

Australian Ethical Investment Limited

Full Year Financial Results to 30 June 2024

ASX announcement

GROWTH STRATEGY DELIVERS RECORD RESULT FOR AUSTRALIAN ETHICAL

FUM reached \$10.4 billion, Revenue exceeds \$100 million, UPAT up 57%

Full year results to 30 June 2024

Australian Ethical Investment Limited (ASX: AEF) today announced its financial results for the year ending 30 June 2024, with FY24 Underlying Profit After Tax (UPAT) of \$18.5 million, up 57% on FY23.

Australian Ethical reached the Funds Under Management (FUM) milestone of \$10 billion in March 2024, ending the year at a record \$10.4 billion, up 13% on 30 June 2023. The growth in FUM was driven by a combination of continued positive net flows, including record Superannuation Guarantee and year-end voluntary contributions, and positive investment performance over the period. Australian Ethical continues to have one of the lowest net outflow ratios in the super sector¹.

Australian Ethical has been focused on executing its growth strategy, which has delivered a strong uplift across key financial metrics in FY24, at the same time as clinching a range of awards and recognition across multiple areas of the business.

"This has been a significant year for Australian Ethical - reaching \$10 billion in FUM, \$100 million in revenue and with record profit, dividend and Foundation donations. These results demonstrate that maintaining our focus on sustainable growth and improving our offer to customers, is delivering positive outcomes for our shareholders." John McMurdo, Australian Ethical Chief Executive Officer said today.

"Over the last five years we have been focused on investing for the next stage of our growth. This investment in our business has enabled us to increase profitability and provides a platform to capture the sizable growth opportunity that lies ahead.

"The results for FY24 include the full year impact of the Christian Super SFT and we were pleased to announce the acquisition of the Altius Asset Management business in May which we expect to complete by end of September 2024. This acquisition will add a further approximately \$2 billion of FUM, while expanding our sustainable fixed income capability with 6 new investment team employees.

¹ 2024 KPMG Super Insights Report and dashboard (Data source: APRA Annual fund level superannuation statistics back series: June 2004 to June 2023 (issued May 2024))

Operating Highlights

- FUM reached \$10.4 billion at 30 June 2024, up 13% compared to 30 June 2023
- Continued positive net flows of \$0.61 billion during volatile market conditions demonstrating the resilience of Australian Ethical's business
- Funded customer numbers exceed 134,000 at 30 June 2024
- Positive investment performance² of \$0.63 billion
- Acquisition of Altius Asset Management business announced, taking proforma³ FUM to \$12.4 billion, with completion expected September 2024
- Multiple industry awards and accolades
- \$1.8m donated to the Australian Ethical Foundation

Financial highlights

- Record underlying profit after tax (UPAT) of \$18.5 million, up 57% on FY23
- Statutory net profit after tax (NPAT) attributable to shareholders of \$11.8 million, up 80% on FY23
- \$100 million revenue milestone reached, with revenue up 24% to \$100.5 million
- Expenses of \$74.4 million up 16% (excluding integration and transformation costs of \$5.1 million, and due diligence and transaction costs of \$1.4 million)
- Further and final fair value write-down on the investment in Sentient upon orderly sale of its assets (\$2.2 million)
- Underlying cost to income ratio improvement to 74% compared to 79% in FY23⁴
- Underlying diluted EPS⁵ of 16.44 cents
- Final dividend of 6 cents per share, fully franked, total FY24 dividend of 9 cents, up 29% on FY23
- Strong balance sheet, no gearing, well managed operating cash flow

Revenue

Operating revenue reached the \$100 million milestone for the period, increasing 24% to \$100.5 million. The increase was achieved through further growth in our customer numbers (with resulting positive net flows), the full year positive impact of the Christian Super SFT undertaken in the prior year, and positive investment returns.

Expenses

As Australian Ethical continues to scale, operating leverage has seen further improvement. FY24 underlying cost to income ratio (CTI) improved from 79% in FY23 to 74% in FY24.

Expenses (excluding \$5.1 million integration and transformation costs and \$1.4 million due diligence and transaction costs), increased by 16%, driven predominantly by increased variable costs as the business grows, as well as continued investment in building capability as part of the execution of the growth strategy.

Expense increases were primarily driven by:

- Employment expenses, following talent acquisition as part of the growth strategy as we continue to build capability in the investment and ethics, data and technology teams, as well as the run rate of FY23 hires and remuneration increases.

² Net of fees and distributions

³ Reflects FUM balance at 30 June 2024 including Altius FUM of \$2bn

⁴ Underlying cost to income ratio is calculated as total expenses excluding UPAT adjusted expenses and excluding tax, divided by total revenue

⁵ Based on UPAT attributable to shareholders

- Fund related expenses increased 26%, driven by higher average customer numbers and FUM following the full-year impact of the Christian Super SFT, as well as higher regulatory levies. This was partially offset by savings achieved through reaching scale thresholds.

Partially offset by

- A decrease in marketing costs following the rationalisation of the employment platforms channel. Timing of brand campaigns also resulted in lower brand spend in FY24 compared to prior year.

As a result of Sentient Impact Group’s (Sentient) inability to drive the scale required to achieve its strategy and business plan aspirations, the Sentient Board decided to commence an orderly sale of its assets. Consequently, the final capital call on Australian Ethical of \$0.4 million was no longer required or payable. After this amount of \$0.4 million, Australian Ethical has prudently recorded a fair value write-down of \$2.2m in FY24, effectively valuing any further residual liquidation value at zero.

Summary of Group profits

	FY24	FY23
	(\$m)	(\$m)
Consolidated statutory profit	11.5	6.6
Loss attributable to The Foundation	0.3	-
Net profit after tax attributable to shareholders	11.8	6.6
Change in fair value of investment - Sentient	2.2	2.6
Integration and transformation costs	5.1	3.7
Due diligence and transaction costs	1.4	-
Tax on adjustments	(1.9)	(1.1)
Underlying profit after tax	18.5	11.8

Final dividend

The Board declared a fully franked final dividend of 6 cents per share for the year ended 30 June 2024. The record date is 4 September 2024 with payment on 18 September 2024. This takes the full year dividend to 9 cents, up 29%.

Australian Ethical Foundation Limited

During the period, Australian Ethical donated \$1.8 million to the Australian Ethical Foundation to bolster its philanthropic endeavours, including the Visionary Grants program.

Each year, 10 per cent of Australian Ethical profits⁶ are allocated to not-for-profit organisations through the Foundation.

⁶ Before deducting bonus and grant expense

Board Addition

Richard Brandweiner is appointed to the Board of Australian Ethical Investment Limited (AEI), as an Executive Director, effective 1 September 2024.

Chair Steve Gibbs said “Richard is a seasoned executive and non-executive investment management professional, with a distinguished track record of business and social impact success. The AEI Board are delighted to have the benefit of Richard’s deep domestic and international experience, as we further accelerate both our growth and our impact”.

Richard has an almost thirty-year track record in investment, superannuation and impact investing including as former CEO of Pandal Australia and CIO of First State Super (now Aware Super). He is also currently Chair of Impact Investing Australia and on the Investment Committee of the Northern Territory Aboriginal Investment Corporation.

Commenting on his appointment, Mr Brandweiner said, “Australian Ethical is globally unique – with the stability of a long standing and highly regarded super fund combined with investment management capability, and an approach to sustainability and impact that runs authentically throughout the business. I am very much looking forward to working with the Board and the management team to make an ongoing positive difference to members, clients and the world more broadly.”

Outlook

John McMurdo, Australian Ethical Chief Executive Officer, said:

“With FY24 being a milestone year in many regards, we believe we are well setup for further growth, able to invest appropriately in the business, and deliver further profit uplift in FY25 and beyond. Whilst remaining cognisant of market conditions, we remain confident of the medium-term market opportunity, which is supported with the structural macro themes of compulsory Australian Superannuation and ethical investing.

“In FY25 we expect to finalise our transition to a single super administration provider with GROW which is designed to provide a solid platform delivering a more modern technology stack and, over time, an enhanced customer experience. In addition, we will be transitioning custody and investment administration to State Street as our current custodian exits the market. The completion of these projects is expected to deliver annualised unit-cost savings of approximately \$4 million to recurring operating expenses.⁷

“Furthermore, the acquisition of Altius is expected to generate approximately \$1 million in annualised EBITDA uplift⁸.

“We believe FY25 will be the start of the next stage of our growth story, as we continue to optimise organic and explore inorganic opportunities, with our stronger business capability.”

This announcement is authorised by the Board.

⁷ Over the contract period and subject to customer and FUM levels. Savings to commence on the delivery of phase 1 of the super administration transition and the custody and investment administration transition

⁸ Relates to the increased revenue from the Altius take-on FUM, less the additional expenses relating to Altius Fixed Income team, registry, custody and front office system license costs

About Australian Ethical

Australian Ethical is one of Australia's leading ethical investment managers*. Since 1986, Australian Ethical has provided investors with investment management products that align with their values and provide long-term, risk adjusted returns. Investments are guided by the Australian Ethical Charter which shapes its ethical approach and underpins both its culture and its vision. Australian Ethical has over \$10.0 billion in funds under management across managed funds and superannuation. Visit: www.australianethical.com.au

*Please refer to <https://www.australianethical.com.au/why-ae/investment/#awards> for specific awards Australian Ethical has won, including the specific categories.