

# Australian Ethical Investment Limited

## Half-year financial results to 31 December 2023

ASX Announcement

### GROWTH STRATEGY DRIVING STRONG REVENUE, PROFIT GROWTH

*Revenue up 33%, Underlying Profit After Tax (UPAT) up 71% to \$8.5 million*

#### Financial highlights

- Underlying profit after tax (UPAT) of \$8.5 million, up 71% vs prior comparative period (pcp); UPAT up 24% compared to 2H23
- Net profit after tax (NPAT) attributable to shareholders of \$6.2 million, up from \$1.0 million in 1H23
- Operating revenue up 33% to \$48.5 million
- Underlying expenses of \$36.3 million\* up 23%
- Interim dividend of 3 cents per share, fully franked (up 50%)
- Diluted EPS of 5.53 cents
- Underlying cost to income ratio\* of 75%, an improvement from 81% in 1H23
- Strong balance sheet, no gearing, well managed operating cash flow

#### 1H24 Operational highlights

- Strong progress on growth strategy: enhanced scale, profitability and operating leverage
- Record FUM of \$9.67 billion at 31 December 2023 (up 15%)
- Average FUM up 37%
- Continued positive net flows during challenging market conditions demonstrating the resilience of Australian Ethical's business
- Total net flows of \$0.26 billion
- Funded customer numbers up 13% to over 130,000, with super members growing 16%
- Positive investment performance of \$0.20 billion
- \$0.9 million provisioned for the Australian Ethical Foundation
- Multiple industry awards and accolades across the business
- Launch of the Infrastructure Debt Fund and two multi-asset products, the Moderate and Conservative Funds

\* Excluding UPAT adjusted expenses: SFT integration & transformation costs of \$2.9 million and due diligence & transaction costs of \$0.3 million

All comparisons to the prior comparative period (pcp) which is the 6 months ended 31 December 2022, unless otherwise stated

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## Half-year financial results to 31 December 2023

Australia's leading ethical investment manager, Australian Ethical Investment Limited (ASX: AEF) today announced its financial results for the six months ended 31 December 2023, reporting a strong uplift in both revenue and profit.

Revenue increased 33% to \$48.5m and UPAT increased 71% to \$8.5 million as Australian Ethical's growth strategy continues to gain momentum.

FUM was up 15% on the prior comparative period to a record \$9.67 billion at 31 December 2023, driven by continued positive net flows and solid investment performance.

Net flows were \$259 million for the period, up 39% compared to the prior period. Net flows were underpinned by superannuation net flows of \$269 million. Managed funds net flows were more impacted by volatile market conditions with modest outflows of -\$10 million. Our diversified product set and continued growth in super member numbers, has underpinned positive net flows during challenging market conditions.

Australian Ethical continues with its strategy to build capability and scalability, with the investment in the business starting to yield strong results.

"This is a really strong first half result for Australian Ethical, and we're pleased to report increases in FUM, customer numbers, revenue and profit," John McMurdo, Australian Ethical Chief Executive Officer said today.

"Our growth strategy is gathering momentum and we are seeing an uplift in our key financial metrics as well as strong momentum on key strategic initiatives. We are proud of the way we operate our purpose-driven business and were delighted that many aspects of our business – customer experience, growth, governance, investment philosophy as well as investment excellence – were all recognised by awards and accolades during the period."

"It is encouraging to continue reporting positive net flows, and solid investment performance during a period of continued market volatility. As a result, we continue to see growth in our revenue and remain enthusiastic about the opportunities that lie ahead."

"At Australian Ethical, we continue to demonstrate it is possible to deliver both sound investment returns while also influencing progress towards a better future for the planet and all its inhabitants."

"As Morningstar has acknowledged for the second year running, Australian Ethical is one of only eight ESG leaders globally to achieve a 'Leader' for ESG commitment rating<sup>1</sup>, which makes us an attractive choice for the growing number of Australians who want their investments to support decarbonisation, emissions reduction and social good — as well as delivering long-term returns."

### Profit and revenue

Australian Ethical's underlying profit after tax (UPAT) was \$8.5 million, up 71% compared with the prior comparative period. Net profit after tax (NPAT) attributable to shareholders for the half year ended 31 December 2023 was \$6.2 million.

Operating revenue increased by 33% to \$48.5 million, driven primarily by strong average FUM growth of 37%, partially offset by the impact of fee reductions in late calendar 2022 following the successor fund transfer (SFT) with Christian Super.

<sup>1</sup> The Morningstar ESG Commitment Level Report, Feb 1, 2024. © 2024 Morningstar, Inc. All rights reserved.

Compared to the second half FY23, revenue was up 9% reflecting the increase in FUM driven by continued positive net flows and investment performance.

Consolidated NPAT is \$6.3 million, which includes the results of the Australian Ethical Foundation Limited ('Foundation').

## Expenses

Expenses increased by 23% compared to first half FY23 (excluding \$2.9 million Christian Super SFT integration and transformation costs and \$0.3 million due diligence and transaction costs). This growth was driven predominantly by the higher cost base following the SFT with Christian Super, as well as continued investment in line with our growth strategy.

Expense growth was reflected primarily in:

- Fund-related expenses, driven by growth in FUM, customer numbers and transaction volumes, as well as higher regulatory body fees and higher spend on strategic and regulatory initiatives compared to prior period. This increase represents almost half of the growth in overall expenses.
- Employment expenses, driven by retained Christian Super employees following the SFT, as well as several key strategic hires and talent acquisition to build capability in line with the growth strategy. The full impact of FY23 hires also contributed to the increase, as did remuneration increases due to inflation.
- IT expenses, driven primarily by increases in IT security and licensing costs, as a result of business expansion.
- External services expenses, as consultants were engaged to work on strategic initiatives, as well as short-term consultants engaged to backfill vacant roles.

Offsetting these increases was a reduction in marketing spend, primarily due to the timing of brand spend. Brand spend is expected to increase in the second half of FY24 following the launch of a new brand campaign designed to promote greater brand awareness and consideration of the Australian Ethical brand.

As the business grows, operating leverage is improving. Underlying cost-to-income ratio for the period was 75%, an improvement from first half FY23 of 81%.

Expenses, excluding UPAT adjusted costs, were up 4% compared to second half FY23.

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## Summary of Group profits

	1H2024 (\$m)	1H2023 (\$m)
Consolidated statutory profit	6,316	997
Profit attributable to The Foundation	(97)	(36)
<b>Net profit after tax attributable to shareholders</b>	<b>6,219</b>	<b>961</b>
Change in fair value of Sentient investment	-	2,600
Integration & transformation costs	2,943	1,999
Due diligence & transaction costs	289	-
Tax on adjustments	(970)	(600)
<b>Underlying profit after tax</b>	<b>8,481</b>	<b>4,960</b>

### Final dividend

The Board declared a fully franked interim dividend of 3.00 cents per share for the half year ended 31 December 2023. The record date is 5 March 2024 with payment on 20 March 2024.

### Australian Ethical Foundation Limited

Australian Ethical has provisioned a \$0.9 million allocation to the Foundation during the period, for its future work supporting high impact, innovative charities in their work to combat climate change in specific focus areas.

10% of Australian Ethical profits<sup>2</sup> are allocated to not-for-profit organisations through the Australian Ethical Foundation. More than \$9 million has been distributed to not-for-profit organisations in total. 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

John McMurdo, Australian Ethical Chief Executive Officer, said:

"Following a strong first half which saw growth in our key business metrics, we enter the second half of FY24 in a good position, with a deeply capable and purpose-driven team of professionals, enhanced investment capability and an expanded product suite. We are seeing positive momentum on strategic initiatives to deliver an enhanced business platform capable of supporting a much larger business, as we target \$100 million in annualised revenue run-rate by the end of FY24."

"Whilst uncertain market conditions may well prevail in the second half, we remain focused on our strategic plan. Our larger scale will allow us to continue to invest for growth whilst also delivering profit for shareholders."

"We will continue to invest prudently in our technology and data analytics capability, brand and customer experience, as well as progress our inorganic pipeline of opportunities."

"Our planned transition to a single super administration provider with GROW in FY25 is expected to deliver medium-term cost synergies, while at the same time delivering a more modern technology stack and

<sup>2</sup> Before deducting bonus and grant expense

improvement to customer experience. The transition to a new custody and investment administration provider in FY25 is also expected to deliver medium-term cost savings.”

“We will continue building our investment excellence across all asset classes, so we can maintain our position as Australian’s leading ethical investment manager and sustain our customer growth trajectory.”

“At the same time, we will continue to carefully manage our business-as-usual cost base and are targeting a lower overall cost-to-income ratio for the full year FY24 (compared to FY23), notwithstanding higher expenses expected in the second half due to the timing of marketing spend and continued strategic investment.”

“With the global impacts of climate change becoming more and more visible, we believe investing through an ethical lens is increasingly going to become the mainstream. We remain proud to be ahead of the curve with a strong long-term track record earned over 37 years, offering smart investments for customers that want to prosper and see the planet thrive.”

This announcement is authorised by the Board.

## About Australian Ethical

Australian Ethical is amongst Australia’s leading ethical investment managers<sup>3</sup>. Since 1986, Australian Ethical has provided investors with investment management products that align with their values and provide long term, risk adjusted 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 \$9.5 billion in funds under management across managed funds and superannuation. Visit:

[www.australianethical.com.au](http://www.australianethical.com.au)

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<sup>3</sup> Please refer to <https://www.australianethical.com.au/why-ae/investment/#awards> for specific awards Australian Ethical has won, including the specific categories.