

Australian Ethical Investment Ltd FY21 Half Year – Analyst pack

24 February 2021

Overview & history



ASX 300 listed investment manager
managing over \$5.0bn
on behalf of members and investors

Over 70
employees

We donate
**10% of our
annual profits***
through our Foundation
to charitable organizations
and social impact initiatives



Leading ethical
investing approach
for 30+ years
offering investment
and super solutions



Our investment philosophy is
centered around our
**leading edge
ethical frameworks**

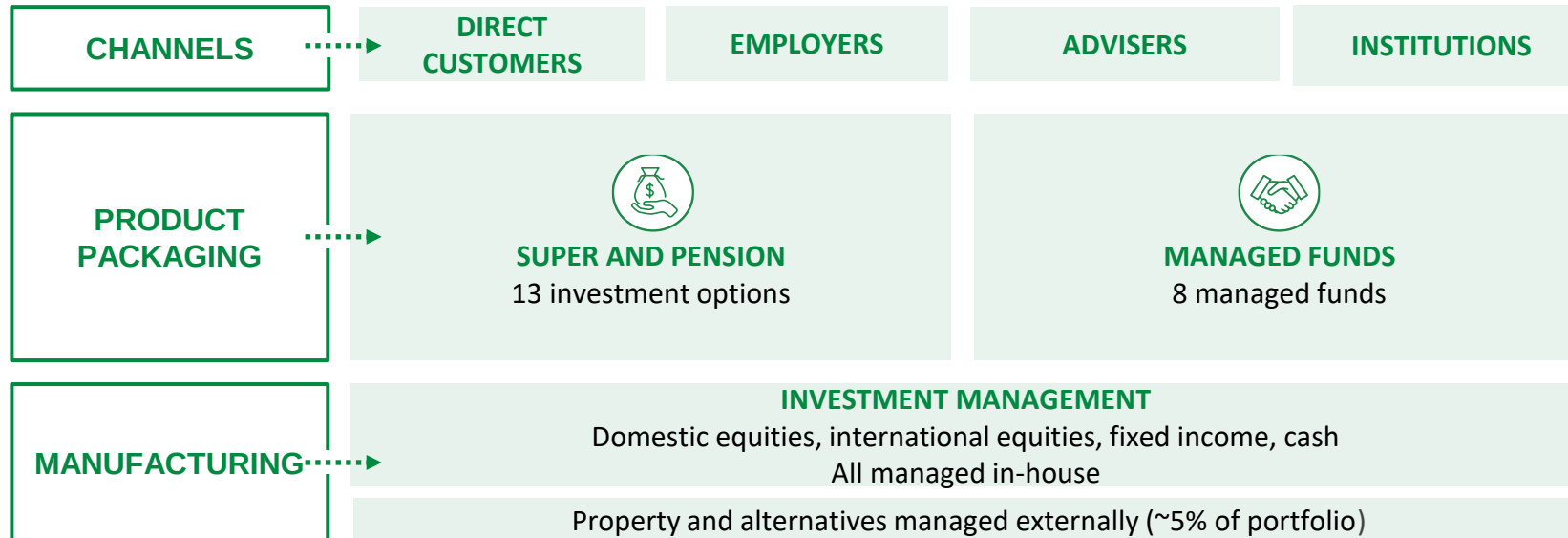
1 of just **6 global leaders** for
ESG commitment^
- the only asset manager in Australia

*after tax and before bonuses

^ as rated by Morningstar

Our business model

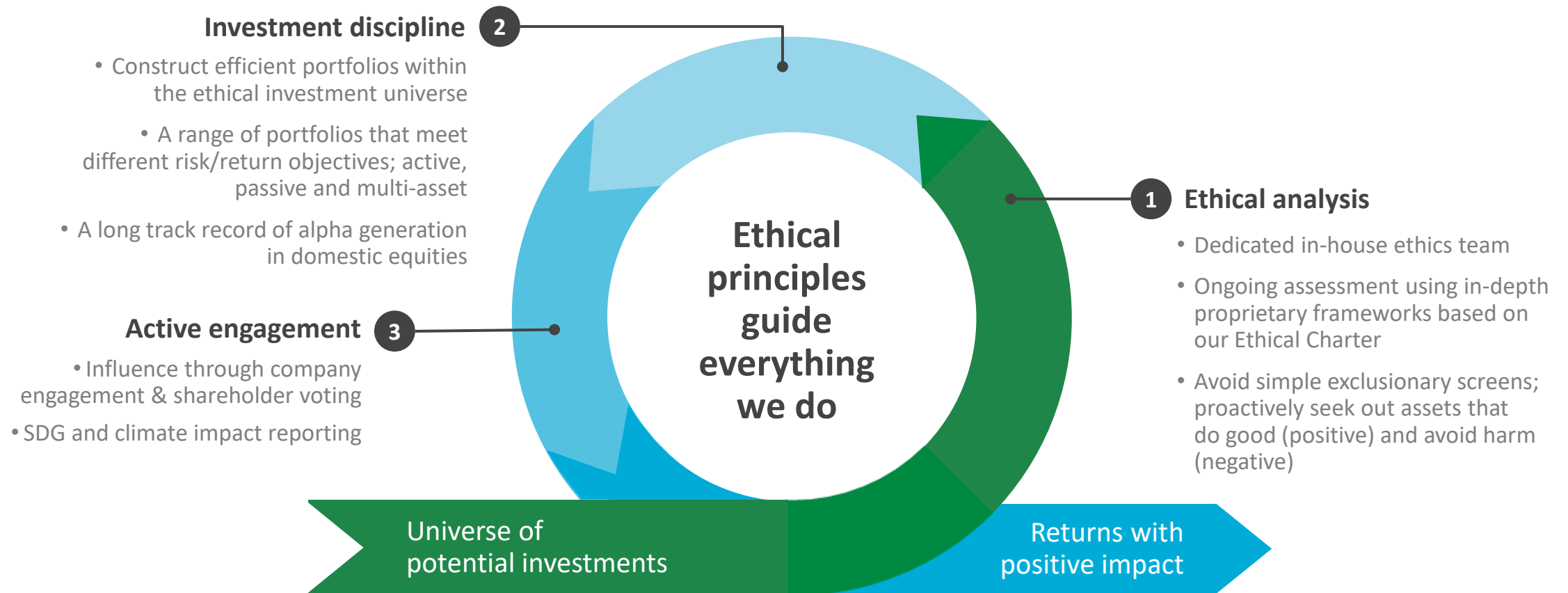
We offer a broad range of products for four different audience segments



Key themes

- Super has historically been our core business however we see strong growth opportunity in the investment space
- 83% of netflows acquired via direct channel
- Investing in growing advised channel and HNW segment, whilst continuing to foster direct channel

Our approach to ethical investing



FUM summary - Managed Funds

FUND/OPTION	Management Fee	FUM at 30 June 20 (\$bn)	Net flows for 1H21 (\$bn)	Reclass. and switches	Performance for 1H21 (\$bn)	FUM at 31 Dec 20 (\$bn)
Managed Funds – Retail						
Balanced Fund	1.75%	0.11	0.01	(0.05)	0.01	0.08
Australian Shares	1.99%	0.15	0.01	(0.01)	0.04	0.19
Emerging Companies	1.99%	0.01	0.01	(0.01)	0.00	0.01
Income, Fixed, Int'l, Diversified, Advocacy	0.20%, 0.50%, 1.85%, 1.90%, 1.90%	0.02	0.01	(0.01)	0.00	0.02
Total Managed Funds Retail		0.29	0.03	(0.06)	0.05	0.31
Managed Funds - Wholesale						
Income Fund	0.20%	0.01	0.00	0.00	0.00	0.01
Fixed Interest	0.30%	0.03	0.00	0.00	0.00	0.03
Balanced Fund	0.85%	0.08	0.00	0.04	0.01	0.14
International Shares	0.85%	0.06	0.00	0.00	0.01	0.07
Diversified Shares	0.95%	0.18	0.01	0.00	0.03	0.22
Advocacy Fund	0.95%	0.04	0.00	0.00	0.01	0.05
Australian Shares	1.10%	0.29	0.05	0.01	0.07	0.43
Emerging Companies	1.20%	0.08	0.02	0.01	0.04	0.15
Total Managed Funds Wholesale		0.77	0.09	0.06	0.17	1.09
Institutional						
Institutional		0.27	0.05	0.00	0.03	0.35
Total Managed Funds		1.33	0.17	0.00	0.25	1.75

Note:

- FUM is calculated based on cum-div net market value (after fees)
- Management fees exclude 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

FUM summary - Superannuation

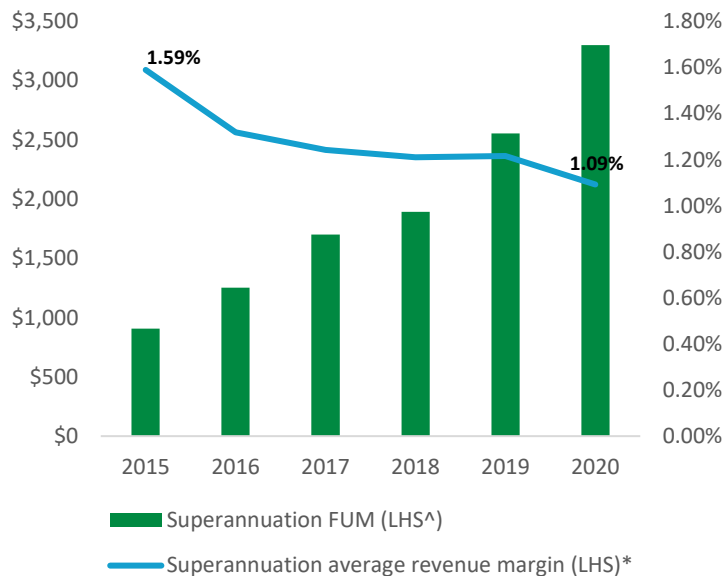
FUND/OPTION	Management Fee	FUM at 30 June 20 (\$bn)	Net flows for 1H21 (\$bn)	Performance for 1H21 (\$bn)	FUM at 31 Dec 20 (\$bn)
Superannuation					
Defensive	0.20%	0.11	0.00	(0.01)	0.10
Conservative	0.63%	0.12	0.00	0.00	0.13
Balanced	0.64%	1.45	0.22	0.12	1.79
Growth	0.99%	0.41	0.02	0.05	0.47
International Shares	1.10%	0.07	0.00	0.01	0.08
Climate Advocacy	1.20%	0.12	0.00	0.02	0.14
Australian Shares	1.25%	0.44	0.01	0.14	0.59
Total Superannuation		2.72	0.25	0.32	3.30

Note:

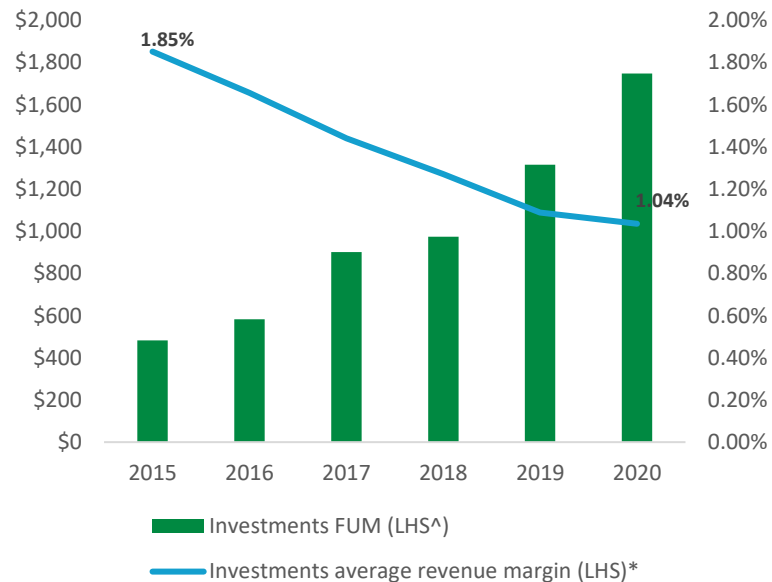
- FUM is calculated based on cum-div net market value (after fees), and super units are valued at sell-price
- In addition to the management fee, there is also an administration fee of 0.29% and a fixed fee of \$97 per member per annum

Fees

Superannuation average revenue margin



Investments 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 1.07% for the 12 months to December 2020 (Super 1.09% and Investments 1.04%)
- Overall margin at 31 December 2020 was 1.05% (super and investments, including institutional)
- 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 investors and members
- Performance fees are generated on the Emerging Companies fund and crystallise on 30 June each year, if the fund outperforms the benchmark

^ As at 31 December of each year

* Average revenue margin calculated on last twelve months FUM based revenue (excluding member-based 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 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	4.5 years at AEI	20+ years of investment experience Previously at Integrity, AMP Capital Analyst Coverage - Healthcare, Bio-technology
Andy Gracey	Portfolio Manager	16 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 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 years at AEI PM since 2011 (Fixed Interest / Income).	15+ years of investment experience
Mark Williams	Equities Analyst	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 years at AEI	15+ years of investment experience Previously at Macquarie Securities Analyst Coverage - Diversified Financials, Technology, Education
Jason Huang	Quantitative Analyst	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 years at AEI	• 30+ years experience in the financial, investment and legal sectors • 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 • 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
Amanda Richman	Ethics Analyst	3 years at AEI	• Previously Senior Associate at law firm Allens specialising in competition law • Experienced animal law advocate, Director of Animal Law Institute, former Chair of NSW Young Lawyers Animal Law Committee • First class honours in law; Dean's awards for outstanding contributions to Macquarie Law Community and for outstanding academic achievement in law
Olivia Webster	Ethics Analyst	1 Year at AEI	• Previously Sustainability Analyst at Westpac Group, developing best practice approaches to Sustainability Governance • University medallist for Information Technology degree

Growth metrics

AE growth metrics	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
FUM – investments (\$bn)	1.33	1.16	0.98	1.75	1.33	1.32	1.16	0.96	0.98	0.90
FUM – super (\$bn)	2.72	2.26	1.84	3.30	2.72	2.56	2.26	1.89	1.84	1.70
FUM - total (\$bn)	4.05	3.42	2.82	5.05	4.05	3.87	3.42	2.85	2.82	2.60
Investor numbers	8,995	7,776	7,387	10,111	8,995	8,302	7,776	7,653	7,387	7,137
Member numbers (funded)	48,819	40,530	36,482	52,712	48,819	43,264	40,530	38,338	36,482	35,384
Net new funded members	8,289	4,048	4,323	3,893	5,555	2,734	2,192	1,856	1,098	3,225
Net flows – investments (\$m)	187.2	82.6	264.0	168.1	90.8	96.4	44.2	38.4	59.9	204.1
Net flows – super (\$m)	469.0	249.7	255.2	253.4	269.5	199.4	140.4	109.4	118.0	137.3
Net flows - Total (\$m)	656.1	332.3	519.3	421.5	360.3	295.8	184.5	147.8	177.9	341.4
Investments flows drivers (\$m)	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
Investments (excl insto) inflows	247.5	156.6	186.7	178.1	121.7	125.8	71.3	85.3	90.2	96.5
Investments (excl insto) outflows	(119.0)	(84.2)	(69.4)	(57.4)	(59.5)	(59.5)	(45.1)	(39.2)	(36.7)	(32.8)
Insto netflows	58.6	10.3	146.7	47.4	28.5	30.1	18.0	(7.7)	6.4	140.4
Outflow % FUM annualised (excl insto)	(12%)	(10%)	(10%)	(10%)	(12%)	(12%)	(10%)	(9%)	(9%)	(9%)
Super flows drivers (\$m)	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
Rollovers	409.3	193.4	215.1	222.6	239.0	170.4	105.7	87.7	88.7	126.5
SG contributions	157.4	128.5	106.3	91.1	86.6	70.8	68.9	59.5	58.2	48.1
Other contributions	63.5	49.4	45.6	31.8	35.8	27.8	29.7	19.8	24.8	20.8
Total super inflows	630.3	371.3	367.0	345.5	361.3	268.9	204.3	166.9	171.7	195.3
Total super outflows	(161.3)	(121.5)	(111.8)	(92.2)	(91.8)	(69.5)	(64.0)	(57.6)	(53.8)	(58.0)
Outflow % FUM annualised~	(6%)	(6%)	(7%)	(6%)	(7%)	(6%)	(6%)	(6%)	(6%)	(7%)
Outflows % FUM annualised (excluding early release of super)	(6%)	(6%)	(7%)	(4%)	(4%)	(6%)	(6%)	(6%)	(6%)	(7%)



Additional metrics^

- Average age of current super members is 38
- Average super account balance is \$63k*
- Average rollover is \$35k#

^ As at 31 December 2020

* Average of funded accounts

excluding rollovers from ATO

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

Financial metrics

Financial metrics	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
FUM based revenue (\$m)	42.7	36.0	32.3	23.5	21.2	21.5	18.3	17.7	16.7	15.6
Member based revenue (\$m)	3.2	3.7	3.3	2.1	1.6	1.6	1.9	1.8	1.7	1.6
Operating revenue (\$m)	49.9	41.0	36.0	25.6	26.6	23.3	21.2	19.8	18.6	17.4
UPAT – pre performance fee (\$m)	7.0	6.1	5.0	4.9	2.7	4.4	2.9	3.2	2.8	2.2
UPAT – post performance fee (\$m)	9.3	6.5	5.0	4.9	4.9	4.4	3.4	3.2	2.8	2.2
NPAT (\$m)	9.5	6.5	5.0	5.2	5.0	4.4	3.3	3.2	2.8	2.2
Cost to income ratio – pre performance fee (%)	79%	79%	80%	74%	83%	74%	81%	78%	77%	82%
Cost to income ratio – post performance fee (%)	74%	78%	80%	74%	74%	74%	78%	78%	77%	82%
Effective tax rate (%)^	27.6%	27.6%	31.7%	25.5%	28.6%	26.5%	27.9%	27.4%	31.8%	31.4%
Earnings per share (cents)	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
Basic	8.62	5.92	4.59	4.68	4.57	4.05	3.02	2.90	2.61	1.98
Diluted	8.42	5.77	4.46	4.60	4.47	3.95	2.94	2.84	2.54	1.93
Dividend per share	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
Dividend (cents)	6.00	5.00	4.00	3.00	3.50*	2.50	3.00	2.00	2.35	1.65
Dividend franking (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
NPAT annual payout ratio	70%	84%	87%	64%	77%	62%	99%	69%	90%	83%
Capital Management	FY20	FY19	FY18	1H21	2H20	1H20	2H19	1H19	2H18	1H18
Cash & cash equivalents (\$m)	21.7	18.9	16.6	20.8	21.7	17.7	18.9	14.8	16.6	11.4
Net assets	20.2	16.4	14.8	20.7	20.2	17.4	16.4	15.0	14.8	13.6
Net assets per basic share (\$)	0.18	0.15	0.14	0.19	0.18	0.16	0.15	0.14	0.14	0.13

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%

* 2H20 includes a special dividend of 1.00 cent

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