

# Annual General Meeting – Managing Director’s Address

## ASX ANNOUNCEMENT

Thank you Steve and welcome everybody

I would like to proceed by giving an overview of our business, our key strategic opportunities and challenges and how we are responding to those challenges. I will then go on to talk about how that is translating into our financial results.

## Highlights

It has certainly been another extraordinary year. We always knew we had a very special company, with a special proposition and if we got the business metrics right then it would become a matter of “why wouldn’t you” and growth would follow. And that is what is occurring. We are industry leaders across almost every key measure – growth, customer satisfaction, employee engagement and our community impact.

## Business Overview

### Our strategic pillars

Our business is based on a foundation of a core set of fundamental beliefs which drive what we call our Strategic Pillars. These are:

#### Ethical leadership

We are a pioneer in ethical investing in Australia and remaining a leader is critical. We pursue this through:

- our investment screening which is the most rigorous in the industry
- our corporate advocacy – how we advocate to encourage companies that we invest in to behave more ethically
- our public advocacy around issues we care about
- our support of grass-roots charities and social enterprise through our Foundation and Community Grants program.

#### Professional investment management

Providing long term competitive returns for our customers within the ethical framework in which we operate is core to who we are. Investing in our investment team, capacity and processes are fundamental to our business.

## Competitive products

We are here first and foremost for our customers. Delivering them financial products that are competitive in fees and features as well as performance is critical.

## Sustainable business

It is in all our stakeholder interests to grow and be substantial. Being of greater size and scale will allow us to deliver better products and service to our customers, provide greater returns to our shareholders and have greater social and environmental impact.

And key to having a sustainable and successful business is our people. We are committed to providing our people with an inspiring and stimulating place to work and develop their careers and to ensure that they are fairly rewarded for their contribution and share in the company's success.

## Our opportunity

We continue to face an enormous opportunity. We have a very special business with a unique point of difference.

Our target market is approximately 48% of the investing public that have a high ethical conviction. The so-called conscious consumer.

We are leveraged to two high growth markets being the superannuation sector and the growth of the responsible investment sector.

## Our performance

We have had an extraordinary year in which we have performed strongly across many metrics:

## Our growth

We were the fastest growing super fund in Australia over 5 years by both funds under management and members. Over 12 months we were the second fastest growing super fund by funds under management and fifth by members according to KPMG 2018 Super Insights Report published in May 2018. For context this is in an industry where the average growth in member numbers per fund declined by 1% in 2017.

## Our customer satisfaction

We have delivered industry leading outcomes across a number of metrics that evidence how happy our customers are to be with us and interact with us.

- Our Net Promoter Score, essentially a measure of customer satisfaction, are industry-leading by a large margin compared to other financial services companies. Our customer retention for our superannuation fund is the second highest in the industry according to an annual survey by KPMG. When our members join us, they stay.
- Our social media engagement, a core aspect of our acquisition strategy, is also industry leading with over 120,000 followers and engagement rates of 225% each far ahead of the next closest financial services competitor. In 2018 we won the Max Award for Social Media campaign of the year.

- Our customer retention rate was the second highest in the industry.

## Our investment performance

Investment performance of our flagship funds - the Australian Shares Fund and the Balanced Accumulation Option of our superannuation fund, continue to provide superior risk adjusted returns over the medium to long term.

Over the past year, the funds underperformed relative to the broader market and peers primarily due to our lack of holdings in the resources sector (driven by ethical criteria) which returned more than 40% over the year.

## Our impact

Our impact continues to grow, from our careful allocation of investment capital, our influence with companies and policy makers and our Foundation's support for the work of amazing not for profit organisations helping those who need help most.

Key highlights are:

- Our ethical screening is the most-high conviction in the market with:
  - a third less carbon intensive, and we have six times more renewables than the overall market.
  - we actively divest from companies that fail to meet our ethical screens. During the year we publicly divested from AMP for its senior level failures and delays in compensating clients following revelations during the Royal Commission.
- Among the financial institutions we engaged with, a big four bank ruled out new lending to thermal coal, and two institutions ceased services to the live animal export sector.
- We put policy recommendations to government on climate policy, and forced labour and animal welfare standards. While forward-looking government action is rare today, we expect to see the federal parliament enact Modern Slavery legislation this year.
- We are hugely proud of our Foundation and in particular our Community Grants program funded by 10% of profits, equating to \$710k in the 2018 financial year.
  - We have supported some amazing organisations including Free to Shine, which enrolls Cambodian girls in school, protecting them from sex trafficking, and the Orangutan Project, protecting precious rainforest habitat for these amazing primates in Indonesia, to name just two.
  - Our Foundation is also investing in multi-year projects with Human Rights Watch, The Wilderness Society and Food Frontier - this last organisation encouraging supply and consumption of plant based and clean meats.

## Our people

After a dip in engagement last year due to some operational pressures, our 2018 employee engagement survey placed us back in the top quartile of employers at 78% and close to best employer levels. Our voluntary employee turnover is at 7%, a three-year low.

## Key challenges we face in the current market environment

Despite these tailwinds we also face some headwinds. Key challenges facing the business at the moment are:

- There is increasing competition in the responsible investment space.
- Whilst our growth remains strong the extraordinary rate of growth of the past few years is unsustainable and will slow.
- Our growth has been primarily through our digital channel which has faced some challenges with increasing costs and shifting dynamics.
- It continues to be a challenging regulatory environment with increasing scrutiny on the superannuation sector in particular to demonstrate that it is efficient and effective in delivering member outcomes.

## Our response

Our responses to these challenges are to:

- **Be bold** – ensure that our ethical point of difference stands out in both substance and messaging.
- **Make it real** – make our point of difference real and tangible across every customer touch point. This has led to an investment in an upgrade to our customer digital platform and the continued investment in our Wow the Customer program.
- **Break through** – significantly increase our brand awareness over time. We believe the whole world should know about us.
- **Be accessible** – diversify away from our reliance on the digital channel. Ensure that our customers can access us through their channel of choice.

## Financial Results

### Financial highlights

- Underlying profit after tax of \$5.0m (up 18%)
- Consolidated statutory net profit after tax of \$5.1m
- Revenues of \$36.0m (up 27%)

- 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%

## Revenues

Revenue for the year was \$36m, a 27% increase.

## Funds under management and net inflows

Funds under management (FUM) for the full year increased by 31% to \$2.82 billion, up from \$2.15 billion reported for the previous period. The increase was driven by strong member growth, strong inflows, low outflows and positive investment performance.

During the year our net flows increased by 14%.

Our super fund experienced lower net flows than prior year by 26%. This was primarily driven by lower proportion of rollovers per new member – arising from changes to new member signup processes part way through the year – we continue to focus on ensuring a seamless customer experience for both sign-on and consolidation of super for our members.

Despite this being lower than prior year it compares to a 12.8% decline in flows in the broader super market in FY18.

We have also seen strong growth in our managed funds products, particularly in the wholesale space where net flows increased 30% over the year. We had a significant institutional win in July 17 of \$128m which contributed to this result.

## Revenue margins

In FY18 a greater proportion of wholesale flows reduced average FUM based revenue margin to 1.25%. In FY19 we have implemented further fee reductions for some of our retail managed funds, along with reductions for select options in our super fund. In addition, the 2018 Federal budget proposed a number of changes to Super fees, that if passed will take effect from 1 July 2019.

## Expenses

Operating expenses increased by 28% to \$28.6m, up from \$22.3m for the prior corresponding period. Our expense base has grown at a slightly faster pace than revenue due to our continued investment in the business, marketing effort and our people to ensure our business is positioned strongly for continued growth.

Key drivers of the increase were:

- Full year impact of FY17 hires where we made a strong investment to increase our bench strength in operations, finance and risk areas, as well as enhancing marketing and sales capability
- Fund related costs increased driven by the increase in FUM
- Continued strategic investment in marketing related costs to ensure appropriate communication to new and existing customers, driving brand awareness and improving the customer experience
- Community grants increased in line with profit growth
- Scale is developing, and variable costs are becoming an increasing proportion of overall cost, however the business is still in growth phase and we are allocating investment accordingly.

## **Balance sheet**

We continue to maintain a strong balance sheet with no debt and very strong operating cashflow. This sees us well placed to support continued investment in growth and customer experience, meeting regulatory capital requirements and allowing a buffer for operational risk.

## **Conclusion**

We only achieve these great outcomes thanks to our employees, most of whom are in the room today. So, on behalf of the Board and myself I would like to acknowledge the hard work that has gone into these results. I also thank our Board who have led us through another eventful and successful year.

## **Presentation Slides**

Please refer to the document 2018 AGM Managing Director's Presentation, released contemporaneously.