

Australian Ethical Investment Ltd

Annual General Meeting 2017

ASX ANNOUNCEMENT

Managing Director's speech

Thank you Steve, and welcome everybody. It has certainly been an extraordinary year.

Recap on our strategy

Our beliefs

Our business is a very special business based on a core set of beliefs:

- that the financial system needs to fundamentally change to behave more empathetically toward the world around it
- that doing so does not need to come at a financial penalty
- that properly harnessed, money has enormous power to do good
- that individuals have enormous power through their conscious choices
- that it is important to lead and provide proof points

Growth of ethical investing

The past year has seen an extraordinary growth for ethical investing where it moved decidedly from being a niche sector of financials services to being front page growing by 26% over the past year.

Rise of the conscious consumer

Underpinning this growth is what we call the rise of the conscious consumer. People are increasingly becoming more socially and environmentally conscious. This will only increase with the rise of the millennial generation. This generation is far more socially and environmentally aware than their parents and will be ¾ of the workforce by 2025. They will also inherit the greatest intergenerational wealth transfer in history.

Our target market

Our target market continues to be that part of the investing public that is drawn toward high conviction ethics but where financial factors – investment performance and product features – are still important. That is, they are “hygiene” factors. On the basis of research, we believe that this market is large - \$2.3m people.

Our point of difference

We have a distinct point of difference in the ethical investment space due to:

- Our high conviction ethics – our ethical charter is in our constitution and applies across our entire business. It is not just how we invest or a single product, but who we are. We are authentic. It is not a gimmick or a tag-line. We have a dedicated in-house ethical analysis team who work symbiotically with our investment team.
- Professional investment management – we have a team of 9 investment professionals and an over 20 year track record with consistent above-benchmark performance. We are managing our clients life savings and future well being.
- Fully featured products – we have 21 investment, superannuation and pension options catering to all risk profiles.
- Accessed through multiple channels – our products are accessible directly, through advisers and brokers or via employers.

Key initiatives undertaken during the year

We undertook the following key initiatives over the course of the year.

Brand refresh

In order to better capture the “sweet spot” between being ethically bold and financially savvy we felt we needed to refresh our brand which was launched this week.

Wow the customer

We undertook a comprehensive project to assess and improve the customer experience across every touch point.

Changed administrator

We undertook a significant project to change our superannuation administrator. Our decision was based on both price as well as improved customer experience and analytics.

Broadened our channels

Over recent years much of our growth has come from our direct retail digital channel. One of our key strengths is that we are accessible through multiple channels and we have recently built up our intermediated sales team to focus on the adviser, employer and high net worth market and to better support and respond to institutional opportunities.

Fee competitiveness

As we've stated consistently we have been undertaking a measured fee reduction strategy over the past few years. We have had a stated strategy of aiming to be at the 75th percentile in respect to our MySuper peer group within the medium term. We have done a lot of "heavy lifting" over the past few years and are close to reaching that level.

Office renovation

On top of all that we undertook a major renovation to provide our people with an inspiring and engaging place to work which reflected our values.

Results

We undertook the following key initiatives over the course of the year.

Growth

We have experienced extraordinary growth over the past 12 months. At a time when much of the superannuation industry is experiencing net outflows and struggling with member engagement we have been an industry leader in terms of growth and engagement.

- Our superannuation member growth was 34%
- Our net inflows were 42%
- Our funds under management grew at 34%
- We were acknowledged as the fastest growing superannuation fund in Australia in 2016 in a report by KPMG
- We were recently awarded the Fast Mover award by SuperRatings for being the fastest growing over the financial year to 30 June 2017.
- Strong growth is also occurring in our Managed Funds products with significant inbound enquiry occurring through both the Adviser channel as well as high net worth individuals.
- Interest is also occurring in the institutional market and in July 2017 we saw our first \$100 million+ institutional investment from Australian Catholic Super who cited member demand as the reason for their decision.

Underpinning this growth are a few key themes:

- People engage with us because of what we represent. Not because of a gimmick, an app or a tagline. They want to know what their money is doing, that its building something, contributing positively to the future of the planet. And not only do we offer something of substance but we communicate with them in an authentic way. Our social media engagement rates far exceed mainstream financial services peers because we talk to them about what they care about.
- But performance matters too. We are dealing with people's life savings and financial wellbeing. We have also seen an increase in inflows from clients who have selected us because of our investment performance.

Financial results

Revenue

- Revenue increased by 23% from \$23m to \$28.3m.
- Revenues increased by a lower percentage than funds under management growth as a result of fee reductions at the commencement of the financial year.

Expenses

Two main impacts on expenses occurred during the year:

- There were abnormal costs associated with the unit pricing error previously reported of \$2.924 million.
- Staff expenses increased by 24%. As a result of the incident and other factors, we have also taken the opportunity to take a step back and get "match fit" for future growth. We have experienced extraordinary growth in the past few years and have probably been one step behind in our resourcing. This has been necessary as our focus for the past few years has been on reducing fees and hence efficiency has been a key focus. Looking forward to the next few years we are now focussed on having the team to support a \$5bn - \$10bn company and staying ahead of our growth.
- This has led to increased resourcing primarily in our operational areas such as finance, risk and compliance but also in our sales and marketing team to increase the support of not only our direct members and investors, but also the adviser, employer and institutional channels. These investments are already delivering tangible results with an up-lift in adviser numbers, platform listings and new institutional business.

Profit

- As a result of the abnormal unit pricing remediation costs, Net Profit After Tax was down 3%
- However Underlying Profit After Tax was up 11%.

Dividend

- A fully franked dividend of 210 cents per share was declared for the full year ended 30 June 2017, bringing the total dividend for the year to 260 cents per share.

Balance sheet

- We retain a strong balance sheet position with no debt.
- Net assets increased by 5% to \$13.9 million.
- The majority of assets are held in cash to meet our Australian Financial Services Licence (AFSL) requirements.
- The only significant non-cash asset is a property held in Canberra, which is discussed in detail in the Consolidated Financial Report.
- The assets held in excess of the licence requirements provide reserves to pursue market opportunities or in the event of operational risk.

Investment performance

- We continued to deliver our strong investment performance over the year.
- Our flagship Australian Shares fund outperformed its benchmark over the short, medium, long and very long term and continues to do so without taking on extra risk.
- The default MySuper option for our super fund members, the Balanced Accumulation Option, also continued to outperform its benchmark.

Ethics

- We continue to actively track our progress to fully decarbonise all our portfolios by 2050. In 2017 we reduced our own exposure to carbon by 46% to 90 tonnes/\$m. This is 66% less than the benchmark.
- Our leadership on portfolio decarbonisation was recognised by the French Government
- Again named in the top 10% of all Certified B Corps on the Global B Impact Assessment list
- We continue to actively engage and advocate for companies including the large banks to take greater action with regard climate change disclosure

Our Foundation

- We are very proud of the work undertaken by the Australian Ethical Foundation. For the last 17 years Australian Ethical has donated 10% of its prior year's profits for charitable, benevolent or conservation purposes. Since 2000, we have paid more than \$2.2m in grants to not-for-profit organisations which do good for the planet, people and animals.
- In the past year:
 - over 450 applications
 - \$280,000 distributed to 18 organisations
 - 16,000 people voted including members, employees and for the first time, the general public.

Conclusion

I'd like to finish by thanking our people. We put a lot of stress on the organisation over the past year in addressing the operational issues and in renovating the premises and yet we continued to grow faster than any other fund in the country, deliver strong investment performance and in so many other ways. It shows what a fantastic team we have.

And finally I'd like to thank our board for their support and guidance over what has been a challenging but hugely successful year of which we can all be extremely proud.