

ASX Code: AEF

24 February 2021

Australian Ethical Investment Limited

Half year financial results to 31 December 2020

ASX ANNOUNCEMENT

(comparisons to the 6 months ended 31 December 2019)

AUSTRALIAN ETHICAL ANNOUNCES FIRST HALF UPAT OF \$4.9M, UP 11%; NPAT OF \$5.2M UP 17%

Financial highlights

- Underlying profit after tax (UPAT) of \$4.9 million (up 11%)
- Net profit after tax (NPAT) attributable to shareholders of \$5.2 million (up 17%)
- Operating revenues of \$25.6 million (up 10%)
- Operating expenses of \$18.9 million (up 11%)
- Focused investment in growth initiatives of \$1.7m during the first half (included in operating expenses)
- Interim dividend of 3 cents per share, fully franked
- Strong balance sheet, no gearing, well managed operating cash flow

Operating highlights

- Outstanding investment performance with most funds outperforming benchmarks
- FUM was \$5.05 billion on 31 December 2020, up 30%
- FUM growth of \$1bn over the 6 month period
- Record net inflows of \$422 million (up 43%)
- Customer numbers up 22% from 31 December 2019

Profit and revenue

Australian Ethical Investment's net profit after tax (NPAT) attributable to shareholders for the half year ended 31 December 2020 rose 17% to \$5.2 million, with Underlying profit after tax of \$4.9 million, up 11% compared with the prior comparative period.

Operating revenue increased by 10% to \$25.6 million, driven by excellent investment performance, strong growth in new customers and record net inflows. This increase was partially offset by superannuation fee



reductions (including those implemented in the second half of FY20¹) and fee and threshold reductions across some managed funds in October 2020², and outflows due to early release of superannuation scheme.

Consolidated NPAT is \$5.3 million, which includes the results of the Australian Ethical Foundation Limited ('Foundation').

Other income included net proceeds of an insurance settlement of \$0.3 million, for a claim lodged in the 2017 year in relation to an historical unit price matter.

In addition, Australian Ethical received \$0.1 million from the Federal Government's cash flow boost COVID-19 stimulus package.³ Australian Ethical will be allocating these funds to be distributed via the Australian Ethical Foundation.

Funds under management

FUM increased by 30% to \$5.05 billion, up from \$3.87 billion at 31 December 2019.

Exceptional investment performance (net of fees) delivered \$573 million of FUM uplift during the period. FUM recovered quickly from the initial COVID-triggered economic downturn and continued to grow.

During the period, Australian Ethical saw strong net inflows of \$422 million, 43% above the prior comparative period. Managed funds flows (excluding institutional) increased 82% following strong traction with high net worth investors and advisers, targeted by our growth strategy. Super flows increased by 27%, despite outflows of \$40 million in FY21 under the early release of superannuation scheme.

Australian Ethical's customer base is up 22% since 31 December 2019 with both managed fund customers and super members growing by 22%. Australian Ethical remains one of the fastest growing super funds in the country by both number of members and funds under management.⁴

Costs and operating expenses

Operating expenses increased by 11% as Australian Ethical continued to invest in its brand, distribution capabilities, operational platform, customer experience and strategic initiatives and regulatory projects (totalling \$1.7m for the period). Growth in customers and FUM also drove some cost increases.

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¹ The percentage-based administration fee was reduced from 0.41% to 0.29% on 1 April 2020 across all superannuation and pension options. The defensive superannuation option management fee was reduced from 0.40% to 0.20% on 1 October 2020.

² On 1 October 2020: the Balanced Fund wholesale investment threshold was reduced from \$500k to \$200k; the Income Fund management fee was reduced from 0.35% to 0.20% (wholesale) and 0.50% to 0.20% (retail); and the Fixed Interest Fund management fee was reduced from 0.45% to 0.30% (wholesale) and 1.00% to 0.50% (retail).

³ Paid to small to medium sized entities with less than \$50m in group revenue in the 30 June 2020 financial year.

⁴ KPMG 2020 Super Insights Report – published May 2020.



Summary of Group profits

	H1 2021 (\$m)	H1 2020 (\$m)
Consolidated statutory profit	5.3	4.7
Profit attributable to The Foundation	0.2	0.3
Net profit after tax attributable to shareholders	5.2	4.4

Interim dividend

The Board declared a fully franked interim dividend of 3 cents per share for the half year ended 31 December 2020, an increase of 20% on the previous year. The record date for the dividend is 4 March 2021 with payment on 23 March 2021.

Outlook

John McMurdo, Australian Ethical Chief Executive Officer, said: "Australian Ethical has seen excellent momentum in the first half of this financial year, despite the ongoing challenges of COVID-19 and uncertain economic outlook.

"In addition to reaching \$5 billion in FUM – an audacious goal we set ourselves five years ago – our funds have delivered exceptional investment performance for our customers. We've won industry accolades, been rated top three for two of our superannuation investment options and named as a 'Leader' for our ESG commitment by Morningstar, one of only six fund managers globally.

"And while in many ways the pandemic has reinforced our investment philosophy as Australians seek to do more with their money than just generate competitive financial returns, now is not a time to sit on our laurels.

"Instead, we remain committed to the long-term growth aspirations of our business and amplifying the impact of ethical investing. This includes investing in our strategic roadmap to capture the huge opportunity we see ahead of us as Australia's original ethical investment manager.

"Like all fund managers Australian Ethical is highly leveraged to financial markets with volatility expected to continue into the second half of this financial year. However, we are in an enviable position with no debt, strong cashflows and positive momentum as Australians continue to open their eyes to the many benefits of ethical investing.

"The second half of the financial year will be impacted by higher operating expenses, due to timing of expenditure, as well as increased investment in capability, strategic initiatives and regulatory projects as we continue to position our business for success. Looking forward, as part of our fee strategy, we will continue to reduce fees as we grow, to increase our competitiveness, and pass on benefits to our customers."

Any performance fee on the Emerging Companies Fund will only crystallise on 30 June 2021 if the fund outperforms the Small Industrials Index benchmark. This fee is calculated at 20% of the outperformance.



Australian Ethical Foundation Limited

Pleasingly, Australian Ethical allocated \$0.7 million to the Foundation during the period. This will bolster its impact through community grants, multi-year grant programs and impact investments.

The Foundation was established in July 2015 as a vehicle to manage the portion of profits distributed to charitable, benevolent and conservation causes in line with the Australian Ethical Constitution. To date, more than \$5 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.

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 wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which shapes our ethical approach and underpins our culture and vision.

Australian Ethical has \$5.05bn in funds under management across managed funds and superannuation as at 31 December 2020.