

Annual General Meeting – Chairman’s Address

ASX ANNOUNCEMENT

Good morning everyone

I would like to begin by acknowledging the traditional owners of the land on which we meet – the Gadigal people of the Eora Nation. I pay my respects to their Elders past and present.

This year has certainly been an interesting one as the ‘Banking Royal Commission’ has highlighted institutionalised behaviours in many financial organisations that have undermined public trust in our industry as a whole.

Australian Ethical has been advocating for a better financial system for over 30 years. We believe the financial system should have empathy at its core, and that financial outcomes should only be achieved while being conscious of their impact on our planet. This has always been Australian Ethical’s approach to investment.

Indeed, our ethical approach has delivered another year of considerable growth for Australian Ethical as Phil Vernon will outline later. As shareholders you enjoyed sustained performance in FY18, with the share price increasing from \$94.60 at the end of FY17 to \$135 on 30 June 2018. As at the close of business yesterday the share price was \$156. In FY18 the company’s total return to shareholders was 47% with a total dividend of \$4.00, a 54% increase on FY17.

The Board was also very pleased that the employee engagement results have bounced back to 78%, not far off Aon Hewitt’s best employer scores.

As you know we invite shareholders to submit written questions. I have decided to read these questions aloud and to then provide, where appropriate, answers to these questions. Written answers to the questions will be provided in due course to the questioner.

Question 1

The Financial Services Royal Commission has uncovered numerous areas of misconduct in both the banking, superannuation and insurance industries. Has AEI examined these issues, and checked its own operations as well as their external agents/service providers to ensure that AEI has been acting honestly, fairly and within the law in servicing its funds members. When the Commission is complete will AEI provide a report to its Fund members on its own internal investigations?

Answer 1

We have been carefully following the findings of the Commission and have already made a divestment from our portfolio as a result. We are well advanced in our consideration of the issues that are coming out of the Royal Commission. In fact, we are meeting as a Board immediately after this AGM and one of the agenda items is a report on the Royal Commission. The Royal Commission’s final report is due in February 2019. We will of course examine this report very carefully to determine if there are any lessons for our business. We will report to our members in an appropriate way.

Question 2

Why hasn't the property in Canberra been sold? It has been for sale for 2 years. Is it over-priced?

Answer 2

We have been trying to sell this property however it is a very difficult market and the property has been independently valued by Knight Frank which is reflected in the accounts. We are not prepared to give the asset away and have been able to fully tenant the building while waiting for the ultimate buyer.

Question 3

Your report mentions "we strive to achieve diversity with our employees across a number of dimensions including gender, age and ethnicity" but your large executive team is basically anglo saxon in ethnicity. Care to explain.

Answer 3

Diversity is very important to us – please refer to page 34 to 35 of the 2018 Sustainability Report for Diversity statistics and page 34 of our 2017 Annual & Sustainability Report where we noted that 51% of our employees were born outside of Australia. Whenever we recruit we do our best to ensure that there are no systemic biases in our processes. The Senior Management Team has two people of non-English speaking background and just under half of them (44%) were born outside of Australia. In our 2018 Employee engagement survey, employees scored us at 93% for Diversity & Inclusion, 9 percentage points above the Aon Hewitt Best Employers benchmark.

Question 4

I am a little confused as to the meaning of Resolution 5 regarding the share split where it states "each shareholder will continue to hold the same proportion of shares" after the split. Does this mean that if I, for example, own 500 shares, that I will still own 500 shares after the split -now worth much less, or will I own 5000 shares at the new lower price? It would have been a lot clearer if an example were provided in the Notice of AGM. I would also like to take this opportunity, as one of the original shareholders, to say I am very pleased with the continuing performance of Australian Ethical and hope it continues with its current "deep green" philosophy as it continues to expand and grow and doesn't lose its original focus that it had from its humble beginnings. Thanks

Answer 4

The Company is seeking to subdivide the issued capital of the Company with each Share is to be divided into 100 Shares. To illustrate, the share price at yesterday's close was \$156. The trading price per share for other comparable companies is much lower and this may lead investors to think that investing in the Company is expensive or that the Shares are over-valued. The Board believes a reduced share price may attract more investors and increase trading activity and liquidity of the Shares. If the share split is approved the number of shares on issue will increase 100-fold and each shareholder will continue to hold the same proportion of the Company's shares.

A share split does not impact the underlying value of the Company and the total value of each shareholders shares in the company remain the same. The slide provides an example for a holder of 1,000 shares pre the share split and how this looks post the share split.

Question 5

Share split of 1:100 is excessive – could Board please consider alternative share split of 1:10 or even 1:5?

Answer 5

The Board determine that a share split of 1:100 was appropriate. As mentioned in answer to the previous question whatever share split was decided upon that split does not impact the underlying value of the company and the total value of each shareholders shares in the company remains the same.

Question 6

The diagram on page 6 of this year's Annual Report highlights two areas of concern: a drop off in (the quantum of) funds growth, especially super & institutional money is a one-off blip – and a significant escalation of super outflows.

In past years Australian Ethical has had no real competition. More recently there are authentic funds, industry superannuation, low cost ETFs and impact ventures.

What plans and direction do you have to regain this lost momentum?

For disclosure, James Thier is a director of Future Super.

Answer 6

We have not lost momentum. AEI continues to grow. Yes, there is increased competition which we do not see necessarily as a negative. The more competitors the more awareness about ethical and responsible investing increases and this can only benefit Australian Ethical as our offerings are so clearly superior to our competition.

Phil will address our growth and prospects for future growth in his presentation.

As the questioner discloses with his written question he is a Director of one of our competitors - Future Super. Clearly, we are not going to divulge to a Director of a competitor or more broadly our specific strategies that will result in continuing strong growth.

Remuneration Report

At the 2017 AGM, the adoption of the remuneration report received a 'no' vote of 76.4% (out of 45.3% of shareholders that voted on the report). This constituted a 'first strike'. As a result the Board undertook a detailed review of the Company's remuneration structure for the CEO and key management personnel. The review had four components, including an independent report by Guerdon Associates, a survey of all shareholders, discussions by the Chairman with some individual shareholders and an in-depth review of the results of these activities by the People, Remuneration and Nominations Committee of the Board.

This was done to ensure we continue to reward our management and employees fairly and provide a direct link between contribution and reward and alignment with the long-term performance of the Company. Some changes were made to our remuneration arrangements and these changes were explained in the remuneration report. Our remuneration policy aligns to the philosophy of the Company that sees our people as key stakeholders in the Company's success.

In conclusion

I would like to thank my fellow Directors for their hard work and contributions during the year. Being a non-executive Director of a listed company operating in the finance sector is not getting any easier, but I for one could not think of a better company with which to be involved than Australian Ethical.

Finally, I would like to acknowledge our Managing Director, Phil Vernon, his management team and indeed all the staff at Australian Ethical for another terrific year. The Board and I thank them for their hard work and for embodying a positive culture that delivers outstanding results for all stakeholders.

Presentation Slides

Diversity

2017 Annual & Sustainability Report

Employees born in Australia	49%
Other (Sri Lanka, New Zealand, Sweden, South Africa, Vietnam, India, Columbia, England, Scotland, Wales, Ireland, Canada, Taiwan, Croatia)	51%

2018 Sustainability Report

Progress against targets

Category	FY18 actual % female	FY18 Target % female
Board	50%	40%
Senior Management Team	33%	40%
Employees	52%	50%

Share split

	1,000 shares		Total Share Capital	
	Before Share Split	After Share Split	Before Share Split	After Share Split
Number of shares	1,000 shares	100,000 shares	1,120,930 shares	112,093,000 shares
Share price	\$157	\$1.57	\$157	\$1.57
Valuation	\$157,000	\$157,000	\$175,986,010	\$175,986,010
Shareholder interest	0.1%	0.1%		

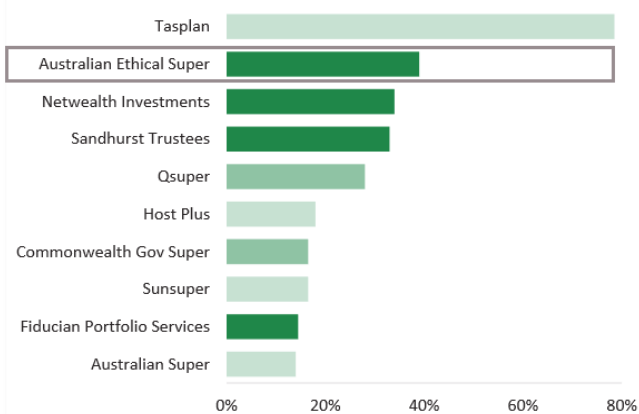
Key themes

- Number of shares increases by 100 shares for every 1 share currently on issue
- Initially share price will decrease 100 times from \$157 to \$1.57
- Valuation of total holdings (number of shares at share price) remains unchanged
- Shareholder interest in company remains unchanged

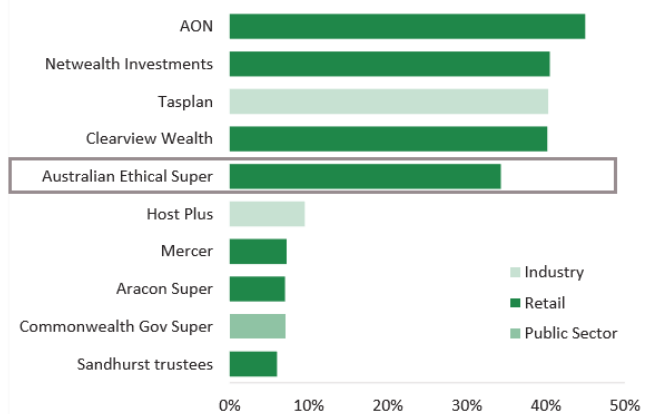
Top 10 funds by growth

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

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