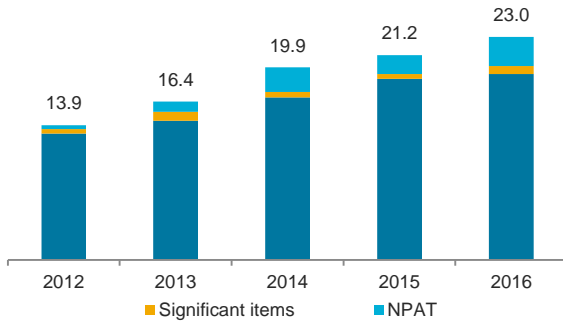


Underlying Profit After Tax (\$m)

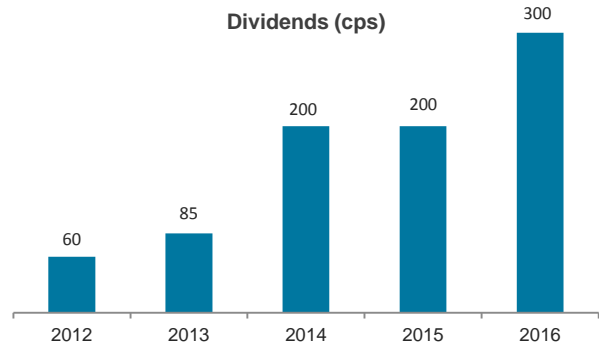


# Exceptional shareholder returns (cont'd)

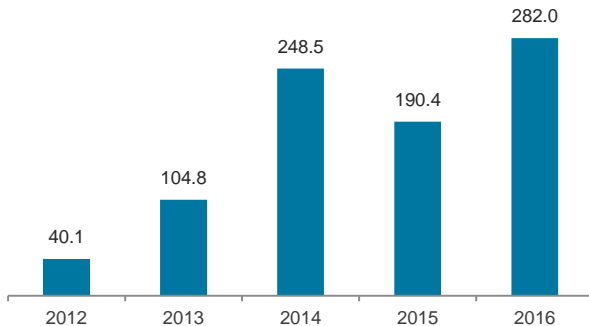
### Revenue breakdown (\$m)



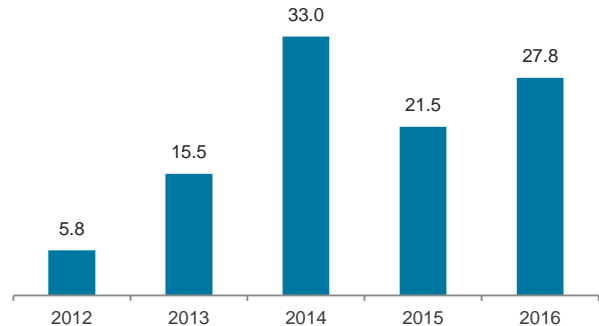
### Dividends (cps)



### Basic earnings per share (cps)



### ROE (%)





# Our results

# Highlights

## Strong Growth

- Strong growth in total Super clients - 24%
- Net flows - 78%
- Funds under Management - 33%

## Strong investment performance

- Regular top quartile performance for a number of funds over many time periods
- Australian Shares Fund ranked 1<sup>st</sup> in Mercer survey over 10 years

## Improved fee competitiveness

- Strong growth offsets continued fee reductions
- Strategy to be at 75<sup>th</sup> percentile of MySuper peer group by 2020

## Strong digital community, highly engaged clients

- Nearly 100,000 social media followers
- Leading industry net promoter score

## Provision for remediation

- Provision of \$900k created for remediation flowing from unit pricing administration error

## Increased dividend

- Dividend growth of 50% for full year

# Financial results

Key Financials (A\$000s)	FY2016	FY2015	Change (YoY)
Revenue	23,039	21,171	8.8%
Expenses	(20,029)	(19,201)	(4.3%)
<b>Net Profit After Tax</b>	<b>3,010</b>	<b>1,970</b>	<b>53%</b>
Property impairment	181	484	63%
Provision for remediation	900	0	n/a
Tax adjustment	(270)	0	n/a
<b>Underlying Profit After Tax</b>	<b>3,821</b>	<b>2,454</b>	<b>67%</b>
Earnings per share <sup>1</sup>	282c	190c	48%
Dividend	300c	200c	50%
Share price	\$81.11	\$58.80	38%
<i>Total shareholder return (%)</i>	<i>43%</i>	<i>72%</i>	-
<i>Return on equity (3 year average) (%)</i>	<i>27%</i>	<i>23%</i>	-
<i>Earnings per share growth (3 yr average) (%)</i>	<i>36%</i>	<i>89%</i>	-

<sup>1</sup> Diluted EPS

# Balance sheet and capital

Balance sheet highlights (A\$000s)	FY2016	FY2015	Change (YoY)
Cash and liquid investments	14,072	12,227	15%
Property	1,460	1,725	(15%)
Other assets	2,140	3,275	(35%)
<b>Total assets</b>	<b>17,672</b>	<b>17,227</b>	<b>3%</b>
Financial debt	nil	nil	no change
<b>Total liabilities</b>	<b>4,856</b>	<b>6,075</b>	<b>(20%)</b>
<b>Net assets</b>	<b>12,816</b>	<b>11,152</b>	<b>15%</b>
Regulatory capital (A\$000s)	FY2016	FY2015	Change (YoY)
Net tangible assets	11,690	10,080	16%
Regulatory requirement	5,100	5,100	no change
<b>Buffer</b>	<b>6,590</b>	<b>4,980</b>	<b>32%</b>

# FUM and net inflows – year ended 30 June 2016

(A\$m)	FY2016	FY2015	Change (YoY)
Opening FUM	1,167	887	32%
Super net inflows	237	132	80%
Managed funds net inflows	82	47	73%
<b>Total inflows</b>	<b>319</b>	<b>179</b>	<b>78%</b>
<b>Market movement</b>	<b>71</b>	<b>101</b>	<b>(29%)</b>
<b>Closing FUM</b>	<b>1,557</b>	<b>1,167</b>	<b>33%</b>

# FUM and net inflows – quarter to 30 Sep 2016

(A\$m)	FUM Jun 16	Net Flows	Market & Other*	FUM Sep 16	Change
Managed Funds	516	25	5	545	6%
Superannuation	1,041	78	49	1,167	12%
<b>All products</b>	<b>1,557</b>	<b>102</b>	<b>53</b>	<b>1,712</b>	<b>10%</b>

\* Includes changes in asset value due to market movements, income, reinvestments, and distributions.

# Our commitment to the community

## FY16 Community Grant Recipients

\$20,000

grant recipients



### Taronga Conservation Society Australia

'Plastic Free Oceans' campaign to protect and preserve wildlife and the environment



### Australia Rainforest Foundation

Purchasing properties for conservation in QLD



### Centre for Compassionate Conservation

Early treatment of mange in wombats to help prevent extinction



### Enterprise Learning Projects

Establishment of an op shop by local Indigenous women in Kulumburu, NT



### Enterprise Learning Projects

Establishing Speargrass Bike Tours, a social enterprise run by young Indigenous men in Katherine, NT



### RSPCA QLD

Installation of a solar system at the Brisbane Animal Care Campus



### The Humanitarian Group

Providing legal assistance for people seeking asylum in WA

\$15,000

grant recipients



### Black Cockatoo Preservation Society of Australia Inc.

Infrastructure for the critically endangered white-tailed black cockatoo



### Orangutan Foundation International (Australia) Limited

Reforestation of the Orangutan Legacy Forest in Indonesia



### Wildlife Asia

Deploying a rhino protection team in Sumatra

\$5,000

grant recipients

### Days for Girls

Postpartem and standard hygiene kits for 400 women in Tanzania

\$10,000

grant recipients

### Green Connect

Internships for disadvantaged youth and refugees to grow and distribute fair food in Illawara, NSW

### Motivation Australia

Providing wheelchairs and support for 20 kids in Fiji

### Where Pigs Fly

Constructing animal shelters at a sanctuary for rescued farm animals in the Hunter Region, NSW

### Animal Aid Abroad

Training and employing local vets to treat injured, abused and overworked animals in India

### OzGreen

Clean water and community garden for 2 villages in Timor

# Disclaimer

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