

Australian Ethical Investment

Phillip Vernon, Managing Director, AGM Speech 2015

(This speech should be read with the accompanying presentation.)

Good morning ladies and gentlemen. It's a pleasure to be presenting to you this morning.

I'd like to take you through a presentation of our strategy, our results for the year just past and our long term performance.

Our Vision and Strategy

Australian Ethical is a very special company.

We see ourselves as the model for business of the future with our social and environmental charter guiding both how we invest and how we run our business. It sets an example for a world where global capital has a significant stewardship role to play in the protection of the planet.

Our vision is to be the financial services company of choice for conscious consumers - people who wish to achieve financial wellbeing whilst having a positive impact on the future of the planet. We aim to broaden our service offerings to provide a more holistic service to our clients. This will be done, over time, in a fully considered and measured manner.

Our target market are ethically active Australians – people who already make ethical choices in their consumption habits - which our research tells us make up 40% of the Australian population.

We have a goal of achieving \$5bn in funds under management by 2020. We do not believe in growth for growth's sake but wish to achieve scale that allows us to deliver broader services to our clients and have greater voice, impact and influence for positive change whilst continuing to deliver strong returns for our shareholders.

There are a number of key trends facing us over the next 5 years. These include:

- **Rising social consciousness** - increasing social consciousness is having a profound impact on ethical consumerism and investment. In the past 2 years, money flowing into ethical funds has doubled and currently 40% of consumers consider themselves to be ethical. This trend is only expected to increase in the future.
- **Growing savings pool** - while aspects of superannuation will change, there is bipartisan support for increasing the level of saving over time, leading to an increased pool of superannuation and savings over time.
- **Digital disruption** - digital technology is impacting on every industry, and none more so than financial services. It will impact the way in which products are marketed and delivered, as well as impacting efficiency and productivity.

- **Customer expectations** - customers will increasingly demand better service as the “instant gratification” culture continues to perpetuate. The success of businesses and products will be driven by features, service, and how easy they are to deal with.
- **Fee pressure** - as the superannuation pool continues to grow, there’s growing concern about efficiency and fees charged by participants with these being a focus of policy reviews and regulation. There is a general consensus that overall superannuation fees should normalize over time to c. 1% of FUM.
- **Volatile markets** - global markets are likely to remain volatile until a sustained recovery is more evident. In the near term, prospects of recovery are being held back by sluggishness in Europe and the slowdown in growth in emerging economies, particularly China.

We have mapped out a pathway to realising our vision for substantial growth by 2020. This includes focus on the following areas:

- **Educate the ethical consumer** - we aim to educate the ethically-conscious, but inactive investor, on how to align their investment practices with their values.
- **Bust the investment myth** - we aim to bust the myth that ethical investments underperform by providing the proof and getting the message out.
- **Wow the client** - we aim to provide an exceptional client experience with minimal barriers to transacting and high engagement.
- **Digital mastery** - we will invest in our digital skills and capability to ensure that we are at the cutting edge of developments in digital and online marketing techniques, transaction optimisation and delivery of advice and content.
- **Competitive fees** - we aim to be at the 75th percentile of our MySuper peer group by 2020. We will achieve this through a measured reduction strategy over the next 5 years, taking into account shareholder return targets for Earnings per Share (EPS) in excess of 10% per annum on a rolling 3 year basis and Return on Equity (ROE) in excess of 20%.

We have a clear strategy to deliver this growth through each of our channels:

- **Direct** - our strong, highly engaged digital community, targeted digital advertising, optimisation of the online experience and support of many aligned organisations continues to give us strong growth from the direct channel.
- **Employers** - we aim to be the default superannuation fund of choice for ethical employers. We continue to make our fund more appealing and competitive for employers and support them through employee education seminars.
- **Advisers** - advisers see increasing demand from their clients for ethical advice and require education and support to understand how to advise their clients to make the best ethical choices.

Our Performance

Our results over the past twelve months have been outstanding across a number of measures. The headline numbers speak for themselves:

- Investment performance was regularly top quartile
- Net inflows increased by 96%
- Funds under management were up by 32%
- Superannuation membership grew by 20% with more than 400 members joining each month
- Continued rapid growth in digital community

- Astounding 700 applicants for our community grants program
- Steady dividends of \$2 per share

Talking in more detail on some of these:

Investment performance

A key value we bring to clients is that they can achieve competitive investment returns without compromising their values. Our CIO David Macri, along with his team, has once again delivered on this front.

A number of our funds delivered above median performance, and some in the top quartile. Our flagship Australian Shares fund recently celebrated its 20th anniversary, its exceptional track record ranks it first over every reported time period. The fund has returned 10% per annum over its 20 year history, far exceeding its benchmark index. Similarly our Diversified Shares fund, ranks first over all periods.

What this shows is that we aren't just performing compared to our ethical peers, but against the broader market.

Digital community and capability

We continue to build a significant digital community with our total social media followers nearing 80,000 from virtually none just a few years ago. This provides a low cost means of increasing our awareness. Our community is highly engaged leading to extremely high engagement scores compared to other financial services companies.

Digital capability also includes online marketing and website optimisation leading to greater client take on efficiency and engagement.

Competitiveness

I have flagged regularly over past years that the external environment has changed dramatically with a general downward pressure on financial services fees particularly in superannuation. We want a long term sustainable business and we do not want high fees to be a barrier to investing with Australian Ethical.

A few years ago our fees were way out of the market and we embarked on a long term strategy to reduce our fees to be at the 75th percentile of comparable MySuper funds by 2020. As part of this strategy, on 30 June 2014 we reduced the fees on our superannuation fund by 0.67% and by a further 0.30% on 31 July 2015.

Whilst net flows are impacted by many factors, their significant increase over the past year supports our contention that these planned fee reductions will contribute to growth. And that increased scale will ultimately offset the reduction and lead to a better, long term business with far greater impact.

Growth - client growth, net inflow and funds under management

Our superannuation client growth grew strongly at 20% where the rest of the industry remained virtually flat.

Net inflows almost doubled to \$179 million for the year, up 96% on last year's net inflows of \$92 million. This growth has continued with the September quarter flows 20% up on the previous quarter and 97% up on the same quarter of the previous year.

Funds under management increased 32% to \$1,167 million, up from \$887 million in the previous corresponding period. At the end of September it had reached \$1.235bn.

Improvements to products

As part of our continual development of our product suite to be accessible to clients and competitive we executed on the following:

- **Emerging Companies Fund** -launched the Ethical Emerging Companies Fund on July 1 this year. The fund invests in a diversified portfolio of shares in small capitalisation companies, based on their social, environmental and financial credentials. It was launched in response to an increased interest in small cap companies with growth potential, and inflows in the first months have been very positive.
- **Increased accessibility** - we made our managed funds more accessible, by listing on the ASX's mFunds platform, increasing the number of wholesale units, and changing the product names to align with current industry practice.

Community Grants

Our community grants program remains a source of immense pride. It is core to who we are as an organisation and we are proud to continue to support a diverse range of dedicated and inspiring organisations that are often squeezed out of traditional sources of grant funding.

This year we were overwhelmed with over 700 applicants up from 400 the previous year. Unfortunately we had to reduce this down to just 18 after an extensive review involving both staff and shareholders. \$370k was distributed to projects involving animal welfare, conservation, women's empowerment, renewable energy, addressing homelessness and alleviating poverty.

Ethical leadership

We continue to be the leader in ethical investment in Australia with the highest ethical conviction in our investment selection coupled with our strong corporate engagement activities. Initiatives throughout the year have been:

- Net zero emissions by 2050. We are the only superannuation fund in Australia to commit to a target to fully decarbonise our portfolios within a timeframe needed to limit warming to 2 degrees. This is alongside our exclusion of coal, oil and unconventional gas. This is based on the belief that if we are going to meet the urgent challenge of global warming, investors, companies and governments need to commit to decarbonise across all sectors of the economy - not just a single sector. Excluding high emissions fossil fuel companies is important, but this needs to be accompanied by action across the many other industry sectors which are big direct and indirect emitters.

During the year we became the first Australian member of the international Portfolio Decarbonisation Coalition, a coalition of institutional investors launched at the 2014 United Nations Climate Summit to mobilise financial markets to drive economic de-carbonisation.

- We continue to engage and advocate to improve corporate behaviour and have led and been involved in a number of initiatives over the year across a number of key areas including climate change, human rights and animal welfare. These are outlined in our Shareholder newsletter.

Results for 2015

Key aspects of the financial results for 2015 were:

- Net profit after tax for the financial year to 30 June 2015 was \$1.97m compared to the prior year of \$2.54m a 23% decrease. A number of issues impacted on profit as discussed below.
- Revenue increased 6% to \$21.2 million. Revenue grew at a slower rate to funds under management due to the fee reduction strategy discussed previously.
- Operating expenses increased by 14% primarily as a result of changes to our remuneration structure. These comprised:
 - bonuses were higher generally due to KPIs being met;
 - transition impacts to the new remuneration structure has resulted in a full year of current year STI being paid plus 50% of the previous year;
 - increased provision for share rights due to the increased share price.
- Non-operating expenses were impacted by a further impairment on the property in Canberra of \$484,249.

Our Long Term Performance

Our strategy for building a sustainable long term business has translated into high total shareholder returns compared to the market benchmark. Total annualised shareholder return has been 27% over the past 5 years compared to 9% for the market and 52% in the past 12 months compared to 13%.

Our People

We would not be able to achieve any of this without the passion and commitment of our people. We have a fantastic group of people with a terrific culture built on respect, trust and teamwork. Our success is never due to one area, team or individual I thank everyone in the business for their contribution to what has been an outstanding set of results.

Conclusion

Our company is a very special one and is uniquely placed to one that serves as a business model of the future, where social and environmental outcomes are achieved alongside financial performance. With our funds under management having passed \$1bn we are of a size and capacity where we are a significant player in the financial services landscape with a substantial size and influence.

With rising consumer awareness of the ethical impact of their consumption choices and the need for a better way of doing business we are well placed to continue to grow and have an even greater positive impact on the world.

I am proud to lead a company with such a strong sense of purpose. I know all of our people are proud to be part of it, and I hope you, our shareholders, are too.

And now, I'll hand over to you for questions.

About Australian Ethical

Australian Ethical is Australia's leading ethical wealth 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 both shapes its ethical approach and underpins the Company's culture and vision.

Visit: www.australianethical.com.au

Media inquiries: Rebecca Piercy, Honner: 0422 916 422

Annual General Meeting

Phil Vernon – Managing Director
28 October 2015



Our Vision and Strategy

Our Purpose

Investing for a Better World

Australian Ethical is a financial services company with a difference.

We invest for our clients and manage our business, conscious of the impact that our actions have on the world around us. We do not compromise on ethics or financial performance. We achieve both.

We are the model for business of the future - doing it today.



Our Vision

Our vision is to be a broad based ethical financial services firm offering clients **financial wellbeing** and **positive social impact**



Ethical advice

Financial advice

Investments

Super and retirement

Insurance

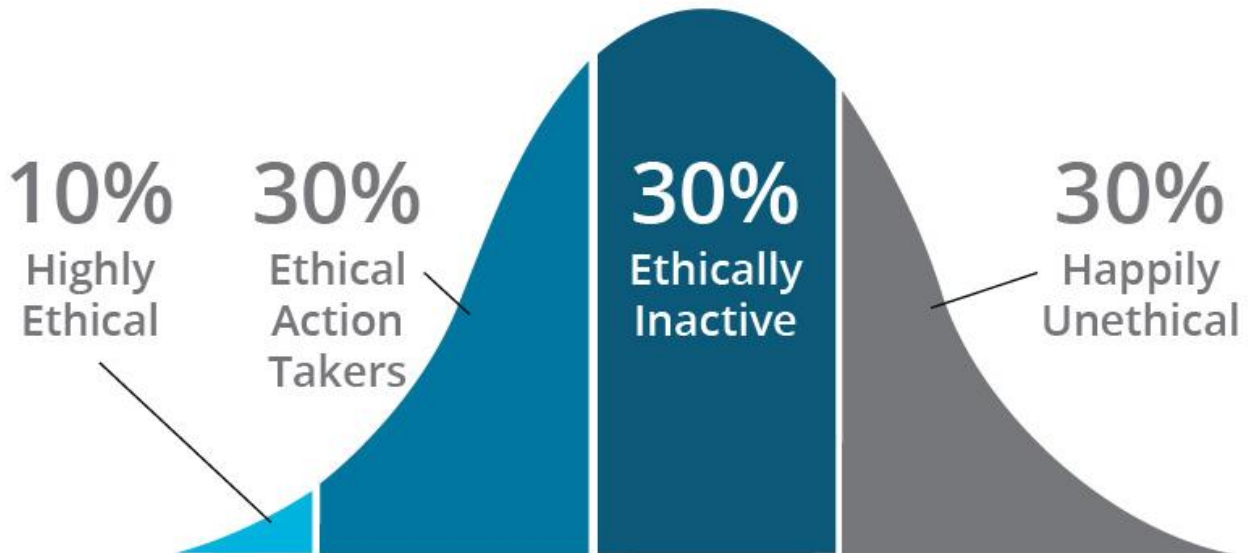
Banking

Philanthropy

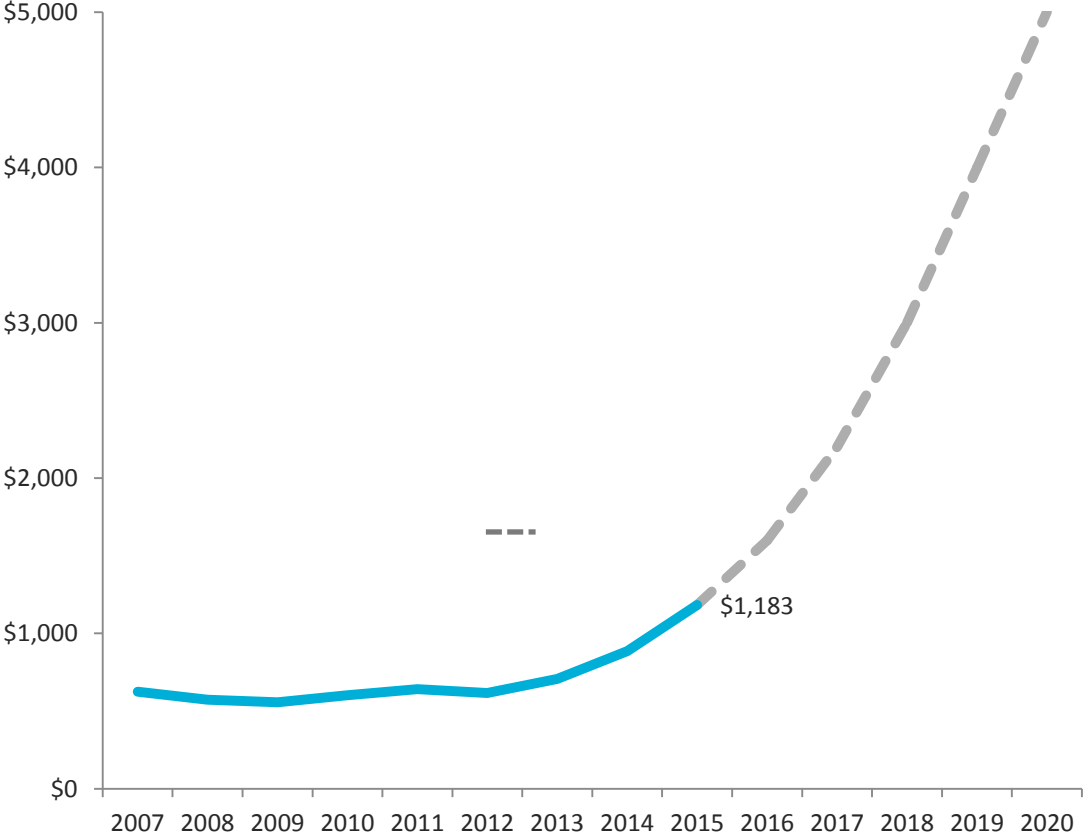


Our target market

Our target market is “ethically-active” Australians, which makes up a total of 40% of the investor market



Our goal - \$5bn under management



Trends to 2020



Rising social consciousness

Increasing social consciousness is having a profound impact on ethical consumerism and investment. In the past 2 years, money flowing into ethical funds has doubled and currently 40% of consumers consider themselves to be ethical. This trend is only expected to increase in the future.



Growing savings pool

While aspects of superannuation will change, there is bipartisan support for increasing the level of saving over time, leading to an increased pool of superannuation and savings over time.



Digital disruption

Digital technology is impacting on every industry, and none more so than financial services. It will impact the way in which products are marketed and delivered, as well as impacting efficiency and productivity.

Trends to 2020



Customer expectations

Customers will increasingly demand better service as the “instant gratification” culture continues to perpetuate. The success of businesses and products will be driven by features, service, and how easy they are to deal with.



Fee pressure

As the superannuation pool continues to grow, there's growing concern about efficiency and fees charged by participants with these being a focus of policy reviews and regulation. There is a general consensus that overall superannuation fees should normalize over time to c. 1% of FUM.



Volatile markets

Global markets are likely to remain volatile until a sustained recovery is more evident. In the near term, prospects of recovery are being held back by sluggishness in Europe and the slowdown in growth in emerging economies, particularly China.

Our pathway to 2020



Educate the ethical consumer

We aim to educate the ethically-conscious, but inactive investor, on how to align their investment practices with their values.



Bust the investment myth

We aim to bust the myth that ethical investments underperform by providing the proof and getting the message out.



Wow the client

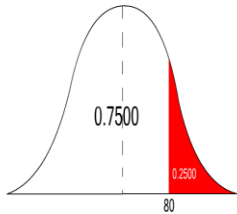
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Our pathway to 2020



Digital mastery

We will invest in our digital skills and capability to ensure that we are at the cutting edge of developments in digital and online marketing techniques, transaction optimisation and delivery of advice and content.



Competitive fees

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Channel strategy



Direct

Our strong, highly engaged digital community, targeted digital advertising, optimisation of the online experience and support of many aligned organisations continues to give us strong growth from the direct channel.



Employers

We aim to be the default superannuation fund of choice for ethical employers. We continue to make our fund more appealing and competitive for employers and support them through employee education seminars.



Advisers

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Summary

Ethics

- Unmatched commitment to ethical principles
- Unrivalled corporate strategy, name and brand

Macro trends

- Strong growth in ethical investing
- Long term growth in superannuation

Products

- Unique combination of ethics and performance
- Competitive on fees
- Opportunities for product packaging and specialisation

Sales & marketing

- Strong in digital direct
- Products available through multiple channels
- More stable FUM due to direct sourcing and super

Business model

- Vertically integrated
- Control over investment decisions
- Evolving to more rounded service offering

Strong Execution

- Strong team
- Strong operating performance

Our performance

Top quartile asset management performance

Proven track record of asset management outperformance

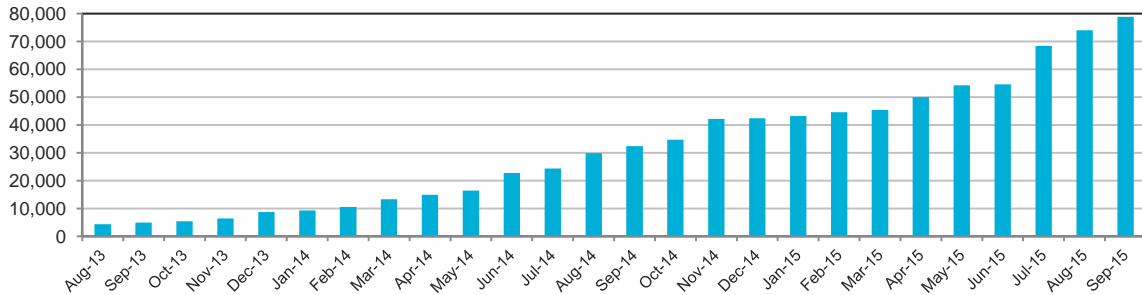
- Regular top quartile performance by numerous products
- **Flagship Australian Shares fund recently celebrated 20th anniversary, having delivered top quartile performance over the period returning 10% p.a. over its 20 year history**
- Awarded “Ethical fund of the Year” by Money Management Magazine
- Awarded ‘International Fund of the Year’ by Australian Funds Management Association

	1 year	3 years	5 years	7 years	10 years
MANAGED FUNDS	Quartile	Quartile	Quartile	Quartile	Quartile
Balanced	3rd	3rd	4th	2nd	2nd
Australian Shares (retail)	1st	1st	1st	1st	1st
Diversified Shares (retail)	1st	1st	1st	1st	1st
Advocacy (retail)	1st	1st	1st	-	-
International Shares	4th	2nd	4th	3rd	-
Cash	3rd	2nd	1st	1st	1st
Fixed Interest	3rd	-	-	-	-

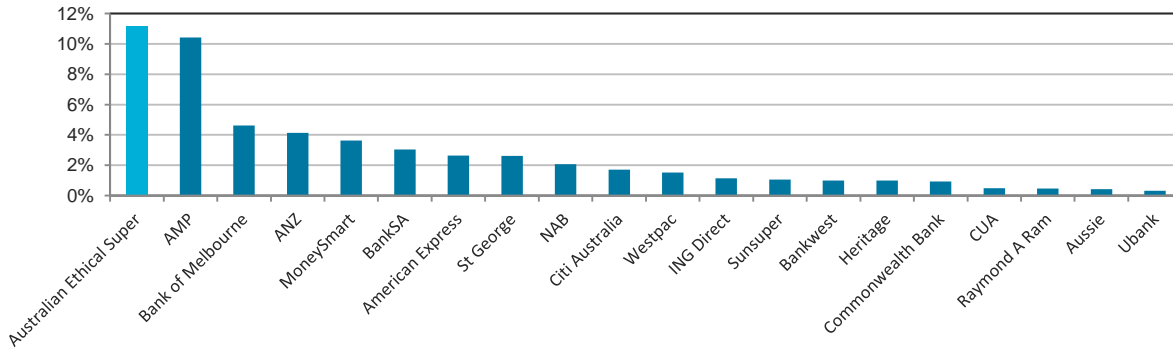
Strong digital capability

Excellent brand recognition and strong digital capabilities

Australian Ethical social media followers



Facebook engagement rate



Engagement Rate: Average engagement represented as a % of total fans Q2 2015

Community Grant Program and Foundation

- \$373k donated in 2015, over \$2m donated since inception
- Over 700 applicants in 2015, up from 400
- Foundation established to allow greater flexibility

Some of our 2015 recipients

Abundant Water



Animal Aid Abroad



Indigo Foundation



Assisi Aid



East Gippsland Rainforest Network



Environmental Defenders Office NT



Green Connect

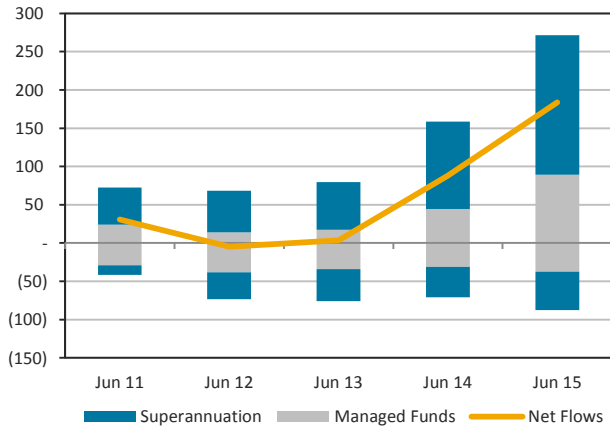


Animalia

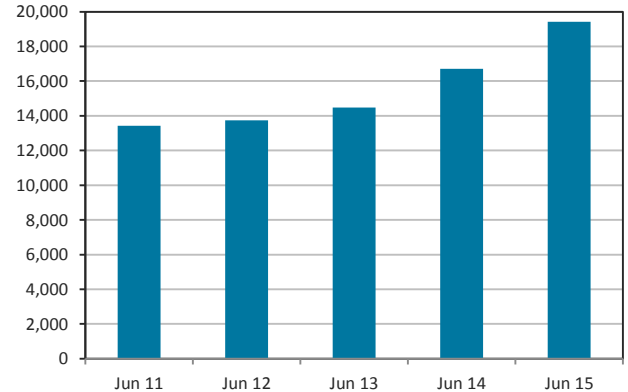


Strong growth in net inflows and clients

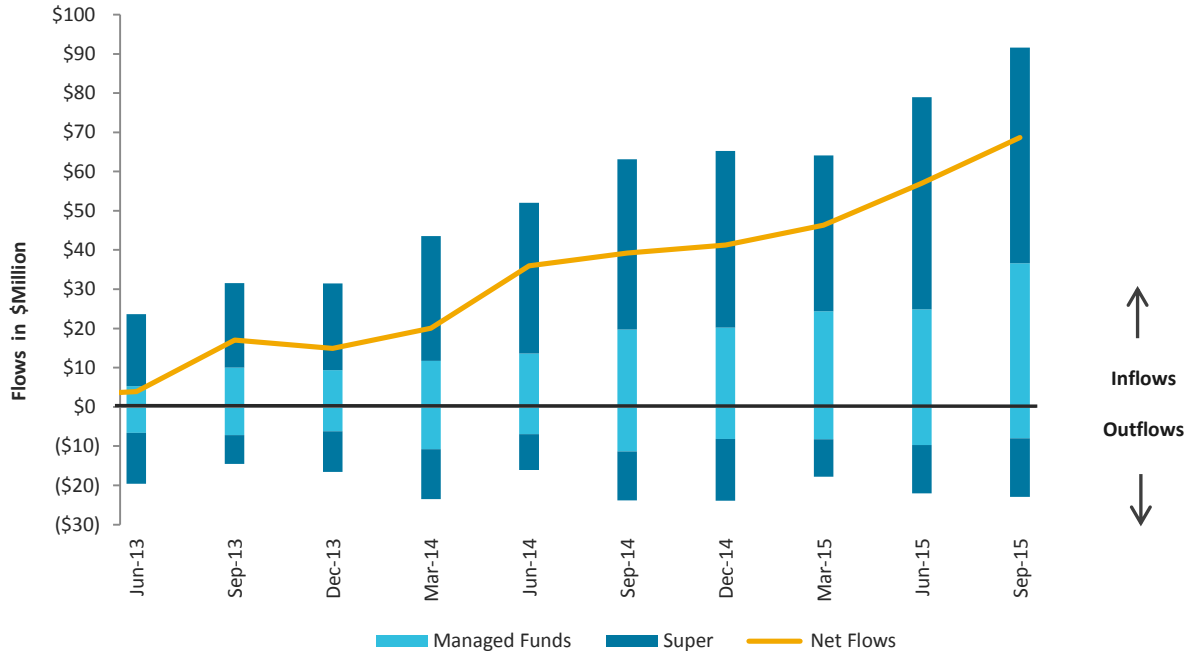
Funds flow (A\$m)



Superannuation members



Quarterly Flows to Sept 2015



2015 highlights

Strong growth

Net inflows almost double that of previous year.
Superannuation client growth 20% above previous year.

Improved competitiveness

Superannuation fees on key MySuper product reduced by 0.67%. Strategy to be at 75th percentile of peer group by 2020.

Strong investment performance

Regular top quartile performance for a number of funds.
Industry awards.

Increasing digital community and capability

Social media community increased 240% to over 50,000 fans with high engagement. Continued optimisation of online experience.

Improved incentives

New incentive structure provides greater motivation, alignment and retention. Transitional impacts on profit.

Steady dividend

Dividend maintained through period of transition.

Financial results

Solid profit result in year of transition

Key financials <i>(A\$000s unless specified otherwise)</i>	FY2014	FY2015	Change (yoy)
Revenue	19,889	21,171	6%
Operating expenses	(14,476)	(16,478)	(14%)
Non-operating expenses	(2,871)	(2,723)	6%
NPAT	2,542	1,970	(23%)
UPAT ¹	3,111	2,454	(21%)
Operating cash flow	5,363	6,453	+20%
Net cash	7,944	12,227	+54%
Dividend	200cps	200cps	No change
EPS ²	241	181	(25%)
Funds under management (A\$m)	887	1,167	32%

Note:

1. Underlying Profit After Tax: excludes items such as restructuring and impairment charges. Full reconciliation can be found in the shareholder newsletter

2. Diluted EPS

Funds under management and net inflows

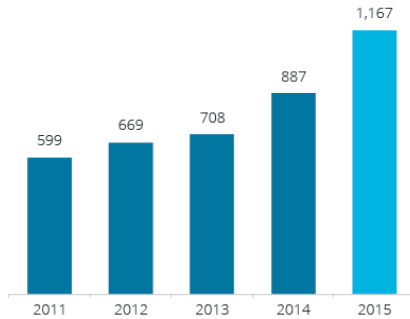
Strong growth in net flows in both superannuation and managed funds

(A\$m)	FY2014	FY2015	Change (yoy)
Opening	708	887	25%
<i>Super flows</i>	78	132	70%
<i>Managed funds</i>	14	47	240%
Net flows	92	179	96%
Market movement	87	101	14%
Closing	887	1,167	32%

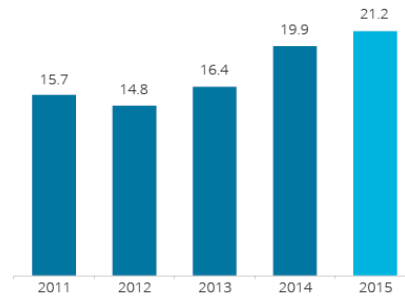
5 year performance

Outstanding operational and financial performance

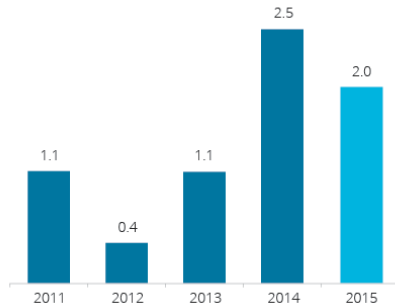
Funds Under Management (\$m)



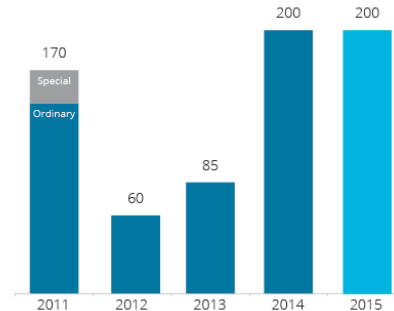
Revenue (\$m)



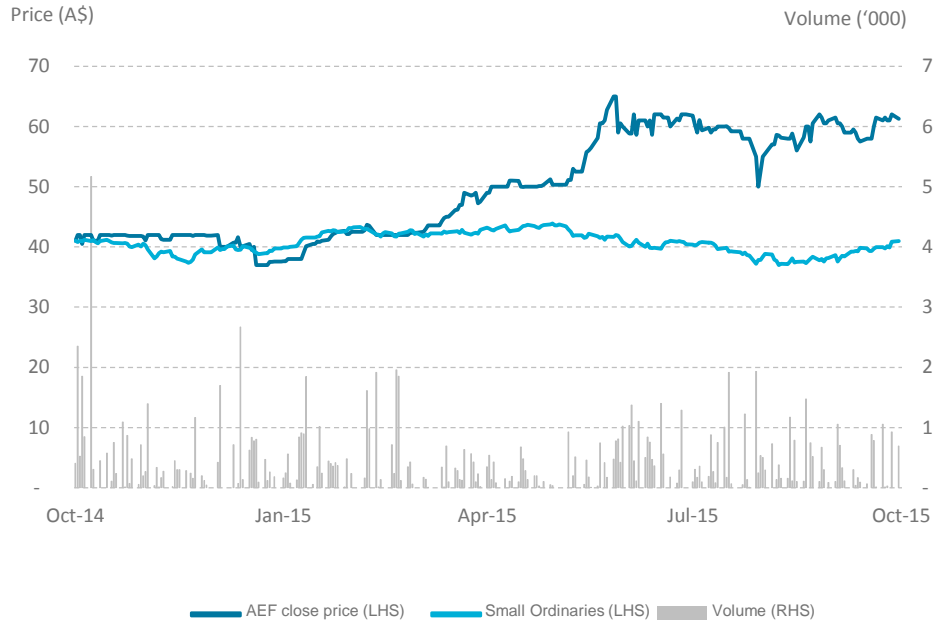
Profit After Tax (\$m)



Dividends (cps)



12 Month Share Price Performance



Long term shareholder returns

Key metric	Outcome
FUM	▪ 14% average increase p.a for the last 10 years
Revenue	▪ 11% average increase p.a for the last 10 years
EPS	▪ 8% average increase p.a for the last 10 years
Dividends	▪ Currently yielding 3.3% p.a., fully franked ¹
Total returns	▪ Total returns of c. 20% p.a. on average since listing (compared to 9% for ASX Small Industrials)

TOTAL SHAREHOLDER RETURNS AS AT 26 OCTOBER 2015²

Time period	Australian Ethical		Small Industrials	
	Total return ²	Annualised return	Total return ²	Annualised return
Since listing	937%	20%	211%	9%
Last 10 years	340%	16%	56%	5%
Last 5 years	226%	27%	56%	9%
Last 2 years	200%	73%	15%	7%
Last 12 months	52%	52%	13%	13%

Source: Bloomberg

Notes:

1. Based on share price as at 26 October 2015

2. Includes capital and dividend returns

Disclaimer

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