

ASX: AEF

Wednesday, 23 February 2022

Australian Ethical Investment Limited

Half year financial results to 31 December 2021

ASX Announcement

(Comparisons to the 6 months ended 31 December 2020)

AUSTRALIAN ETHICAL ANNOUNCES FIRST HALF OPERATING REVENUE UP 38% DRIVEN BY STRONG GROWTH IN CUSTOMERS AND NET FLOWS

Financial highlights

- Underlying profit after tax (UPAT) of \$5.4 million (up 12%)
- Net profit after tax (NPAT) attributable to shareholders of \$5.4 million (up 5%)
- Operating revenues of \$35.2 million (up 38%)
- Total revenue of \$35.2 million (up 35%)
- Operating expenses of \$27.4 million (up 45%) in line with the high growth strategy outlined in the FY21 full year results
- Interim dividend of 3 cents per share, fully franked
- Diluted EPS 3 year CAGR of 24%¹
- Strong balance sheet, no gearing, well managed operating cash flow

Operating highlights

- FUM was \$6.9 billion on 31 December 2021, up 38%
- Average FUM, the primary driver of revenue, increased 47%
- Net flows of \$0.6 billion (up 42%)
- Industry leading super retention rates²
- Customer numbers up 22% from 31 December 2020
- Top quartile returns across multiple funds³
- Multiple investment industry awards and recognition including top ranked Australian Shares super option over 3,5,7 and 10 years⁴, and second ranked MySuper Fund⁵ in Your Future Your Super comparison (only retail fund to make the top 10)
- Top quartile staff engagement score of 82%
- \$0.7 million provisioned for the Australian Ethical Foundation

¹ Based on NPAT attributable to shareholders.

² KPMG 2021 Super Insights Report – published May 2021, using statistics published by APRA and ATO as at 30 June 2020. 1H22 super outflows were 4.2% of FUM.

³ Top quartile returns for Balanced Fund over 6 months, 2, 3, 4, 5 and 10 years; for Diversified Shares Fund over 6 months, 1 year, 2, 3, 4, 5 and 10 years; for International Shares Fund over 6 months, 1 year and 3 years (and above median for 2, 4 and 5 years); for Australian Shares Fund over the 2, 3, 4, 5 and 10 years; for Emerging Companies Fund over the 2, 3, 4 and 5 years in the December 2021 quarter Mercer performance survey – retail.

⁴ Australian Ethical Super's Australian Shares option ranks no.1 out of 50 over 3 years, 5 years, 7 years and 10 years according to the SR50 Australian Shares Index - SuperRatings December 2021 survey as at 31 December 2021.

⁵ For 7 year performance - APRA MySuper heatmap tool.

Profit and revenue

Australian Ethical Investment's net profit after tax (NPAT) attributable to shareholders for the half year ended 31 December 2021 rose 5% to \$5.4 million, with underlying profit after tax, also \$5.4 million, up 12% compared with the prior comparative period. The prior period NPAT contained one off revenue items totalling \$0.4 million including an insurance settlement.

Operating revenue increased by 38% to \$35.2 million, driven by strong growth in new customers and net flows, as well as solid investment performance. This increase was partially offset by fee reductions which took place in June and October 2021.⁶

Consolidated NPAT is \$5.5 million, which includes the results of the Australian Ethical Foundation Limited ('Foundation').

Funds under management

FUM increased by 38% to \$6.94 billion, up from \$5.05 billion at 31 December 2020. Investment performance (net of fees) of \$0.27 billion was delivered during the period.

During the period, Australian Ethical saw positive net flows of \$0.6 billion, 42% above the prior comparative period. Managed funds flows (excluding institutional) increased 129% following strong traction with both advisers as well as direct investors; managed funds flows (including institutional) grew 37%. Going forward, Australian Ethical is considering options to grow its institutional client base – as at 31 December 2021, institutional makes up 6% of total FUM. Super net flows increased by 45%, driven predominantly by growth in the direct channel. The prior corresponding period included super outflows of \$0.04 billion relating to the early release of superannuation scheme.

Australian Ethical's customer base is up 22% since 31 December 2020 with managed fund customers growing 32% and super members growing by 20%.

Costs and operating expenses

Operating expenses increased by 45% as Australian Ethical continued to implement its high growth strategy outlined in the FY21 full year results. Key drivers of this increase include:

- investment in business capability through a number of strategic hires (which included 5 strategic project contractors). Headcount increased from 72 at December 2020 to 92 at December 2021
- strong investment in brand and marketing to grow brand awareness and expand the preference for Australian Ethical with advisers
- expenses related to the implementation of key strategic projects including technology initiatives, new product launches and M&A due diligence costs

Growth in customers and FUM also drove cost increases.

⁶ 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 October 2021 the following managed fund investment fees were reduced: International Shares Wholesale 0.85% to 0.59%, Balanced Fund Wholesale 0.94% to 0.85%, International Shares Retail 1.85% to 0.99%, Balanced Fund Retail 1.84% to 1.51%, 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%, High Growth Wholesale 0.95% to 0.9%. (All fees are per annum and include ICR.)

Summary of Group profits

	H1 2022 (\$m)	H1 2021 (\$m)
Consolidated statutory profit	5.5	5.3
Profit attributable to The Foundation	0.1	0.2
Net profit after tax attributable to shareholders	5.4	5.2

Interim dividend

The Board declared a fully franked interim dividend of 3 cents per share for the half year ended 31 December 2021, flat on the previous year. The record date for the dividend is 3 March 2022 with payment on 17 March 2022.

Australian Ethical Foundation Limited

Pleasingly, Australian Ethical has provisioned \$0.7 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 \$6 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.

Outlook from the CEO

John McMurdo, Australian Ethical Chief Executive Officer, said: "At Australian Ethical we have seen continuing strong momentum as people look to invest in line with their values.

"This is in keeping with RIAA's most recent Responsible Investment Benchmark Report 2021⁷, which revealed a massive movement away from the mainstream towards responsible investing.

"However, in a year where Australia's responsible investment market reached new highs, it's clear that a 'check the box' approach is no longer enough. Because while the majority of the mainstream investment market claims to be responsibly invested, only those funds engaging in leading practice responsible investment have seen a significant growth in assets under management.

"As Australia's original and leading ethical investor, this puts us in an enviable position to capture our natural and achievable share of a rapidly growing addressable market.

"In our Full Year results, we outlined our ambitious high growth strategy which is already yielding meaningful results. We've successfully launched new products, won multiple awards and fast-tracked our strategic plans by acquiring a minority stake in Sentient Impact Group. We're making progress towards digitising the customer experience, supported by the transformation of back-office systems to scalable technologies. All while delivering strong financial returns for our growing customer base and advocating for a better world.

"As an investment business, we are of course closely leveraged to the markets and mindful that current volatility is likely to continue. Even with restrictions easing, the sweeping impact of Omicron shows that sentiment around the pandemic can still shift quickly, while inflationary pressures and political tensions are

⁷ <https://responsibleinvestment.org/resources/benchmark-report/>

a front-of-mind concern for investors. And while we remain well-positioned to benefit from regulatory, policy, market, and investor tailwinds, any outlook is subject to economic and market conditions.

“We remain focused on implementing our strategic roadmap to capture the opportunities ahead of us amid growing demand from retail and institutional investors for quality ethical investing solutions.

“We anticipate continued and further investment in our high growth strategy outlined in the FY21 full year results during the second half of the financial year as the strategy continues to gain momentum. With a number of initiatives currently underway, we will continue to deploy resources in strategic growth areas, while actively seeking out appropriate M&A opportunities to accelerate our strategic plans.

“Our confidence to succeed comes from the quality of our people, our ethical investing pedigree and our financial strength.”

Any performance fee on the Emerging Companies Fund and High Conviction Fund will only crystallise on 30 June 2022 if the funds exceed their relevant benchmark thresholds.

This announcement is authorised by the Board.

Media enquiries: Camilla Herring: 0432 988 980

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 \$6.5 billion in funds under management across managed funds and superannuation.

Visit: www.australianethical.com.au

Shareholder enquiries Tom May, Company Secretary t 0488 779 474 e tmay@australianethical.com.au
Australian Ethical Investment Ltd ABN 47 003 188 930 AFSL 229949 australianethical.com.au