

# Australian Ethical Investment Limited

## Full Year financial results to 30 June 2022

### ASX Announcement

(Comparisons to the 12 months ended 30 June 2021)

## AUSTRALIAN ETHICAL ANNOUNCES OPERATING REVENUE UP 21%, WITH CONTINUED FOCUS ON INVESTING FOR GROWTH

### Financial highlights

- Net profit after tax (NPAT) attributable to shareholders of \$9.6 million (down 15%)
- Underlying profit after tax (UPAT) of \$10.3 million (down 7%)
- Excluding the impact of the performance fee, operating revenue is up 26% and UPAT by 10%
- Operating revenue of \$70.8 million (up 21%)
- Performance fee of \$0.4 million from investment outperformance by the Emerging Companies Fund (FY21 performance fee was \$2.9m)
- Expenses (excluding due diligence and transaction costs of \$1.0 million) up 28% as the business executes in line with the high growth strategy outlined in the FY21 full year results
- Final dividend of 3.00 cents per share, fully franked; total FY22 dividends of 6.00 cents per share
- Diluted EPS 3-year CAGR of 14.0%<sup>1</sup>
- Strong balance sheet, no gearing, well managed operating cash flow

### Operating highlights

- FUM was \$6.2 billion on 30 June 2022, up 2%. FUM was \$6.45 billion on 31 July 2022.
- Challenging markets impacting investment performance in second half
- Average FUM, the primary driver of revenue, increased 33%
- Total net flows of \$0.9 billion (down 8%), following a previously signalled institutional redemption of \$0.2 billion
- Retail and wholesale net flows (excl institutional) of \$1.1 billion (up 20%)
- Record super net flows of \$0.8 billion, up 22%
- Adviser net flows up 46% to \$0.3 billion
- Industry leading retention rates for super fund members<sup>2</sup>
- Funded customer numbers up 17%
- Top quartile staff engagement score of 79%<sup>3</sup>
- \$1.5 million gifted to the Australian Ethical Foundation
- Leading net promoter scores for both Super and High Net Worth customers<sup>4</sup>
- Strong operating cashflow

<sup>1</sup> Based on NPAT attributable to shareholders.

<sup>2</sup> KPMG 2022 Super Insights Report – published May 2022, using statistics published by APRA and ATO as at 30 June 2021.

<sup>3</sup> Culture Amp survey, June 2022.

<sup>4</sup> Number one NPS for both Super and HNW customers - Investment Trends Super member Engagement Report 2022 – Independent research with 23 major super funds surveying over 7,500 Australians; Investment Trends High Net Worth Investor Report – November 2021.

## Profit and revenue

Australian Ethical Investment's net profit after tax (NPAT) attributable to shareholders for the year ended 30 June 2022 was \$9.6 million, down 15%, with underlying profit after tax (UPAT) of \$10.3 million, down 7% compared with the prior comparative period.

Excluding impact of performance fees, UPAT increased 10%. Only two managed funds have performance fee features and these crystallise annually.

Operating revenue increased by 21% to \$70.8 million, driven by strong average FUM growth. Ongoing fee reductions are a core part of our growth strategy as we aim to make investing in our products more accessible for current and future customers. Fee reductions in June 2021 as well as October 2021 have partially offset the FUM driven revenue growth.<sup>5</sup>

Consolidated NPAT is \$9.5 million, which includes the results of the Australian Ethical Foundation Limited ('Foundation').

## Funds under management

FUM growth was strong in the first half of FY22, driven by solid net flows and positive investment performance, reaching \$6.94 billion at 31 December 2021. During the second half, volatile markets impacted investment performance, and to a lesser extent, flows. The second half also saw \$0.2 billion in institutional outflows, as a low margin institutional client began the redemption of their investments following the internalisation of the management of their sustainable option due to their successor fund transfer into another fund. FUM finished the year at \$6.2 billion, 2% higher than last year.

During the period, Australian Ethical saw positive net flows of \$0.9 billion, 8% lower than the prior comparative period. Higher margin retail and wholesale net flows (excluding institutional) were 20% higher than prior year, at \$1.1 billion. The opportunity with institutional clients remains attractive and as part of Australian Ethical's high growth strategy, strategic initiatives are being implemented to grow and diversify this channel. Australian Ethical reported record super net flows of \$0.8 billion for FY22 which was 22% higher than last year.

Net flows from the adviser channel, a key strategic growth channel, were up 46%.

Australian Ethical's customer base is up 17% since 30 June 2021, with managed fund customers growing 18% and super members growing by 16%.

## Expenses

Expenses (excluding due diligence and transaction costs), increased by 28% as Australian Ethical continues to implement its high growth strategy outlined in the FY21 full year results. In FY22 Australian Ethical has been able to build a stronger business capable of supporting future scale ambitions, and has invested in new capabilities and initiatives to accelerate future growth opportunities. This strategic spend includes:

- Modernisation of core back-office systems including general ledger, payroll and human resources
- Introduction of a new remuneration framework to align key talent with market, to the long-term business objectives, and to reward high performance
- Strong investment in brand and marketing to grow brand awareness and support growth in new customers and net-flows

<sup>5</sup> On 1 June 2021 the investment fee on the International Shares super and pension options was reduced from 1.1% to 0.89% and on the Australian Shares super and pension options from 1.25% to 1.20%. On 1 October 2021 the investment fee on the High Growth super option was reduced from 1.20% to 0.99%. On 1 June 2021 the following managed fund investment fees were reduced: International Shares Wholesale 0.85% to 0.59%, Balanced Fund Wholesale 0.85% to 0.76%, International Shares Retail 1.85% to 0.99%, Balanced Fund Retail 1.75% to 1.42%, Diversified Shares Retail 1.9% to 1.39%, High Growth Retail 1.9% to 1.39%, Australian Shares Retail 1.99% to 1.69%, Emerging Companies Retail 1.99% to 1.69%. On 1 October 2021, High Growth Wholesale was reduced from 0.95% to 0.9%. (All fees are per annum and exclude ICR.).

- New product launches, a new customer app, a new customer service telephony system to enhance customer experience
- Targeted investment in new people capability including three new highly skilled Investment Committee members, asset allocation expertise, a larger distribution team and new expertise in data management, business intelligence and customer experience
- Further investment to support the rapid growth of the adviser channel and high net worth segments, and to grow the institutional channel

Other costs including direct fund related costs were substantially constrained proportionate to the increase in customer numbers and following internalisation of the contact centre in April 2021.

#### Summary of Group profits

	2022 (\$m)	2021 (\$m)
Consolidated statutory profit	9.5	11.1
Loss attributable to The Foundation	0.1	0.1
<b>Net profit after tax attributable to shareholders</b>	<b>9.6</b>	<b>11.3</b>

#### Final dividend

The Board declared a fully franked final dividend of 3.00 cents per share for the year ended 30 June 2022. The record date is 1 September 2022 with payment on 15 September 2022.

#### Australian Ethical Foundation Limited

Pleasingly, Australian Ethical has provisioned \$1.5 million to allocate to the Foundation during the period which will bolster its philanthropic endeavours.

During the period, the Australian Ethical Foundation announced the recipients of its first Visionary Grants program and, together with Giving Green, launched a guide to help Australians identify and donate to the highest-impact ways to fight the climate crisis.

To date, more than \$8 million has been distributed to not-for-profit organisations. All income received and net assets of the Foundation are restricted to the Foundation's activities and are not available for distribution to Australian Ethical Investment Limited's shareholders.

#### Progress during FY22

John McMurdo, Australian Ethical Chief Executive Officer, said:

"Australian Ethical has delivered another set of positive results despite the volatility in investment markets and widespread macroeconomic uncertainty.

"Our operating revenue has increased and profit has remained solid as we invested in line with our high growth strategy. At a time when many in the financial services industry are seeing outflows, we've seen strong growth in both retail and wholesale net flows as well as customer numbers, as people seek to invest in line with their values.

"Our long-term investment performance remains competitive with our ethical conviction intact. As a leading pureplay ethical investor, we're proud to stay the course through market cycles because we've demonstrated that our ethical approach delivers over the long term. Our long history of competitive performance, together with this year's run of awards and recognition, are evidence of our ethical pedigree and authenticity.

"This is supported by the ongoing advocacy of our Ethics team, who during the period solicited a commitment of positive change from a quarter of their proactive company engagements in pursuit of a better world for people, planet and animals.

"We have also taken significant steps in realising our growth ambitions. A minority stake in Sentient Impact Group extends our expertise into impact investing, while the successor fund transfer with Christian Super will add up to an additional 30,000 members to our super fund. We have successfully launched new products, including our first exchange traded fund, opened a new acquisition channel for our superannuation product and strengthened our back-office infrastructure in readiness for growth.

### Outlook for FY23 and beyond

"As we enter the second half of calendar year 2022, many of the first half's significant headwinds are still in place: high levels of inflation, slowing growth, rising interest rates and the ongoing fallout from Russia's war on Ukraine. But we are also witnessing a greater awareness and appreciation for long-term thinking and sustainability.

"The opportunity to grow our business and amplify our positive impact remains unchanged. We don't believe current turbulence will derail efforts to shift the economy to a more sustainable footing. Today's regulatory and policy environment is particularly supportive of ethical investing, with signs a new Federal government will accelerate decarbonisation efforts in Australia.

"We continue to look forward with a long-term mindset, delivering values-aligned investment solutions and market-leading service to our growing customer base. We believe Australian Ethical remains uniquely positioned, with a differentiated purpose-driven business model and established momentum.

"This gives us the confidence to continue investing in our business to extend our leadership at a time when 83% of Australians expect their bank account and their super to be invested responsibly and ethically.<sup>6</sup>

"In line with our strategic roadmap, we will continue with disciplined investment in our business, balanced with careful cost management. We are prudent stewards of capital, but we're not afraid to invest for the long term when we see a chance to further strengthen our advantages.

"Looking ahead, we expect the growth in net flows to continue in FY23, with further diligent investment in the business as we execute on our strategic roadmap, balancing market volatility with the growth opportunity. As such, our profit outlook will reflect the higher growth in operating expenses versus revenue.

"Australian Ethical ends the financial year in strong shape with the right infrastructure, talent, and passion to realise our ambitious growth targets. We have surpassed many milestones on our strategic roadmap, and while there is more work to do and further to travel, we feel confident about our trajectory and the opportunity ahead of us."

This announcement is authorised by the Board.

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## About Australian Ethical

Australian Ethical is Australia's leading ethical investment manager. Since 1986, Australian Ethical has provided investors with investment management products that align with their values and provide competitive 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 \$6.0 billion in funds under management across managed funds and superannuation.

Visit: [www.australianethical.com.au](http://www.australianethical.com.au)

<sup>6</sup> [https://responsibleinvestment.org/wp-content/uploads/2022/03/From-Values-to-Riches-2022\\_RIAA.pdf](https://responsibleinvestment.org/wp-content/uploads/2022/03/From-Values-to-Riches-2022_RIAA.pdf)