

Australian  
Ethical

# Australian Ethical Investment Ltd FY21– Analyst pack

26 August 2021



# Overview & history



**Managing  
\$6bn+**

as an ASX 300 listed investment manager, on behalf of members and investors.



**70+  
employees**

and growing.



**10% of  
annual profits\***

is donated through our Foundation to charitable organizations and social impact initiatives.

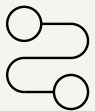
\*after tax and before bonuses



**Best for the World**

for Customer &  
Governance by B Corps#

#Top 5% of same-size B Corps globally



**30+  
years**

offering investment and super solutions using our leading ethical investing approach.



**Multi award-  
winning**

Investment portfolio with strong track record of excellent investment performance



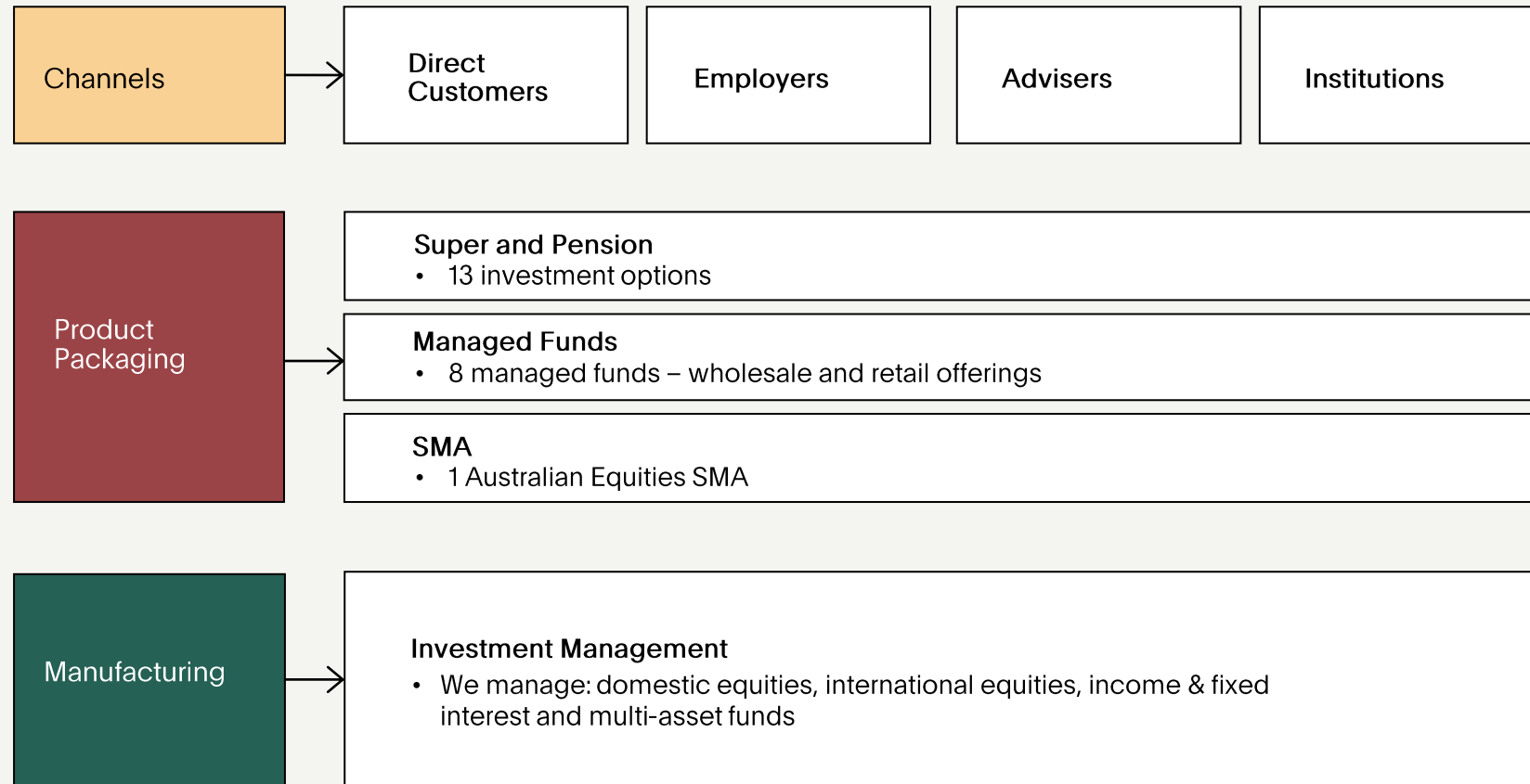
**1 of just 6  
global leaders**

for ESG commitment^ – the only asset manager in Australia.

^ as rated by Morningstar

# Our business model

We offer a broad range of products for four different audience segments.



## Key Themes

- Super has driven growth over recent years, more so than managed funds, however we see strong growth opportunity in the investment management space due to increasing demand from all channels
- 76% of net flows acquired via direct channel.
- Investing in growing advised channel and HNW segment, whilst continuing to foster direct channel.

# FUM summary – Asset Class

Asset Class	FUM at 30 Jun 21 (\$bn)
Domestic Equities	3.10
Cash	0.26
International Equity	1.28
Fixed Income	1.14
Alternatives	0.04
Unlisted Property	0.26
<b>Total</b>	<b>6.07</b>

# FUM summary – Managed Funds

Fund/option	Current Management Fee	FUM at 30 June 20 (\$bn)	Net flows for FY21 (\$bn)	Reclass. and switches (\$bn)	Performance for FY21 (\$bn)	FUM at 30 Jun 21 (\$bn)
<b>Managed Funds – Retail</b>						
Balanced Fund	1.53%	0.11	0.03	(0.06)	0.01	0.09
Australian Shares	1.69%	0.15	0.03	(0.03)	0.06	0.21
Emerging Companies	1.69%	0.01	0.01	(0.01)	0.00	0.02
Income, Fixed, Int'l, Diversified, Advocacy	0.20%, 0.50%, 0.99%, 1.39%, 1.39%	0.02	0.01	(0.01)	0.01	0.03
<b>Total Managed Funds Retail</b>		<b>0.29</b>	<b>0.08</b>	<b>(0.11)</b>	<b>0.08</b>	<b>0.35</b>
<b>Managed Funds – Wholesale</b>						
Income Fund	0.20%	0.01	0.00	(0.00)	0.00	0.01
Fixed Interest	0.30%	0.03	0.01	(0.00)	(0.00)	0.04
Balanced Fund	0.85%	0.08	0.03	0.06	0.02	0.19
International Shares	0.59%	0.06	0.01	0.00	0.02	0.09
Diversified Shares	0.95%	0.18	0.02	0.00	0.06	0.27
Advocacy Fund	0.95%	0.04	0.00	0.00	0.01	0.06
Australian Shares	1.10%	0.29	0.13	0.03	0.12	0.57
Emerging Companies	1.20%	0.08	0.05	0.01	0.05	0.20
<b>Total Managed Funds Wholesale</b>		<b>0.77</b>	<b>0.25</b>	<b>0.11</b>	<b>0.27</b>	<b>1.41</b>
Institutional		0.27	0.08	0.00	0.06	0.41
<b>Total Managed Funds</b>		<b>1.33</b>	<b>0.42</b>	<b>0.00</b>	<b>0.42</b>	<b>2.17</b>

Note:

- FUM is calculated based on cum-div net market value (after fees)
- Management fees includes ICRs
- The large reclassification in balanced managed fund relates to the wholesale threshold reduction during the period, and subsequent reclassification of retail to wholesale FUM
- Total Managed Funds includes SMA which is not shown here separately due to the small FUM size
- In addition to the management fee, Emerging Companies Fund also receives a performance fee of 20% (less unrecovered GST) of 1 year outperformance over its benchmark
- FUM represents external investments only ie excludes AE superannuation amounts invested in these funds.

# FUM summary – Superannuation

Fund/option	Current Management Fee	FUM at 30 June 20 (\$bn)	Net flows for FY21 (\$bn)	Performance for FY21 (\$bn)	FUM at 30 Jun 21 (\$bn)
<b>Superannuation</b>					
Defensive	0.20%	0.11	(0.00)	(0.02)	0.09
Conservative	0.63%	0.12	0.01	0.00	0.13
Balanced Accum / Pension	0.64% / 0.67%	1.45	0.51	0.21	2.17
Growth	0.99%	0.41	0.05	0.11	0.56
International Shares	0.89%	0.07	0.01	0.02	0.10
Advocacy	1.20%	0.12	0.01	0.04	0.18
Australian Shares	1.20%	0.44	0.03	0.20	0.67
<b>Total Superannuation</b>		<b>2.72</b>	<b>0.61</b>	<b>0.56</b>	<b>3.90</b>

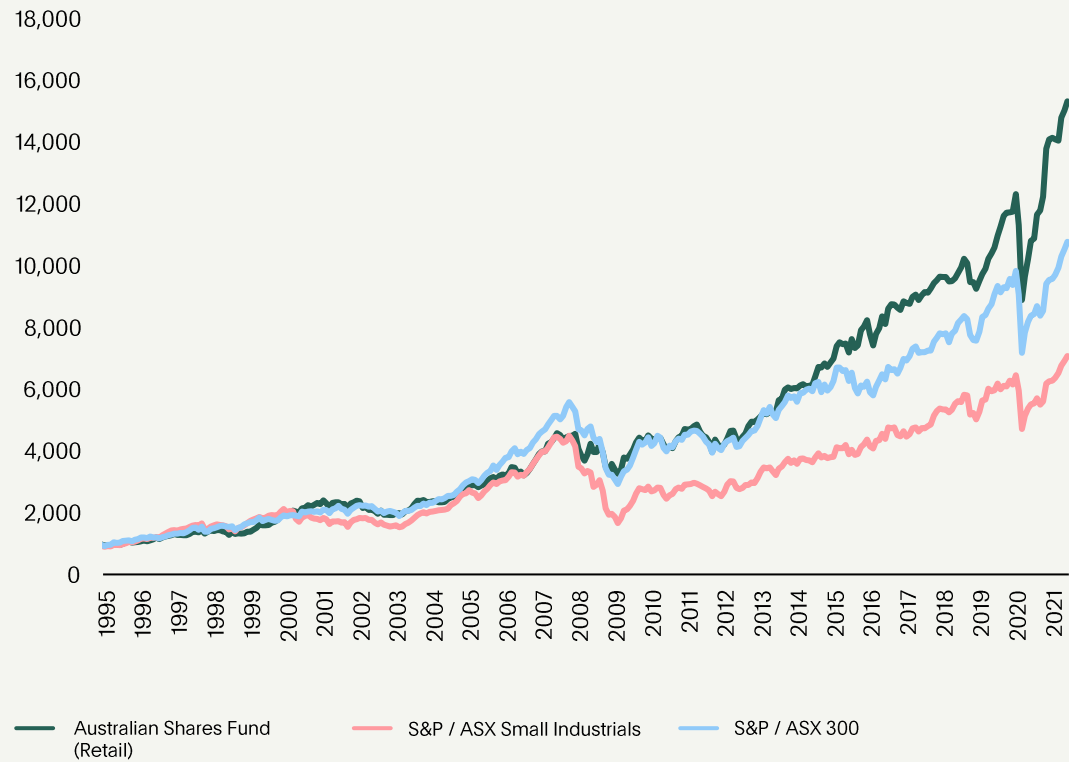
Note:

- FUM is calculated based on cum-div net market value (after fees), and super units are valued at sell-price
- In addition to the management fee, there is also an administration fee of 0.29% and a fixed fee of \$97 per member per annum

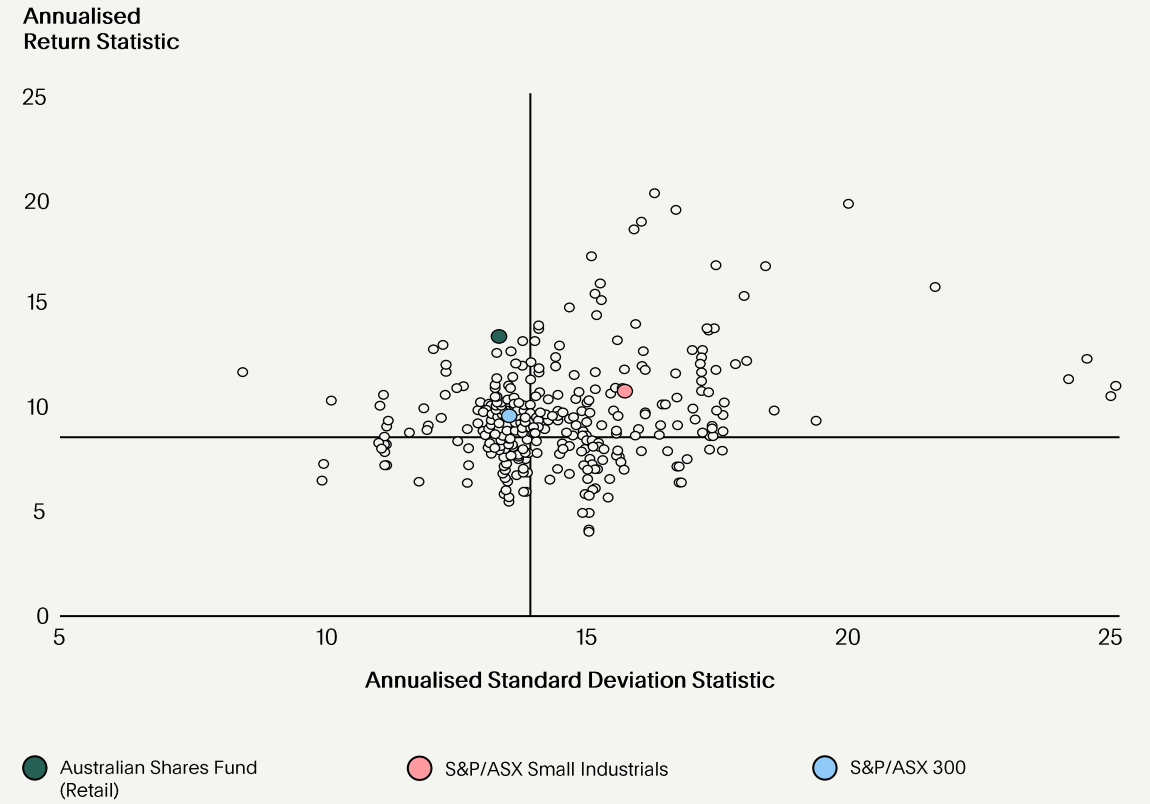
# Investment leadership

## Strong returns, with lower risk | Australian Shares Fund

Value of \$1000 invested since inception



## Risk/return over ten years to 2021



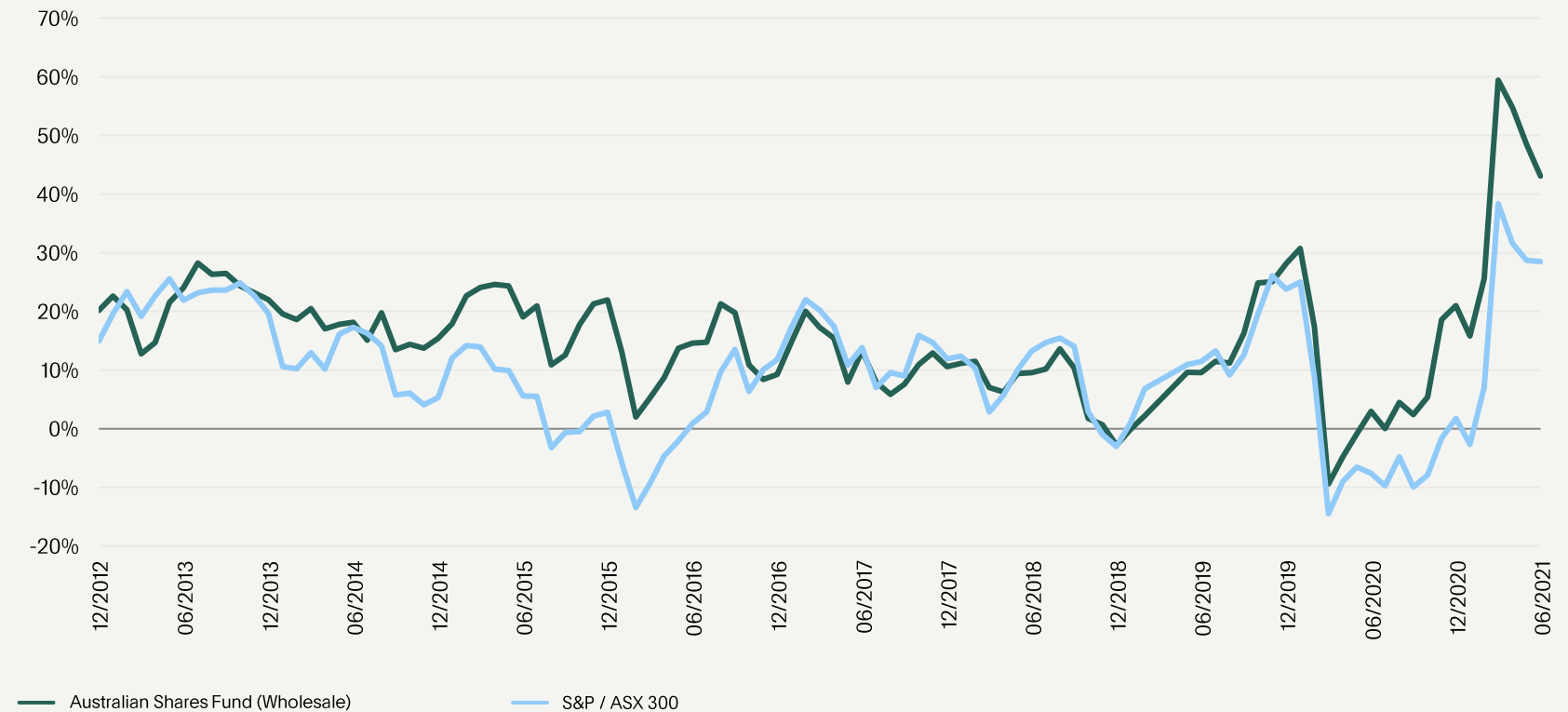
Source: Morningstar (30/06/2011 to 30/06/2021).

# Outstanding performance in FY21

## Australian Shares Fund

- Australian share market reached new highs during the past twelve months
- In keeping with the Ethical Charter, the Fund's largest sector positions typically align with forward looking sectors of the economy in areas where the team has deep domain expertise.
- Several of these sectors made significant contributions to outperformance - specifically healthcare, information technology and utilities

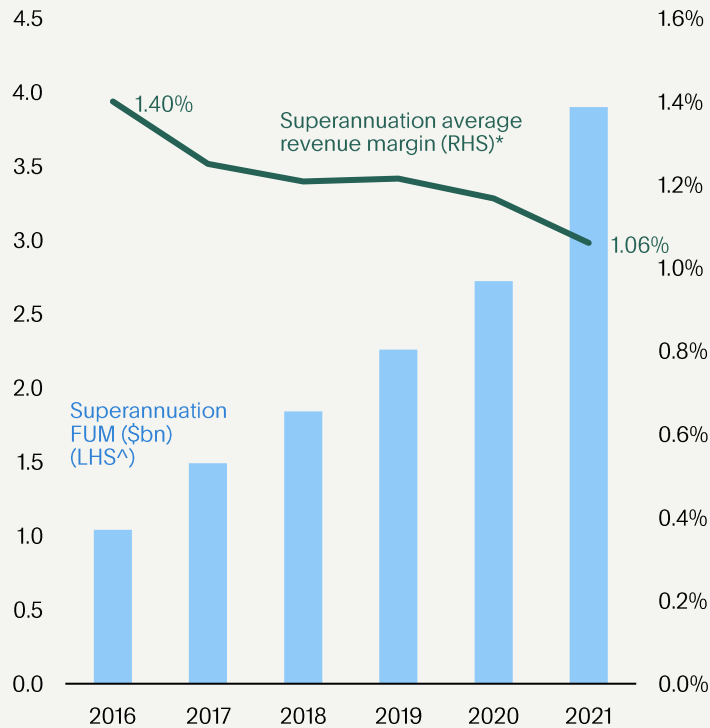
Rolling 1 Year Net Return





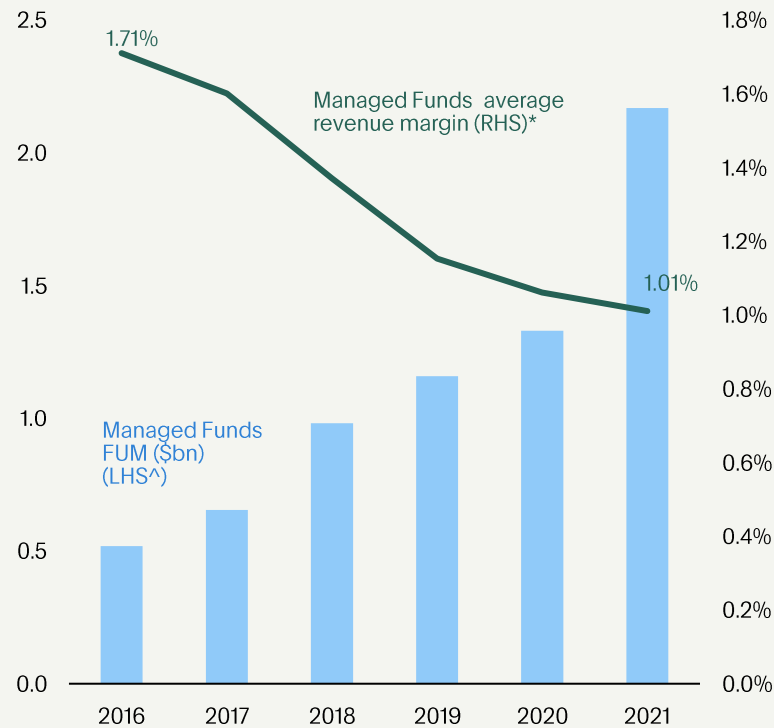
# Fees

## Superannuation average revenue margin



## Managed Funds average revenue margin

Includes retail, wholesale and institutional



## Additional information

- Margins have reduced over time as we continue to pass on benefits of scale to investors and members through fee reductions.
- Our funds continue to generate excellent post fee investment performance.
- Average margin across all products (including institutional) was 1.04% for the 12 months to June 2021 (Super 1.06% and Managed Funds 1.01%).
- Overall margin at 30 June 2021 was 1.00% (super and managed funds, including institutional).
- Looking forward, as part of our fee strategy, we will continue to reduce fees as we grow, to increase our competitiveness, balanced for all stakeholders.
- Performance fees on the Emerging Companies Fund crystallise on 30 June each year, if the Fund outperforms the benchmark.

^ As at 30 June of each year

\* Average revenue margin calculated on last twelve months FUM based revenue (excluding member-based fees and excluding performance fees) as a percentage of last twelve months average FUM

In addition to FUM based fees, we also charge a super member fee of \$97 per member, which is paid back to Mercer, our super administrator (appears in fund related costs)



# Investment team

Team member	Position	Tenure	Experience
David Macri, CFA	Chief Investment Officer	12.5 years at AEI CIO since 2012	20+ years of investment experience Previously at Macquarie Securities, Credit Suisse, Mellon, Mercer
Michael Murray, CFA	Head of Domestic Equities	5 years at AEI	20+ years of investment experience Previously at Integrity, AMP Capital Analyst Coverage – Healthcare, Bio-technology
John Woods	Head of Asset Allocation	0.5 years at AEI	15+ years of investment experience Previously at MLC, CLSA, Macquarie
Andy Gracey	Portfolio Manager	16.5 years at AEI PM since 2007 (Australian Shares/Emerging Companies)	20+ years of investment experience Previously worked at ANZFM, Friends Provident
Ray Gin	Portfolio Manager/ Analyst	8.5 years at AEI PM since 2017 (Diversified Shares/International Shares)	30+ years of investment experience Previously at ING, Deutsche Analyst Coverage – Financials, REITs, Misc Industrials
Tim Kelly	Portfolio Manager	19.5 years at AEI PM since 2011 (Fixed Interest/Income)	15+ years of investment experience
Mark Williams	Equities Analyst	5.5 years at AEI	14+ years of investment experience Previously at Morgans, ABN AMRO Analyst Coverage – Infra/Utilities, Media, Telco, Misc Industrials Managing the SMA portfolio since March 2020
Deana Mitchell, CFA	Equities Analyst	3.5 years at AEI	15+ years of investment experience Previously at Macquarie Securities Analyst Coverage – Diversified Financials, Technology, Education
Jason Huang	Quantitative Analyst	5.5 years at AEI	9+ years of investment experience Previously at BBY Ltd
Julian Richman	Investment Analyst	4 years at AEI	4 years of financial services experience Assisting Balanced Fund and REITs coverage Completed Level 3 of the CFA program



# Ethics team

Team member	Position	Tenure	Experience
Stuart Palmer	Head of Ethics Research	7.5 years at AEI	<ul style="list-style-type: none"><li>• 30+ years experience in the financial, investment and legal sectors</li><li>• Previously Head of Ethics Services at St James Ethics Centre, helping develop strong organisational leadership and culture to guide good decision making in the corporate, government and not for profit sectors</li><li>• Former law firm partner (practicing in finance and investment) and banker (Head of Asset Securitisation at ABN AMRO Australia). Stuart's doctorate is in philosophy of mind</li></ul>
Amanda Richman	Ethics Analyst	3.5 years at AEI	<ul style="list-style-type: none"><li>• Previously Senior Associate at law firm Allens specialising in competition law</li><li>• Experienced animal law advocate, Director of Animal Law Institute, former Chair of NSW Young Lawyers Animal Law Committee</li><li>• First class honours in law; Dean's awards for outstanding contributions to Macquarie Law Community and for outstanding academic achievement in law</li></ul>
Olivia Webster	Ethics Analyst	1.5 years at AEI	<ul style="list-style-type: none"><li>• Previously Sustainability Analyst at Westpac Group, developing best practice approaches to Sustainability Governance</li><li>• University medallist for Information Technology degree</li></ul>
Persephone Fraser	Ethics Analyst	9 months at AEI	<ul style="list-style-type: none"><li>• Previously research analyst for Common Capital and research assistant at UNSW's Climate Justice Initiative, developing reports on environmental and ethical impacts and policy.</li><li>• Worked in policy and research at Reconciliation Australia and in the office of Senator Mehreen Faruqi.</li><li>• MA in Political Economy, BA in Political Science &amp; Philosophy. She received the Leon Fink Institute Grant for study in Jerusalem, the Dame Eadith Campbell Walker Bursary and the Harry Senior Bequest from The University of Sydney.</li></ul>

# Growth metrics

AE growth metrics	FY21	FY20	FY19	2H21	1H21	2H20	1H20	2H19	1H19
FUM – managed funds (\$bn)	2.17	1.33	1.16	2.17	1.75	1.33	1.32	1.16	0.96
FUM – super (\$bn)	3.90	2.72	2.26	3.90	3.30	2.72	2.56	2.26	1.89
<b>FUM - total (\$bn)</b>	<b>6.07</b>	<b>4.05</b>	<b>3.42</b>	<b>6.07</b>	<b>5.05</b>	<b>4.05</b>	<b>3.87</b>	<b>3.42</b>	<b>2.85</b>
Investor numbers	11,793	8,995	7,776	11,793	10,111	8,995	8,302	7,776	7,653
Member numbers (funded)	59,480	48,819	40,530	59,480	52,712	48,819	43,264	40,530	38,338
Net new funded members	10,661	8,289	4,048	6,768	3,893	5,555	2,734	2,192	1,856
Net flows – managed funds (\$m)	415.3	187.2	82.6	247.2	168.1	90.8	96.4	44.2	38.4
Net flows – super (\$m)	613.6	469.0	249.7	360.3	253.4	269.5	199.4	140.4	109.4
<b>Net flows - Total (\$m)</b>	<b>1,028.9</b>	<b>656.1</b>	<b>332.3</b>	<b>607.4</b>	<b>421.5</b>	<b>360.3</b>	<b>295.8</b>	<b>184.5</b>	<b>147.8</b>
Managed funds flows drivers (\$m)	FY21	FY20	FY19	2H21	1H21	2H20	1H20	2H19	1H19
Managed funds (excl insto) inflows	461.3	247.5	156.6	283.1	178.1	121.7	125.8	71.3	85.3
Managed funds (excl insto) outflows	(123.0)	(119.0)	(84.2)	(65.5)	(57.4)	(59.5)	(59.5)	(45.1)	(39.2)
Insto net flows	77.0	58.6	10.3	29.6	47.4	28.5	30.1	18.0	(7.7)
Outflow % FUM annualised (excl insto)	(9%)	(12%)	(10%)	(8%)	(10%)	(12%)	(12%)	(10%)	(9%)
Super flows drivers (\$m)	FY21	FY20	FY19	2H21	1H21	2H20	1H20	2H19	1H19
Rollovers in	453.4	409.3	193.4	230.8	222.6	239.0	170.4	105.7	87.7
SG contributions	207.6	157.4	128.5	116.4	91.1	86.6	70.8	68.9	59.5
Other contributions	104.7	63.5	49.4	72.9	31.8	35.8	27.8	29.7	19.8
Total super inflows	765.7	630.3	371.3	420.1	345.5	361.3	268.9	204.3	166.9
Total super outflows	(152.0)	(161.3)	(121.5)	(59.9)	(92.2)	(91.8)	(69.5)	(64.0)	(57.6)
Outflow % FUM annualised~	(5%)	(6%)	(6%)	(3%)	(6%)	(7%)	(6%)	(6%)	(6%)
Outflows % FUM annualised (excluding early release of super)	(3%)	(6%)	(6%)	(3%)	(4%)	(4%)	(6%)	(6%)	(6%)

~ 2H20 and 1H21 outflows includes early release of super outflows

Note: Managed Funds includes SMA



## Additional metrics<sup>^</sup>

- Average age of current super members is 38
- Average super account balance is \$66k\*
- Average rollover in is \$38k<sup>#</sup>

<sup>^</sup> As at 30 June 2021

\* Average of funded accounts

<sup>#</sup> excluding rollovers from ATO

# Financial metrics

Financial metrics	FY21	FY20	FY19	2H21	1H21	2H20	1H20	2H19	1H19
FUM based revenue (ex performance fee) (\$m)	51.6	39.1	35.3	28.1	23.5	17.6	21.5	17.6	17.7
Performance fee (\$m)	2.9	3.6	0.8	2.9	-	3.6	-	0.8	-
Member based revenue (\$m)	4.1	3.2	3.7	2.1	2.1	1.6	1.6	1.9	1.8
<b>Operating revenue (\$m)</b>	<b>58.7</b>	<b>49.9</b>	<b>41.0</b>	<b>33.1</b>	<b>25.6</b>	<b>26.6</b>	<b>23.3</b>	<b>21.2</b>	<b>19.8</b>
UPAT – pre performance fee (\$m)	9.2	7.0	6.1	4.3	4.9	2.7	4.4	2.9	3.2
Performance fee (ex tax & community grant impact)	1.9	2.3	0.4	1.9	-	2.3	-	0.4	-
UPAT – post performance fee (\$m)	11.1	9.3	6.5	6.2	4.9	4.9	4.4	3.4	3.2
NPAT (\$m)	11.3	9.5	6.5	6.1	5.2	5.0	4.4	3.3	3.2
Cost to income ratio – pre performance fee (%)	77%	79%	79%	80%	74%	83%	74%	81%	78%
Cost to income ratio – post performance fee (%)	74%	74%	78%	74%	74%	74%	74%	78%	78%
Effective tax rate (%)^	28.0%	27.6%	27.6%	30.0%	25.5%	28.6%	26.5%	27.9%	27.4%
<b>Earnings per share (cents)</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>	<b>2H21</b>	<b>1H21</b>	<b>2H20</b>	<b>1H20</b>	<b>2H19</b>	<b>1H19</b>
Basic	10.19	8.62	5.92	5.51	4.68	4.57	4.05	3.02	2.90
Diluted	10.02	8.42	5.77	5.42	4.60	4.47	3.95	2.94	2.84
<b>Dividend per share</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>	<b>2H21</b>	<b>1H21</b>	<b>2H20</b>	<b>1H20</b>	<b>2H19</b>	<b>1H19</b>
Dividend (cents)	8.00*	6.00*	5.00	5.00*	3	3.50*	2.50	3.00	2.00
Dividend franking (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%
NPAT annual payout ratio#	80%	71%	87%	92%	65%	78%	63%	102%	70%
<b>Capital Management</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>	<b>2H21</b>	<b>1H21</b>	<b>2H20</b>	<b>1H20</b>	<b>2H19</b>	<b>1H19</b>
Cash & cash equivalents (\$m)	27.8	21.5	18.9	27.8	21.3	21.5	18.2	18.9	15.3
Net assets	23.7	20.2	16.4	23.7	20.7	20.2	17.4	16.4	15.0
Net assets per basic share (\$)	0.21	0.18	0.15	0.21	0.19	0.18	0.16	0.15	0.14

Note the above is attributable to shareholders and excludes The Foundation

^ The 1H21 effective tax rate includes an income tax credit of 4.1% relating to restatement of deferred tax balances following corporate tax rate change to 30%

\* 2H21 and 2H20 includes a special dividend of 1.00 cent

# Payout ratio calculated on Diluted EPS (dilution includes employee shares).


Above may include variances due to rounding



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