
Australian Ethical Investment Limited AGM 2016

Chairman & MD speeches

Tuesday, 25 October 2016

Chairman – Steve Gibbs

I would like to acknowledge 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 signals an impressive milestone for Australian Ethical – our 30th year in operation.

And what a year it's been. Funds under management, member numbers, revenue, inflows and our share price have all increased significantly. I'll touch on those in more detail in a moment.

But first, it's worth looking at where we have come from, and where we are going.

Over the past three decades, we've witnessed a significant shift in attitudes towards ethical investing. What was once a niche area is now part of the mainstream – or what we call the enlightened mainstream.

As Australians have become more conscious about their impact on the world – from what they eat to how they invest – we have been positioning Australian Ethical as the go-to choice for people who want to make money do good.

This year's results demonstrate our success in achieving that goal. We've increased our net flows by 78%, growing funds under management to more than \$1.5 billion. It's great to think that a couple of years ago, we had been celebrating reaching the \$1 billion FUM milestone – something that took us the best part of three decades to reach. In just one year, we added more than half a billion dollars to that total.

How did this happen? I will leave it to our managing director to talk more about that. But speaking broadly, our success comes down to a consistent and dedicated focus on clients, shareholders, employees and the community.

When you build an organisation that genuinely cares about its stakeholders, and combine that with investment and operational excellence, then it's possible to deliver and grow shareholder value over the long-term, as we have been doing.

Looking ahead, we see this approach as the foundation of our future success as well. We have a clear vision: to be the financial services company of choice for ethically conscious consumers. Our goal is to reach \$5 billion in funds under management by 2020, and while we know this is ambitious, we also think it's achievable.

And we are not just chasing growth for the sake of it. We know that achieving this kind of scale will allow us to deliver more services to clients, have a greater positive impact on society and the planet and continue delivering strong returns for you, our shareholders. With \$3 million after-tax profit, 27% return on equity, 282 cents in earnings per share, and three dollars in dividends, it's not surprising that our share price has climbed from around \$59 in the middle of last year, to around \$89 today.

Reaching our future goals – and indeed, the goals we have already reached – can only be achieved with a cohesive, dedicated and talented team of people.

I would like to congratulate our managing director, Phil Vernon, his management team and indeed all the staff at Australian Ethical and thank them for their hard work and for helping to build a positive culture that delivers outstanding results for all of our stakeholders.

And now I'd like to hand over to Phil Vernon.

Phil Vernon – Managing Director

Thank you Steve, and welcome everybody.

As Steve said it has been an extraordinary year for Australian Ethical but it hasn't happened by accident. It is the culmination of many years of hard work by the team.

We have a core purpose of making money do good for both our clients and the planet underpinned by a core set of beliefs:

- a new model for business is needed as a pure profit motive will kill our planet
- such a model does not need to come at an economic cost – the two can exist in harmony
- properly harnessed money has enormous power to do good
- individuals have enormous power to influence change through making ethically conscious choices in how they spend and invest their money
- to lead by example and just get on and do it

If an organisation can get this right then the decision becomes an obvious “why wouldn't you?”

We've been working hard over the past 5 years to get this right – to deliver professional, fully featured and competitive products whilst remaining true to our ethics.

The past year's success is simply the results of this effort.

I'd like to now take you through our strategy that has led to the past year's strong results.

Our Opportunity

Our target market remains the 1.5m ethically conscious investors – that is, those for whom ethics are a key consideration in everything they do. We have 27,000 clients so our opportunity is large. However, based on our research, the majority of this group do not want to compromise on price, features or performance. They want it all. Offering a product that is focussed purely on ethics or activism without addressing all the others needs of clients won't cut it. Nor will a tokenistic sustainable product that is not authentic in its ethical commitment.

We don't believe there is any other provider that offers the combination of professionally managed, fully featured, competitive products with a conviction to ethics across the entire business – not just being an ethical screen on a product.

Trends to 2020

In looking toward 2020 we are mindful of the following key external trends in the marketplace that inform our thinking:

- the rise of the conscious consumer
- the increasing savings pool
- digital disruption
- increasing client expectations for exceptional service
- continual fee pressure driven by both regulatory and competitive dynamics
- volatile markets and long term low interest rate environment

Our Strategy

Against this context, our strategy to grow falls into three main areas:

- initiatives aimed at growing the ethical investment market and educating ethically conscious consumers on their options
- initiatives aimed at differentiating ourselves within that market as having high conviction ethics whilst delivering professional, fully featured and competitive product
- initiatives aimed at conversion and retention by ensuring a consistent brand experience across all client touch points

Key drivers of performance

Results in each of these areas are as follows:

- Growth of the ethical investment market
 - The ethical investment market has grown 63 in the past year, doubled in the past two years and increased its share of the overall market from 2.7% to 4%
 - Moreover the message is increasingly getting out that returns can outperform the broader market over extended periods of time
- Growing our share
 - Our social media community has grown to almost 100k followers in just a few years
 - Moreover they are a highly engaged community
 - Our investment performance is consistently top quartile over long periods of time. Our long history is also an asset
 - We continue our strategy to ensure that products are cost competitive
- High engagement
 - Staff engagement scores are high at 77% close to best employers score. Having a highly motivated team aligned with the purpose of the company is critical for delivering exceptional service to our clients
 - Client engagement is high with an Net Promoter Score of +55

Long term financial results

This has led to the following extraordinary results:

- Strong recent growth of net inflows
- Combined with our investment performance this has led to strong growth of funds under management
- Underpinning is this primarily is our strong growth in new superannuation members, way above system growth. We are a net beneficiary of movement throughout the system due to improved ease of transfer following the introduction of Superstream
- This has led to growth in shareholder returns across a number of measures

Financial results for the year ended 30 June 2016

Key highlights for the results for the past financial year were:

Funds under management

- Net flows increased by 78% to \$319m
- Funds under management increased by 33% to \$1.56bn

Revenue

- Revenue increased by 8.8% to \$23m
- Revenues increased by lower than funds under management growth due to our continued fee reduction as well as a lowering average revenue margin due to increasing proportion of lower margin wholesale investment flows

Expenses

- Total expenses were up by 4.3%
- Staff costs were relatively flat due an increased amount last year due to the transition in our remuneration structure. This has been explained in our remuneration reports
- We incurred a further impairment in relation to our building in Canberra
- We have made a provision of \$900k against potential compensation in respect of a unit pricing error in relation to our superannuation fund. Investigations continue in respect of these errors and costs are being incurred. Further updates will be provided when there is sufficient certainty around the impact of these investigations and remediation costs on the expected half year profit.

Funds under management and net inflows for quarter to 30 September 2016

Our strong growth continues as revealed in our recently released quarterly update on funds under management and net inflows which showed that our funds under management for Superannuation increased by 12% over the previous quarter and for Managed Funds by 6% leading to a total increase in funds under management of \$155m or 10% over the quarter. This \$155m was made up of \$102m in net inflows and \$53m in asset movements.

Community grants 2016

And finally, our Community Grants program is a core aspect of what this company represents channelling 10% of our profits each year to charitable causes and social enterprise. This year we made two enhancements to our program:

- We involved for the first time in the voting for the finalists our clients, in addition to our employees and our shareholders; and
- We provided 3 year commitments to two recipients (Orangutan project and Free to Shine) allowing them to better plan for their projects.

I'd like to finish by thanking our exceptional staff who have made these fantastic results possible.

I'd also like to thank our board for their ongoing support and guidance throughout the year.

Media enquiries

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