



Australian Ethical Investment Ltd 2018 Annual General Meeting

Phil Vernon | Managing Director and CEO

25 October 2018

A wooden canoe is positioned at the bottom center of the frame, pointing towards the horizon. The water is a deep blue, and a bright sunset or sunrise is reflected on the surface, creating a shimmering path of light that leads towards the canoe. The sky is a mix of blue and orange tones.

Agenda

01 HIGHLIGHTS

02 BUSINESS UPDATE

03 FINANCIALS

Highlights



2018 highlights

INVESTING FOR A BETTER WORLD



Growth

Fastest growing super fund over 5 years and 5th highest over 1 year *

Superannuation members up **17%**

Net flows up **14%**

Funds under management up **31%**

Key institutional investor win **\$128m**

Share price up **43%**



Our impact

- **\$620k** distributed through the foundation
- Investment portfolio is **66%** less carbon intensive than benchmark ^
- Engaged more than **300 companies** to influence positive change. Two companies **ceased services to live animal exporters**. One bank **ruled out any new thermal coal lending**.



Investment performance

Long term track record of **strong performance** on Balanced Accumulation (My Super) Option and Australian Shares Fund



Our products

- Launch of **Wholesale Balanced Fund**
- Additional funds **rated by Lonsec** - International and fixed interest funds~



Our people

- Increase in **employee engagement** to **78%**
- **Voluntary staff turnover** a 3 year low of **7%**



Client engagement

- **Industry leading** Net Promoter Score
- Industry leading **client retention** rates*
- **120,000** social media followers
- Successfully completed **super administration transition** to Mercer Outsourcing (Australia) Pty Ltd

* Represents membership growth. Excludes Tidswell whose high growth related to an internal merger. Source: KPMG 2018 Super Insights Report – published May 2018

^ Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian share holdings) and MCSI World ex Australia Index (for international share holdings). Data is at December 2017

~ The Lonsec Rating (assigned July 2018 presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Australian Ethical Investment product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec’s Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>

Business update

Our strategic pillars

INVESTING FOR A BETTER WORLD

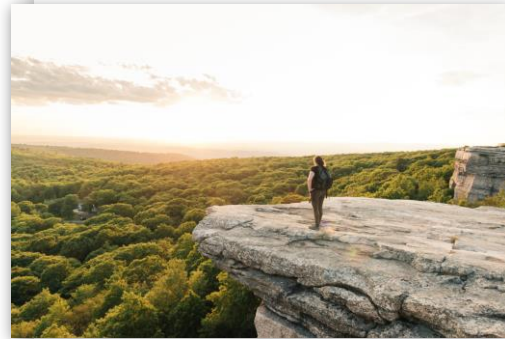


PILLAR

01

Ethical leadership

Be a bold ethical voice and drive change for good.



PILLAR

02

Professional investment management

Deliver long term competitive financial returns for our clients.



PILLAR

03

Competitive products

Offer a unique set of fully featured ethical wealth management products for the conscious consumer.



PILLAR

04

Sustainable business

Be of a scale that meets customer needs, shareholder returns and delivers significant social and environmental impact.

Our opportunity



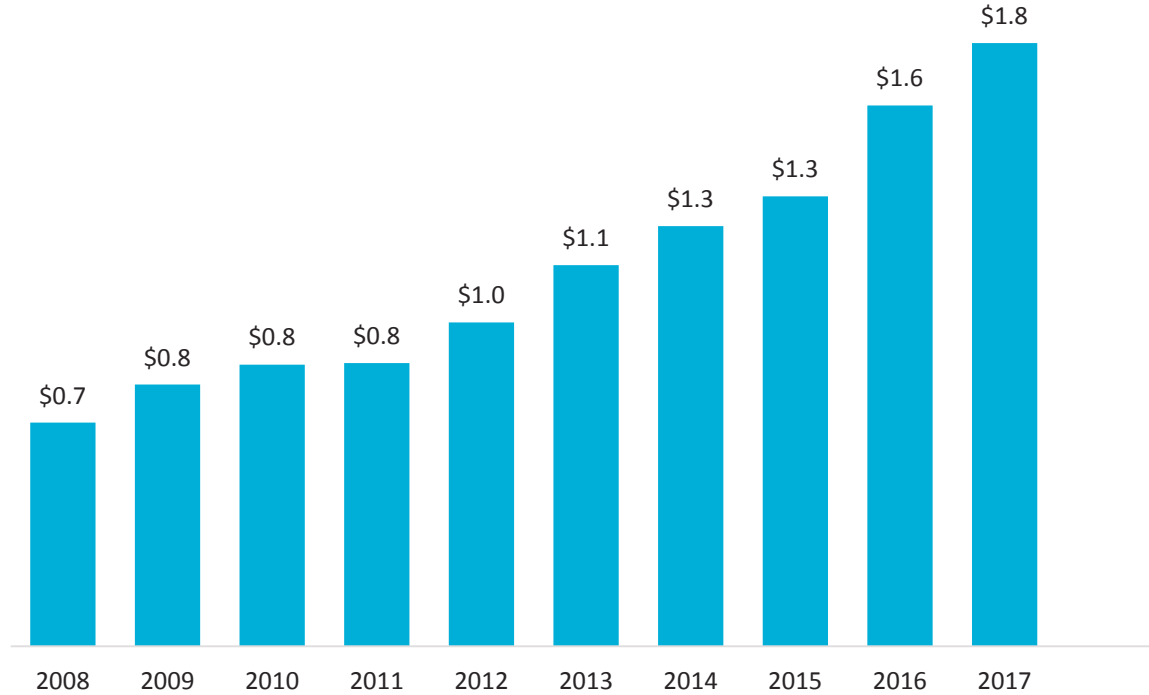
Key insights

- Our target market is the Highly Ethical and Ethical Action Takers segments
- Increased competition in the sector but we're confident of our distinct points of difference



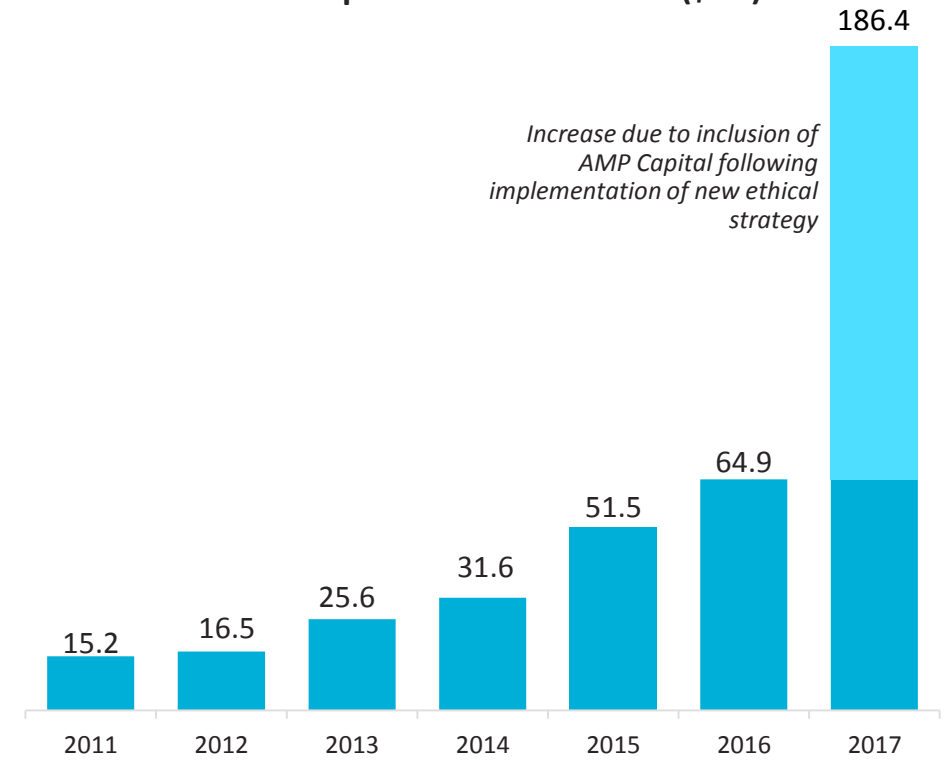
Leveraged to two growth markets

Superannuation (\$trillion)



Source: APRA

Core Responsible Investments (\$bn)

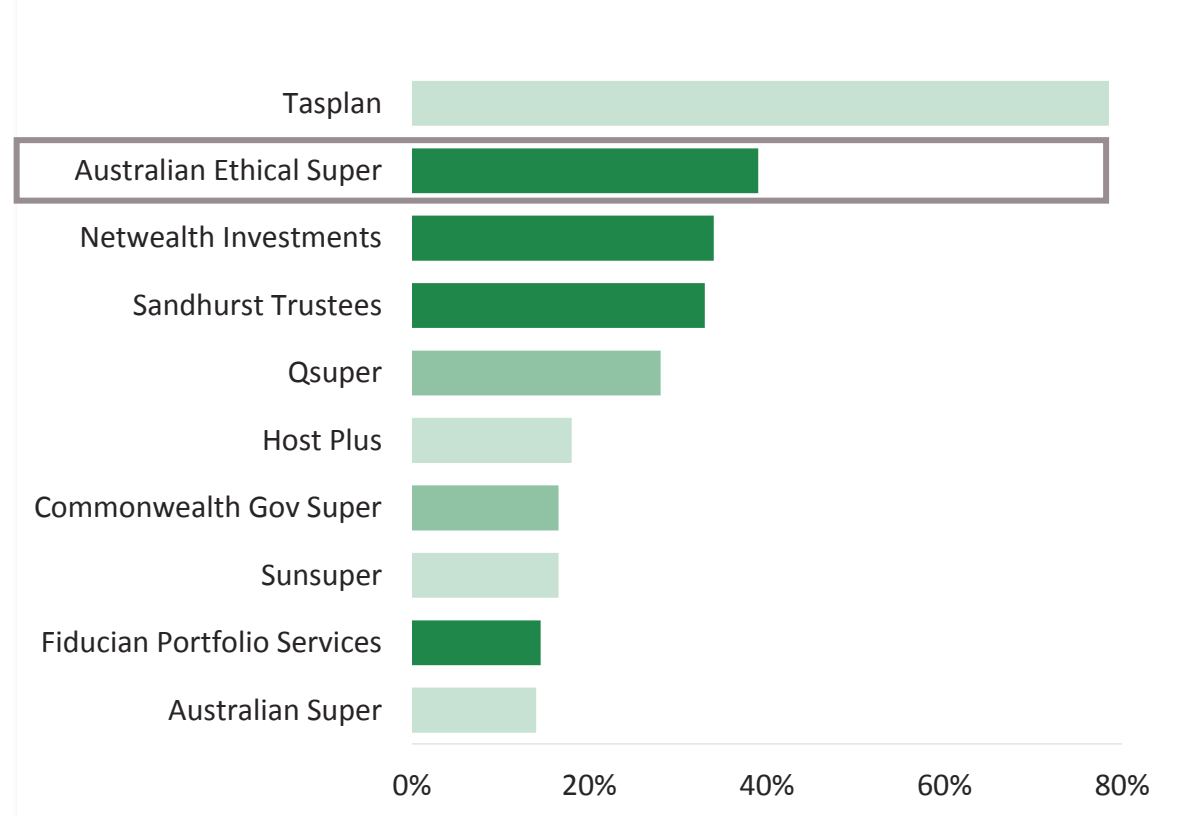


Source: Responsible Investment Association Australasia 2018 Benchmark report for year ending 31 December

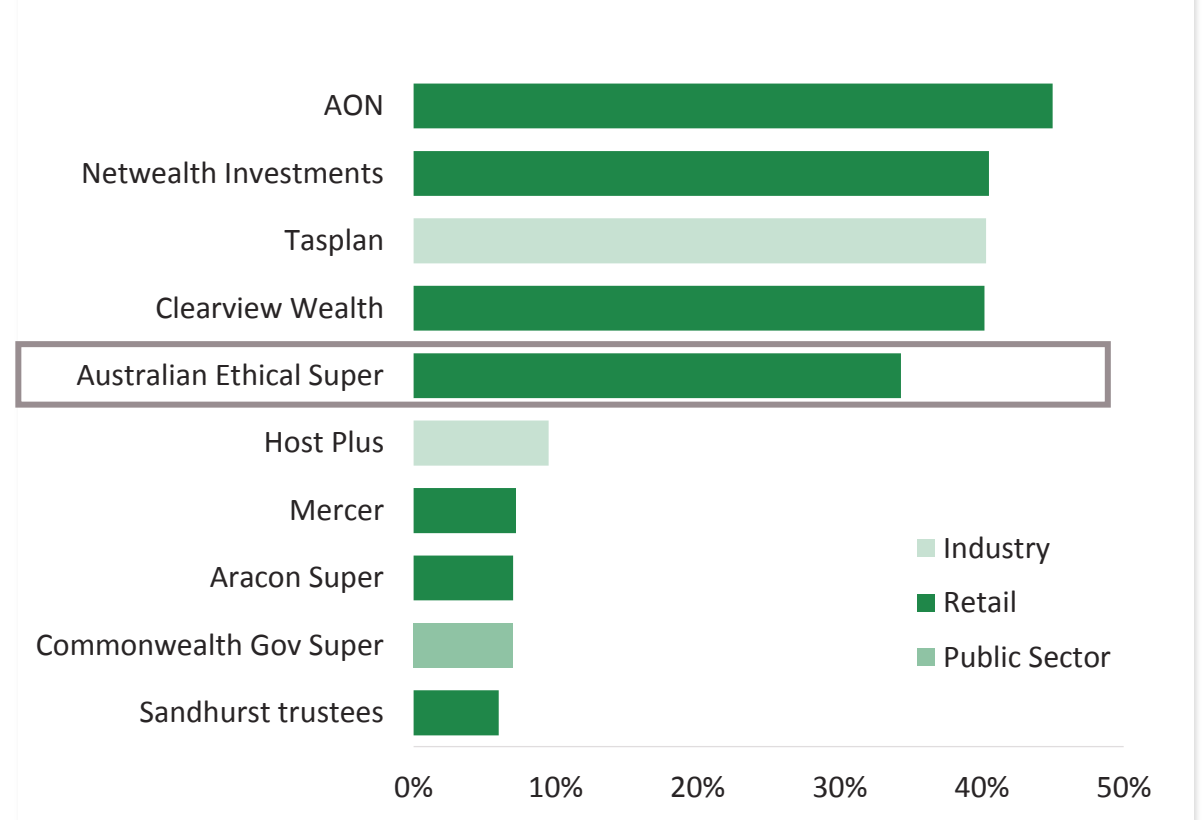
Top 10 funds by growth

KPMG SUPER INSIGHTS REPORT

Top 10 funds by AUM growth



Top 10 funds by member growth



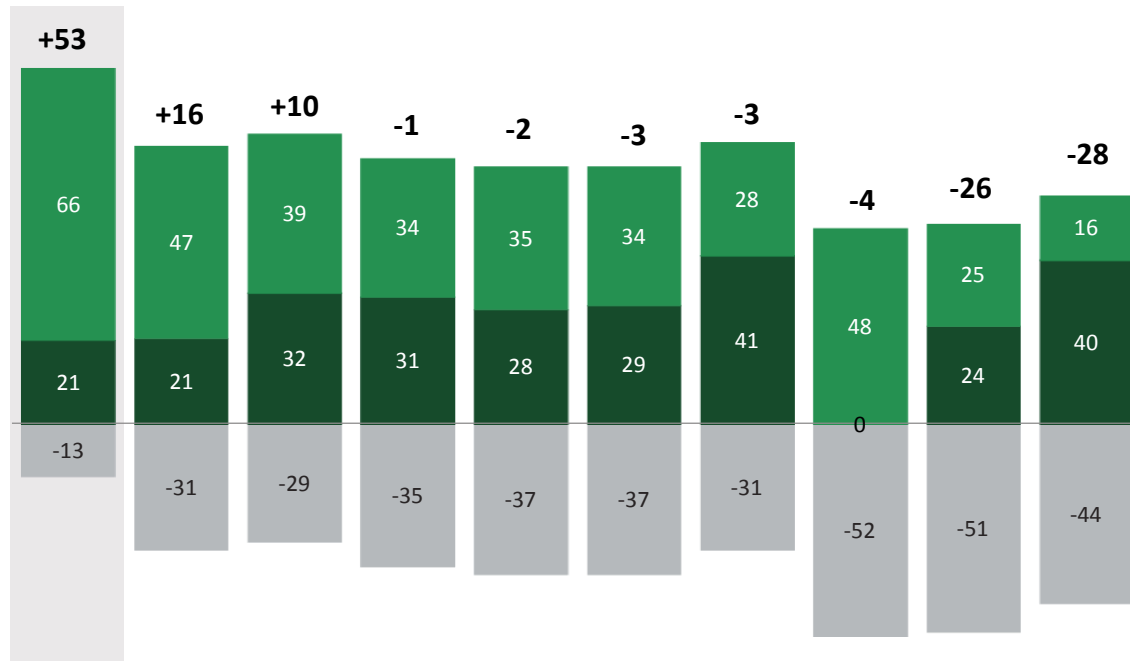
Note: Charts represent 2017 growth

Source: KPMG 2018 Super Insights Report – published May 2018

Industry leading net promoter score

Superannuation

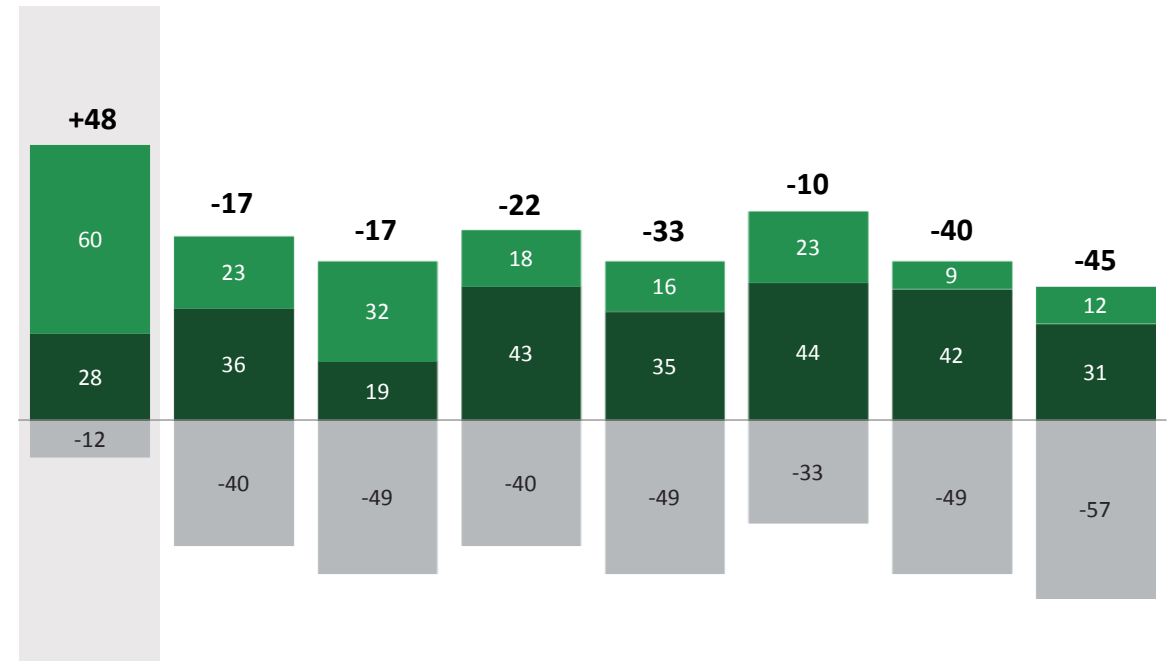
■ Detractor ■ Passive ■ Promoter



Australian Ethical Super

Managed funds

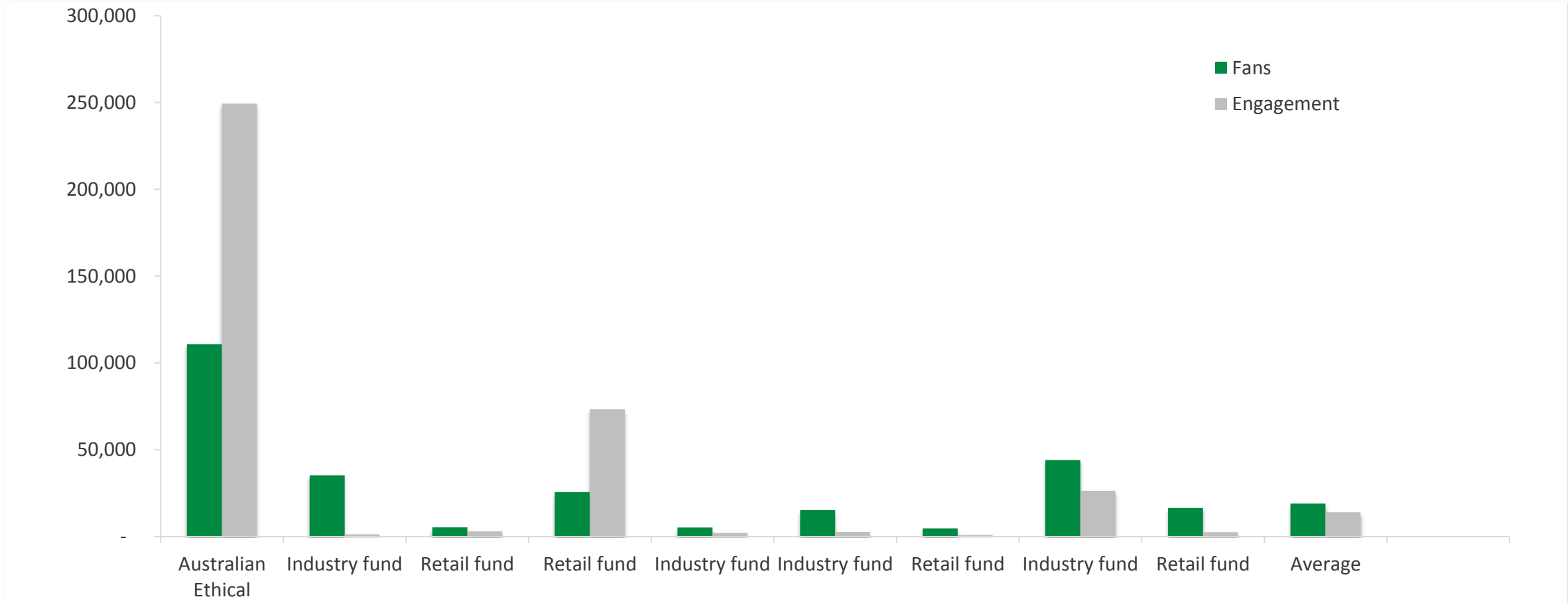
■ Detractor ■ Passive ■ Promoter



Australian Ethical

Industry leading social media engagement

COMPETITOR ANALYSIS - FACEBOOK ENGAGEMENT - FY18



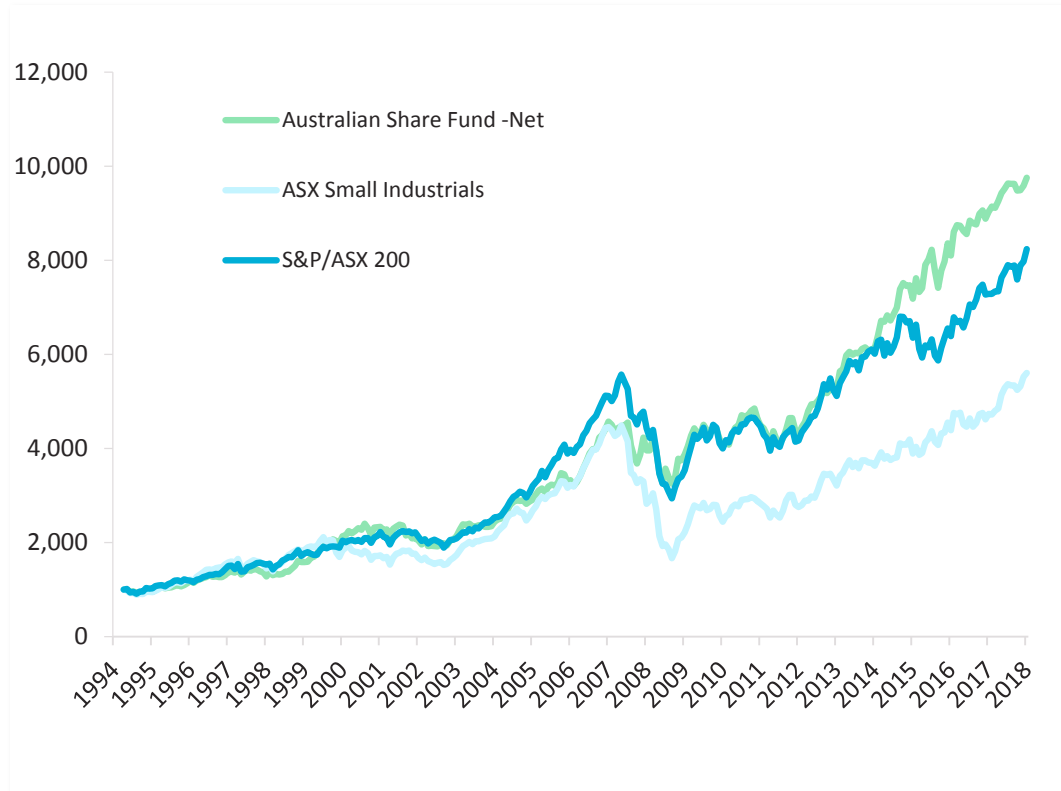
Note: Fans = total number of people who have liked our page; Engagement = total of all likes, shares and comments

Source: Sprout Social July 2018

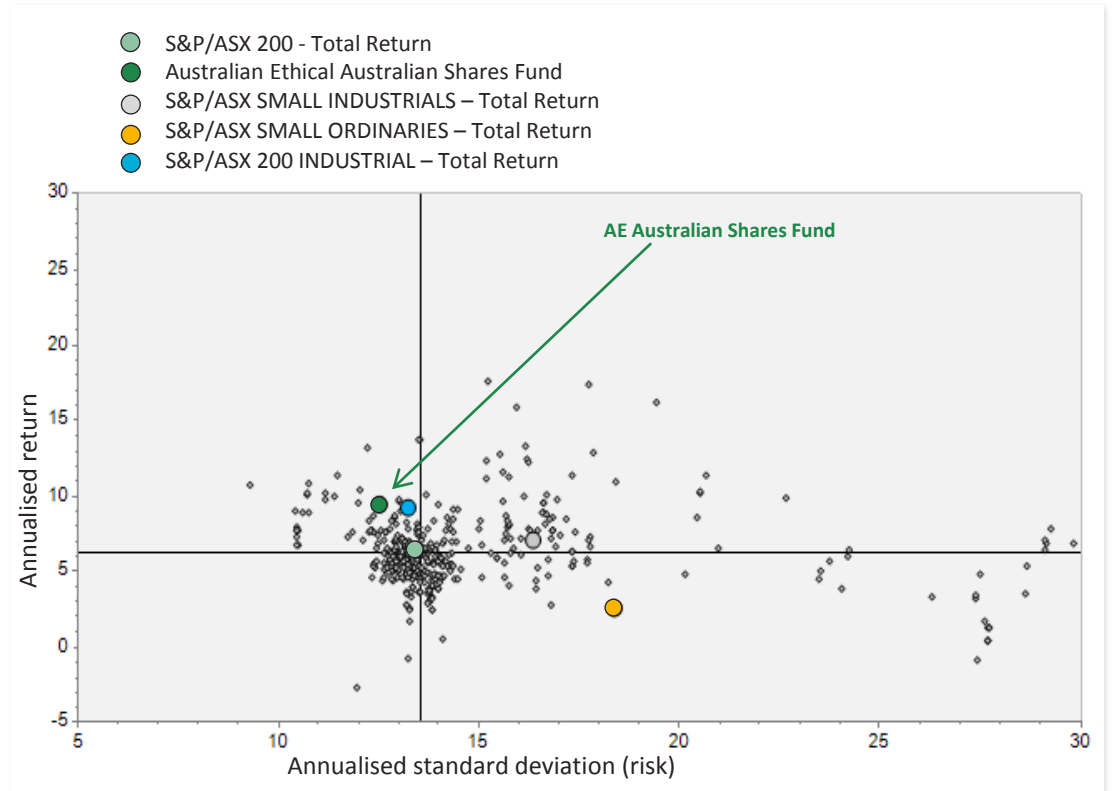
Investment performance - strong returns, less risk

ETHICAL INVESTING DOESN'T MEAN MORE RISK

Value of \$1000 invested since inception



Risk/return over ten years to 2018



Source: Morningstar June 2018. Universe includes all trusts in the following Morningstar universes: Australian Large Value, Australian Large Growth, Australian Large Blend, Australian Mid/Small Blend, Australian Mid/Small Value, Australian Mid/Small Growth

Long track record of outperformance

Australian Shares Fund continues to outperform the market over the medium, long and very long term

	1Y (%)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	20Y (%p.a.)	Since Incept'n (%p.a.)
Retail*	8.0	10.7	13.1	11.7	9.4	10.7	9.9
S&P/ASX 200 Accum Index	13.0	9.0	10.0	9.1	6.4	8.8	9.4
<i>Relative Performance</i>	-5.0	+1.7	+3.1	+2.6	+3.0	+1.9	+0.5
S&P/ASX Small Industrials Accum Index	18.3	12.9	11.8	10.2	7.1	7.0	7.4
<i>Relative Performance</i>	-10.3	-2.2	+1.3	+1.5	+2.3	+3.7	+2.5
Wholesale^	9.5	12.4	14.9	n/a	n/a	n/a	15.6
S&P/ASX 200 Accum Index	13.0	9.0	10.0	9.1	6.4	8.8	11.0
<i>Relative Performance</i>	-3.5	+3.4	+4.9	n/a	n/a	n/a	+4.6
S&P/ASX Small Industrials Accum Index	18.3	12.9	11.8	n/a	n/a	n/a	12.3
<i>Relative Performance</i>	-8.8	-0.5	+3.1	n/a	n/a	n/a	+3.3

Table reflects performance after fees for the Australian Shares Fund

* Inception Date (Retail): 19/09/1994. ^ Inception Date (Wholesale): 23/01/2012

Long track record of outperformance

Our default MySuper Option, the **Balanced Accumulation option**, has outperformed its 5 year objective and benchmark over the medium, long & very long term shown below.

	1Y (%)	3Y (%p.a.)	5Y (%p.a.)	7Y (%p.a.)	10Y (%p.a.)	Since Incept'n* (%p.a.)
Balanced Accumulation Option ~	6.7	6.4	7.6	7.4	5.3	6.2
Benchmark#	7.8	5.7	6.7	6.5	5.1	4.9
<i>Relative Performance</i>	-1.0	+0.7	+0.9	+0.9	+0.1	+1.2
Investment Return Objective^	5.6	5.2	5.4	5.4	5.6	6.2
<i>Relative Performance</i>	+1.1	+1.2	+2.2	+2.0	-0.3	+0.0

~ After all fees, assuming average \$50k member balance

* Inception Date: 31/12/1998

Benchmark changed from Morningstar Multi-sector Balanced – Superannuation Fund peer group index to Morningstar Multi-sector Growth, effective 1 March 2015.

The historical returns are calculated by combining the two indices.

^ CPI + 3.5%p.a. over 5 years

Impact Highlights



Investment Portfolio

Investments produced **66% less CO2** than benchmark¹



Nil investment in fossil fuels²



Nil investment in nuclear³



Best for the World status by B Corps⁴

6x more investment in renewable power generation than the global share market⁵



Our Foundation

10% of AEI profits⁶ donated to not-for-profit organisations

\$620k in grant making in 2018



Multi-year partnership arrangements:

- Empowering women with **Human Rights Watch**
- Protecting Australia's forests with **The Wilderness Society**
- Developing plant based meats with **Food Frontier**



Continued commitment to **impact investing** in businesses generating positive social and environmental outcomes. **\$80k** committed in 2018



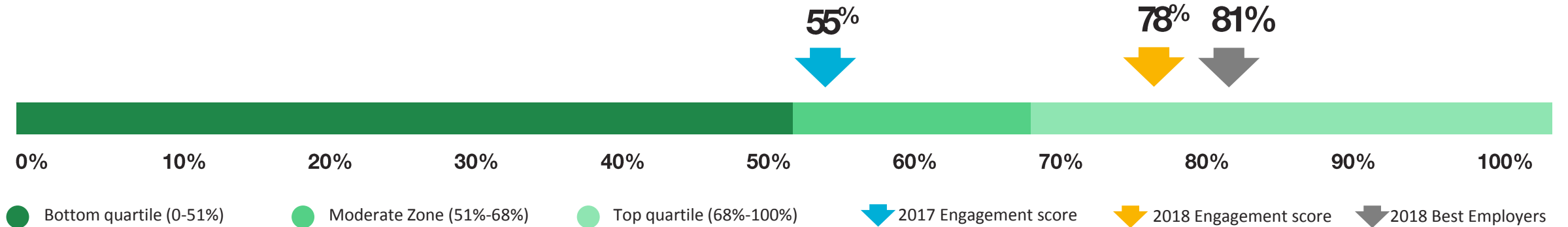
Grants have contributed to:

- **743 Cambodian girls** now protected from sex trafficking
- Mobilising communities and councils to protect the Great Australian Bight from oil drilling
- **38,000 hectares** of rainforest and **1,600 Orangutans** protected in Indonesia

1. Emissions of Australia Ethical share investments compared to benchmark of S&P ASX 200 Index (for Australian shareholdings) and MSCI World ex Australia Index (for international shareholdings). Calculated as at 31 December 2017
2. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). Assured by KPMG.
3. A report by PAX and the International Campaign to Abolish Nuclear Weapons (ICAN) noted Australian Ethical as the only Australian firm to make it on the 'Hall of Fame' list. (Do not invest in any nuclear associated companies and applied no revenue threshold for companies for manufacture of weapons, uranium mining, and nuclear generation.)
4. Recognised by B Lab as Best for the World (top 10%) of companies in the category of Governance.
5. Proportion of our share investments in renewable power generation compared to the global share market
6. Before deducting bonus and grant expense

Top quartile employee engagement

VS EXTERNAL BENCHMARK AUSTRALIA & NEW ZEALAND



Our environment

Competitive market

From industry funds in general as well as responsible investment sector.

Slowing growth rate

Rapid growth rate of past few years has slowed.

Other channels

Non digital channels are opening up diversification opportunities for us

Regulatory pressure

Productivity commission.
Member outcomes regime.
Royal commission.



Our focus

INVESTING FOR A BETTER WORLD

STRATEGIC FOCUS AREAS



Be bold

Accentuate our ethical point of difference in both substance and messaging.



Making it real

Make our point of difference tangible through all customer touch points.



Breaking through

Significantly increase our brand awareness. The whole world should know about us.



Be accessible

Ensure customers can reach us through their channel of choice.

STRATEGIC INITIATIVES

- High conviction ethics
- Corporate and political advocacy
- Supporting grass roots

- Investing in long term digital platform and customer experience initiatives

- Investing in brand awareness and customer reach
- Continued investment in marketing bench strength

- Nurturing our intermediated channels

Financials

Financial highlights

Continued growth delivering strong returns



Record profit

NPAT attributable to shareholders* **\$5m**, up

71%

Underlying profit **\$5m**, up

18%

Diluted EPS
3 year CAGR

35%

Dividend
400c, up

54%

Total
shareholder
return

47%



Strong FUM & revenue growth

- FUM **up 31%**
- Revenue **up 27%** to \$36m
- Institutional investor win in July 17 of **\$128m**



Building scale & investing in growth

- Operating expenses up **28%**
- Strong investment in **brand awareness, education & channel diversification**
- FUM per employee up **11%~**



Impact

- **10% of AEI profits**[^] donated to not-for-profit organisations
- **\$620k of grants** for FY18

* This excludes the results for the Australian Ethical Foundation Limited ('The Foundation')

[^] After tax and before bonuses. This equates to ~14% of NPAT in FY18

[~] Based on closing FUM and closing number of employees

Key financials

Key financials^ (\$'000)	FY2017	FY2018	Change (YoY)
Revenue	28,305	35,992	27%
Operating expenses	(22,310)	(28,594)	28%
Non operating expenses	(1,937)	-	-
Total expenses	(24,247)	(28,594)	18%
Income tax expense	(1,134)	(2,317)	104%
Net profit after tax-statutory	2,924	5,081	74%
Less Foundation results	(4)	(83)	-
Net profit after tax attributable to shareholders	2,920	4,998	71%
Net profit after tax attributable to shareholders	2,920	4,998	71%
Re-valuation/impairment of PPE	(228)	-	-
Employment restructure	250	-	-
Unit price remediation expense	795	-	-
Unit price remediation project costs	1,160	-	-
Tax on adjustments	(662)	-	-
Underlying profit after tax (UPAT) attributable to shareholders	4,235	4,998	18%
Diluted earnings per share – attributable to shareholders	262 cents	446 cents	70%
Diluted earnings per share 3-year CAGR	2.8%	35.2%	
Dividend per share	260 cents	400 cents	54%

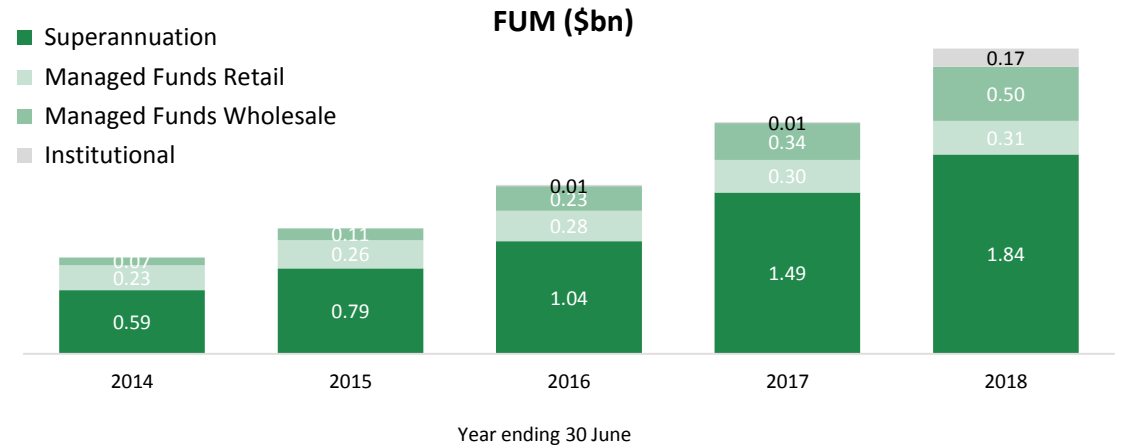
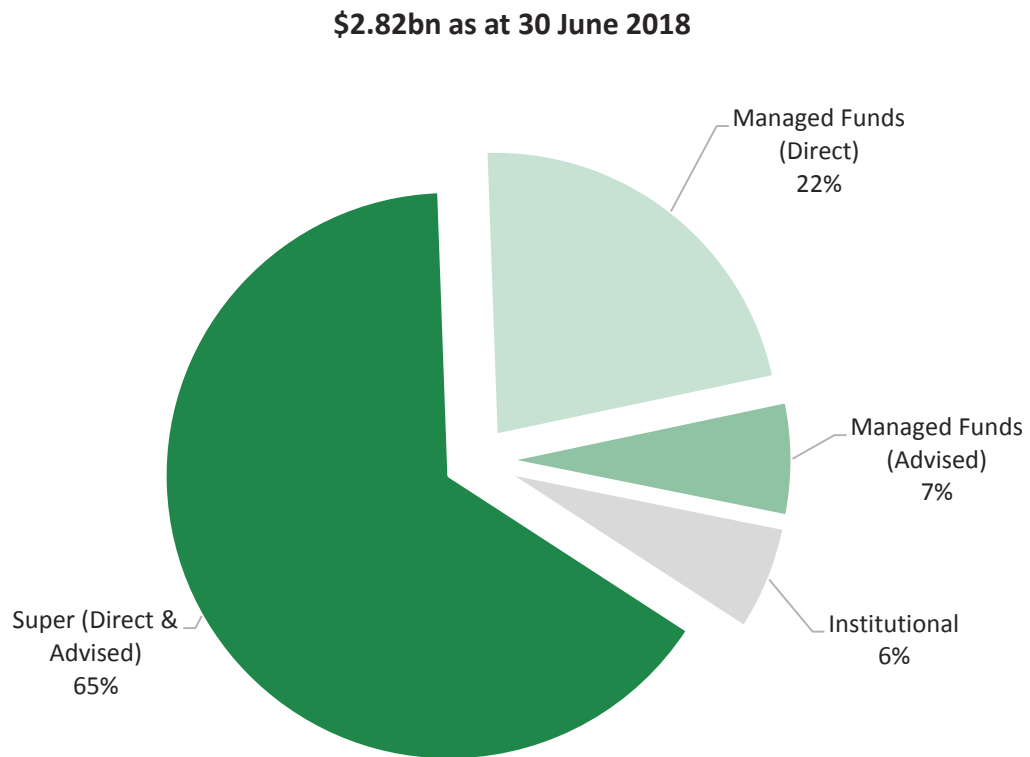
Key themes

- Continued FUM growth driving higher revenues
- Tilt toward wholesale managed funds driving lower average fee margins
- Full year impact of FY17 hires impacting year on year cost growth
- Focused investment in communication and channel diversification
- Full year dividend up 54%

^This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

Continued strong growth in FUM

FUM BY CHANNEL AND PRODUCT

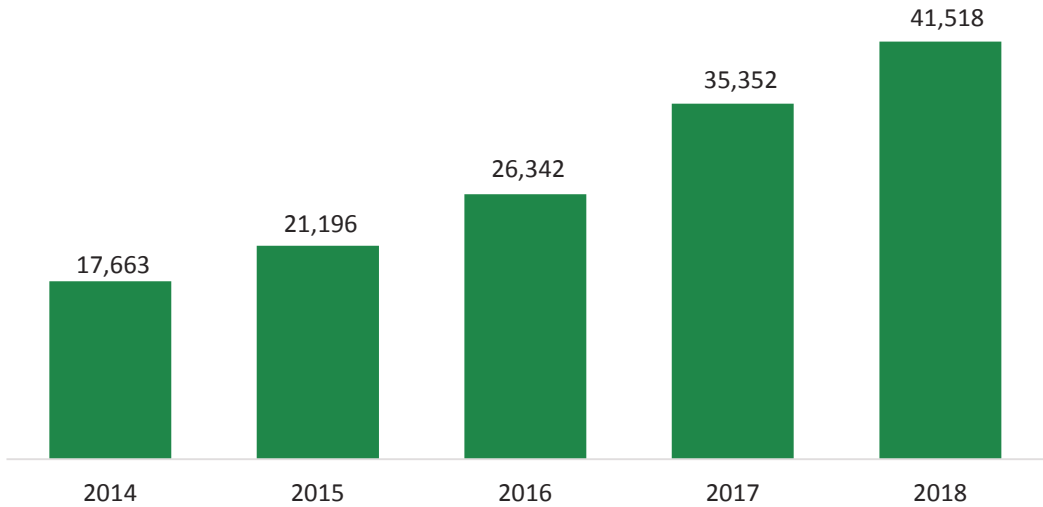


Funds under management (\$bn)	30 June 2017	30 June 2018	Change (YoY)
Opening FUM	1.56	2.15	38%
Super flows (net)	0.35	0.26	(26%)
Managed Funds Retail flow (net)	0.00	(0.02)	large
Managed Funds wholesale flow (net)	0.10	0.13	30%
Institutional flow (net)	0.00	0.15	large
Net flows	0.45	0.52	14%
Market movement and other^	0.14	0.15	7%
Closing FUM	2.15	2.82	31%

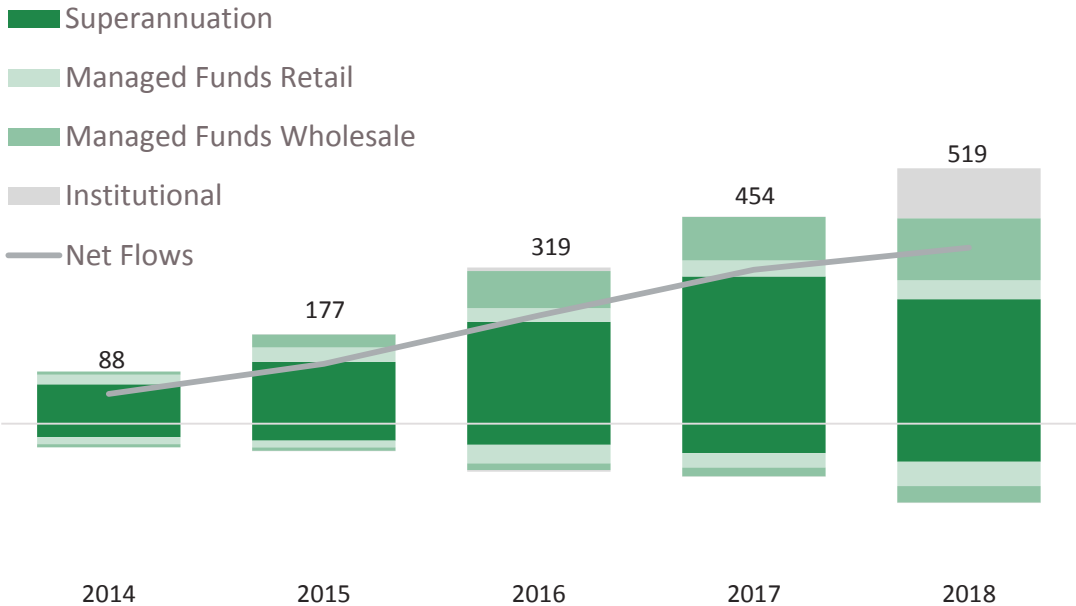
^ Includes changes in asset value due to market movements, income, reinvestments and distributions.

Strong growth in super and managed funds

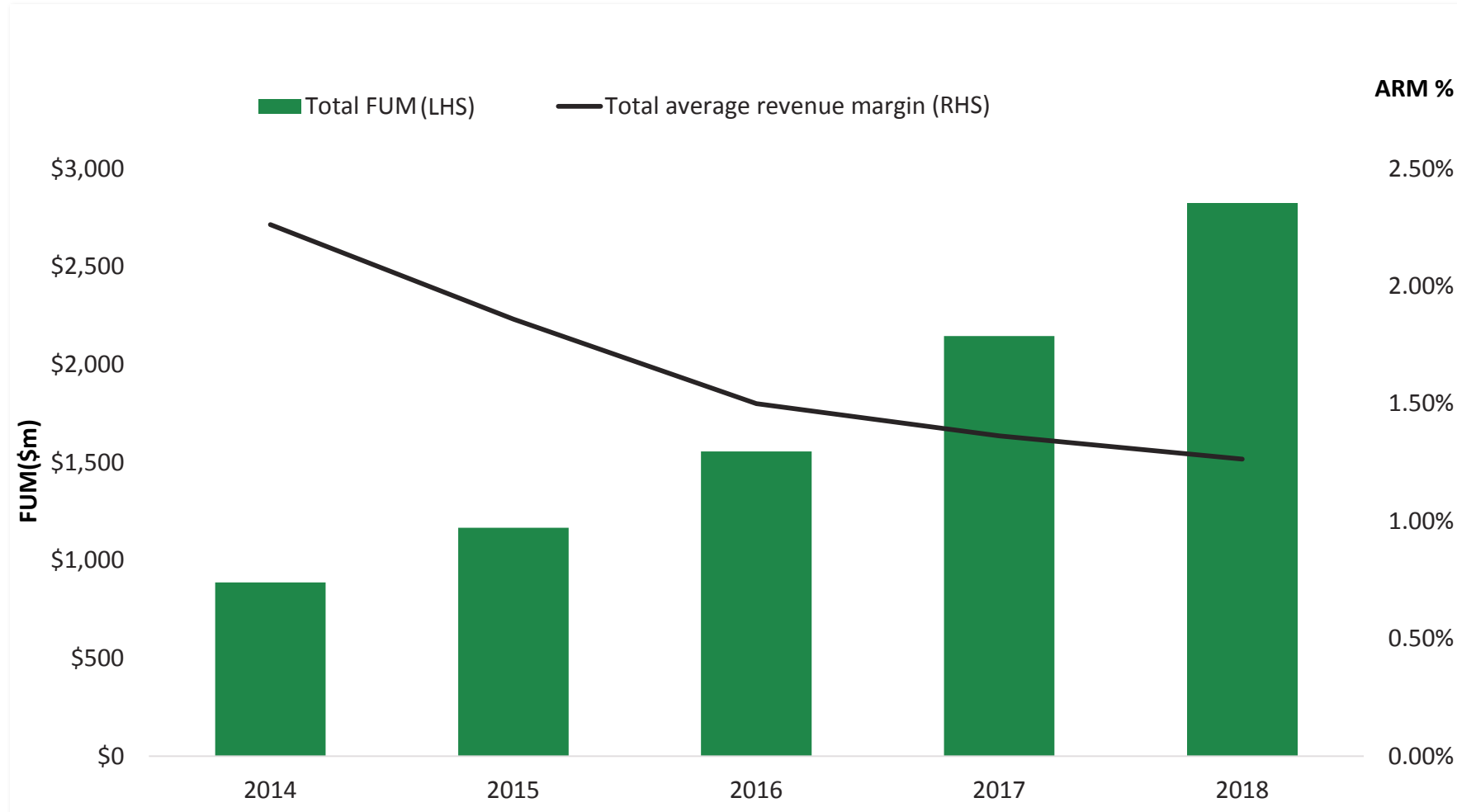
Super members up 17%



Net flows up 14%



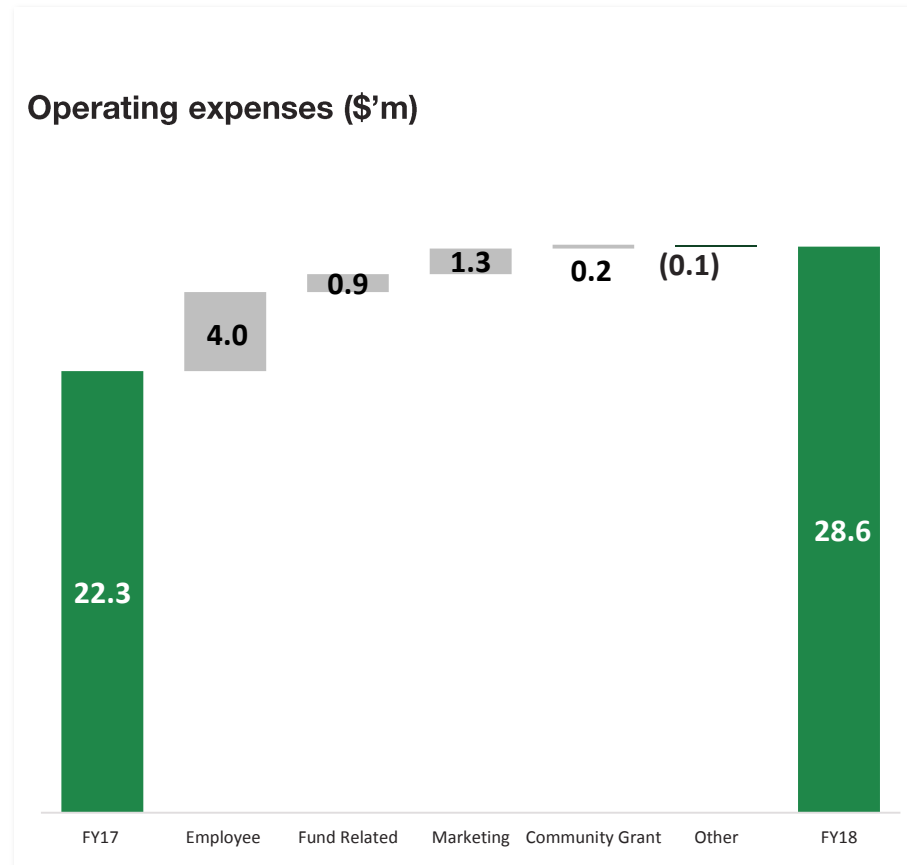
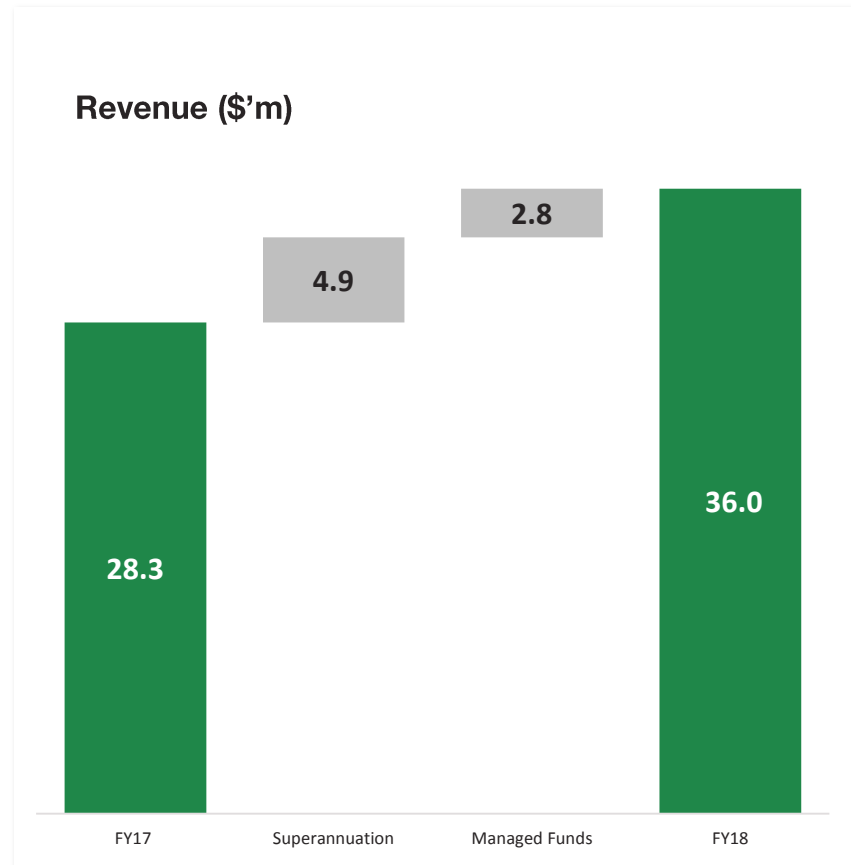
Revenue margin



Key themes

- Ongoing targeted fee reductions since 2014
- Change in managed funds product mix from retail to wholesale contributed to further reduction in average margin in FY18
- Further fee reductions planned for retail managed funds and selected super and pension options in FY19

Revenue and expense drivers

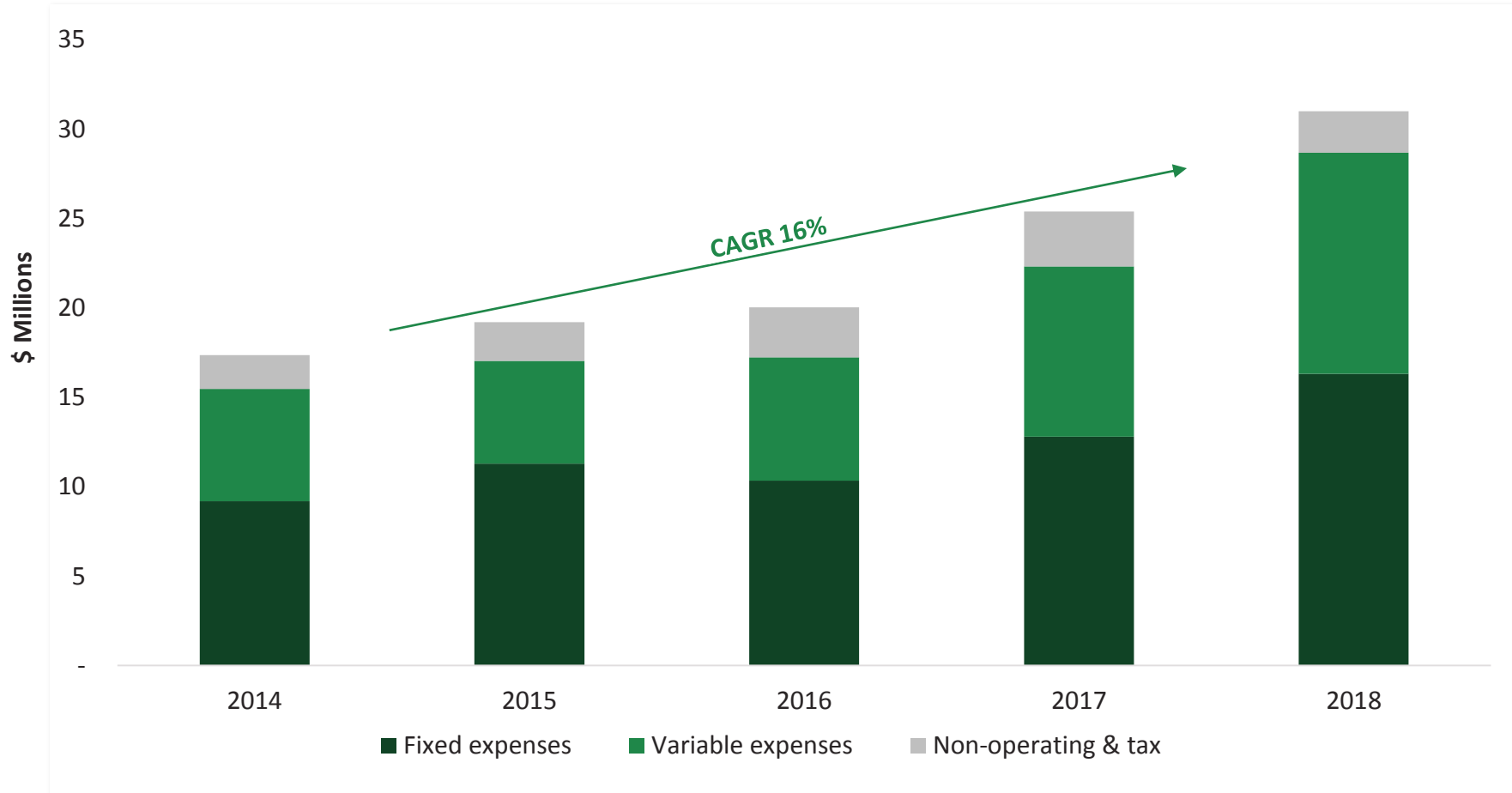


Key themes

- Super FUM growth of 23% driving strong revenue growth
- Managed funds FUM tilt to wholesale driving lower average fee margins and revenue growth
- Employee cost increase driven by full year impact of FY17 hires and continued investment in channel diversification, customer experience and employee capability

Expenses

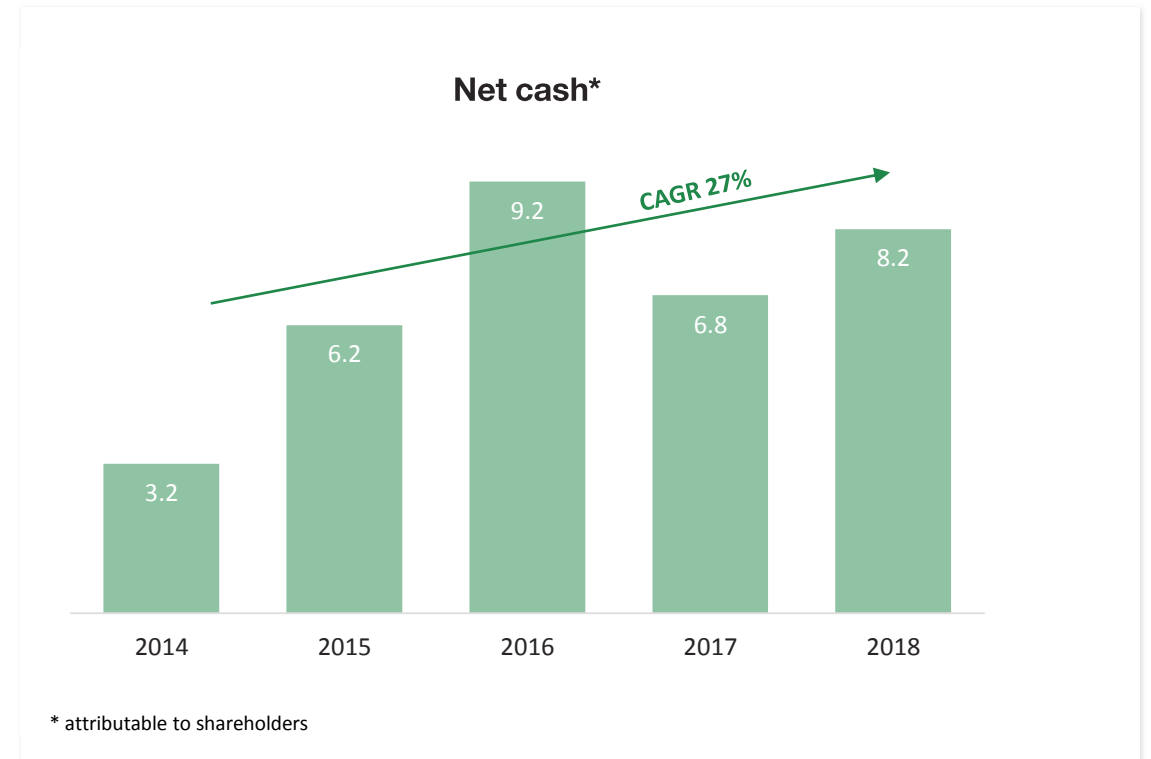
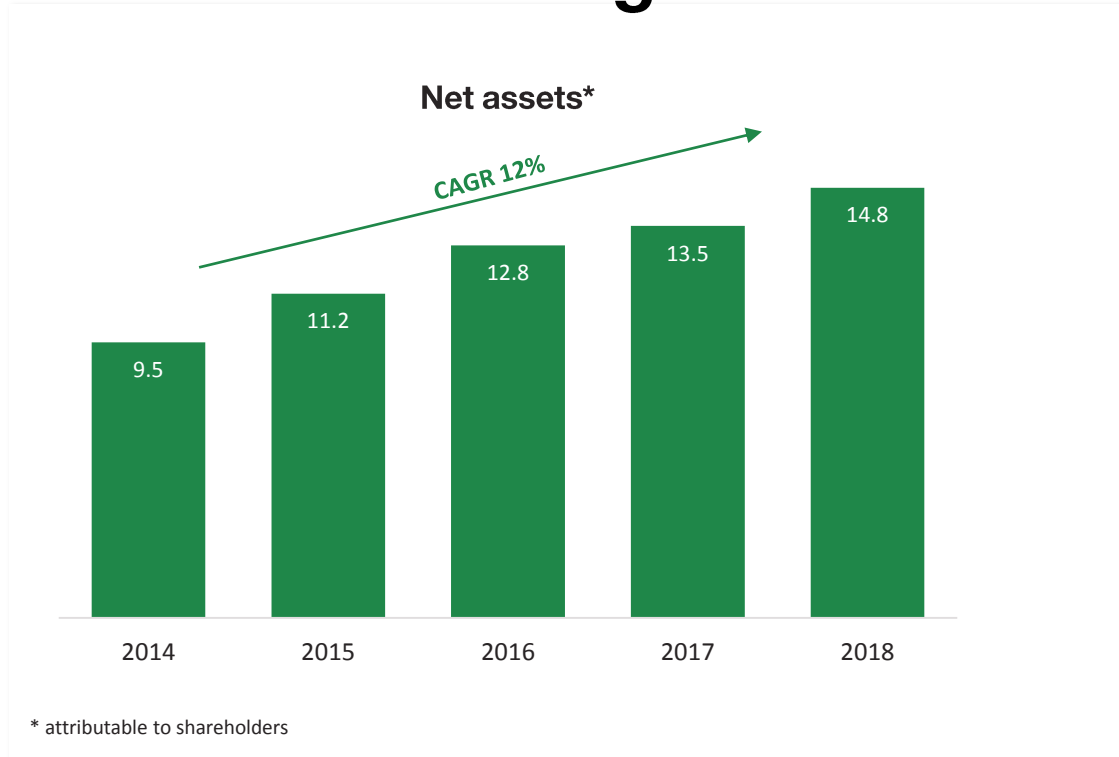
SCALE DEVELOPING BUT BUSINESS IS STILL IN GROWTH PHASE



Key themes

- Full year impact of FY17 hires impacting year on year cost growth
- Focused strategic investment on customer experience improvements, communication and channel diversification

Balance sheet strength

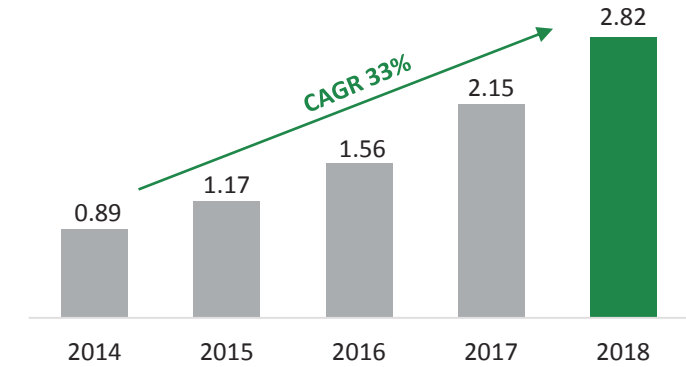


Key themes

- Strong balance sheet with no debt
- Strong cash balances maintained to support continued investment in growth and customer experience, meeting regulatory capital requirements and allowing a prudent buffer for operational risk
- 90% dividend payout ratio for FY18

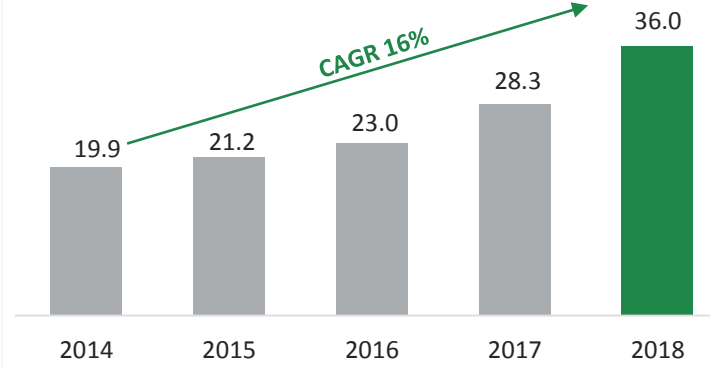
Key financials

Funds under management^ (\$bn)

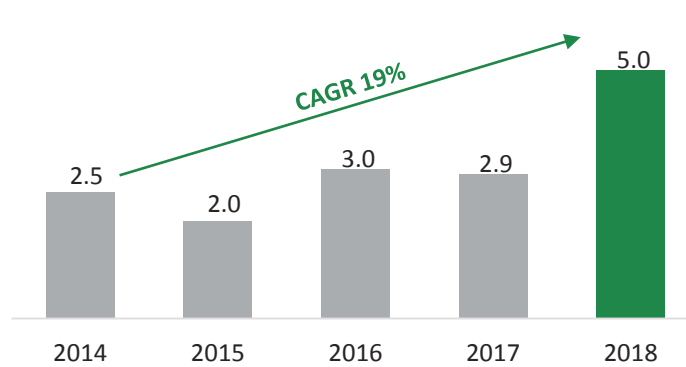


^before distributions

Revenue (\$m)

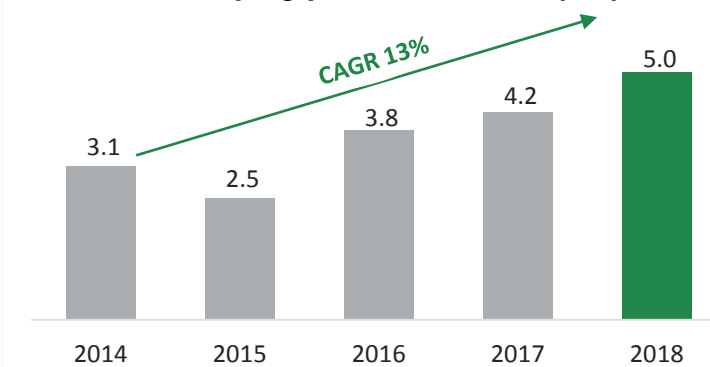


Profit after tax * (\$m)



*attributable to shareholders

Underlying profit after tax * (\$m)



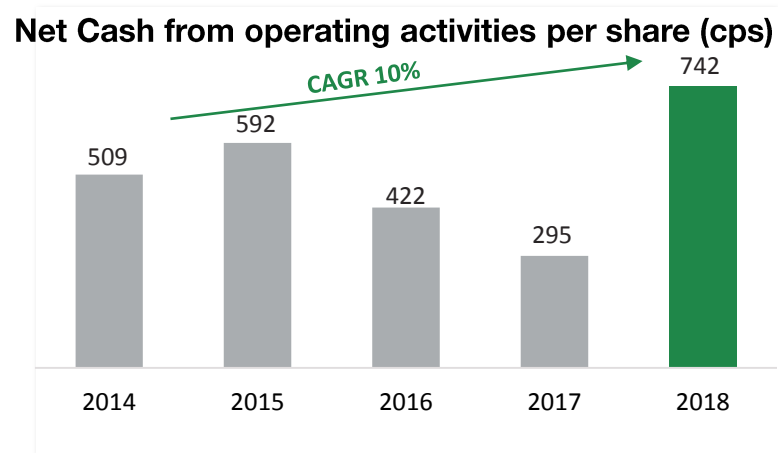
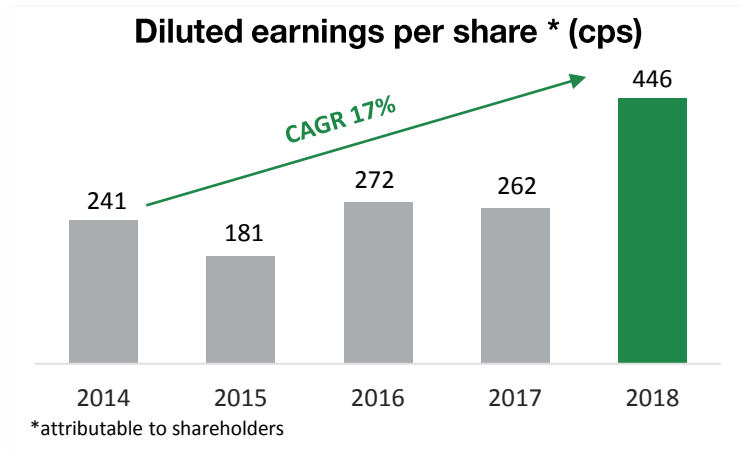
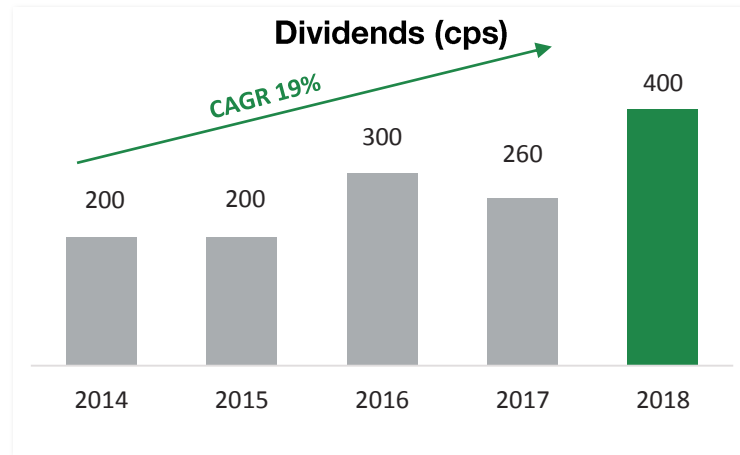
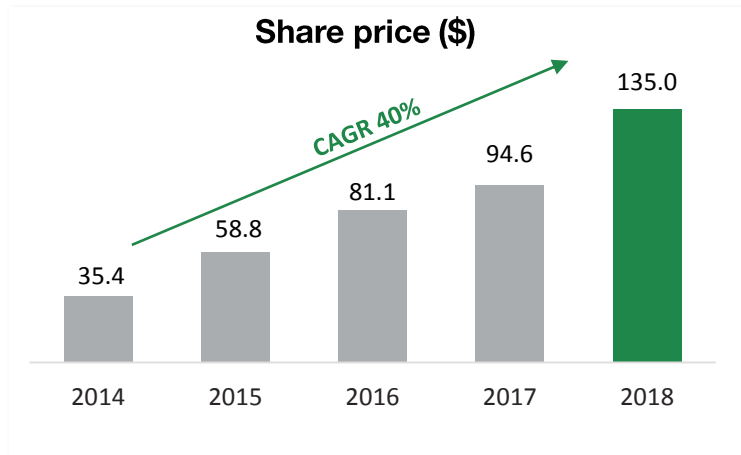
*attributable to shareholders



Key themes

- Strong FUM growth continues
- Ongoing fee reductions to our customers
- Sustained growth in underlying profit and revenue
- Continued investment in growing the business

Key financials



Key themes

- Continue to deliver value to shareholders
- Strong share price growth
- FY18 dividend 400c, up 54%
- Strong operating cash flow

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