

# australian**ethical** SHAREHOLDER NEWSLETTER

Year ended 30 June 2011



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investment + superannuation

# Chair and Managing Director's report



Phillip Vernon  
Managing Director



André Morony  
Chair

Australian Ethical continues to be the most deeply committed ethical fund manager in Australia with all of our business and investment activities guided by the principles of the Australian Ethical Charter. Our clients save and invest with us knowing that they are putting their money to work for a better world. Having strong ethical principles at the core of everything we do is a powerful uniting and motivating force for our clients, our staff and our shareholders.

The market in which we operate is going through extraordinary change. Global markets continue to be extremely volatile and uncertain whilst at the same time regulatory change in financial services is impacting fees, revenues and how firms package and sell their products and services. These forces are significantly influencing how we operate and how we plan for the future.

The way in which the company has operated in the past has served it well. However we need to be aware of the forces at work around us and adapt our business accordingly to mitigate the risks and take advantage of opportunities that present themselves. First and foremost, we need to grow. Growing our business will make us much more influential to bring about change in the world as well as giving us the scale we need to prosper in a rapidly evolving environment. In order to grow we need to increase our reach and access to our investors. There are many potential investors who wish to invest with us but can't because they cannot access us. And in order to give us this reach we need to be far more connected to the markets in which we operate.

These are largely external considerations. Internally we need to simplify our business as we are far too complex a business for our size. We need to continue to invest to make our business more robust. We manage nearly \$700 million of investors' funds which requires systems, processes and skills of both staff and board members that are appropriate for that level of responsibility. Therefore we need to invest in the skills and talent of our people and reward them appropriately as it is our people that will get us to where we need to go.

Over the course of the past year we have put in motion a number of changes that are all about repositioning the company to operate in this changing environment. None of these changes affect the core vision of the business and what we represent as an ethical organisation.

These are challenging times for all financial services companies. However, these are also times in which many opportunities are presenting themselves. Australian Ethical is a unique 'true to label' company with a special point of difference that sets it apart from others. We are confident that with the right skills and attitude we will continue to carve out a special place in the investment and retirement landscape.

## Financial results

	2011	2010	Change
	\$M	\$M	
Funds under management	644	614	5%
Total revenue	15.1	14.1	8%
Total expenses	(12.4)	(11.7)	(6%)
Operating profit	2.7	2.4	15%
Community grants	(0.153)	(0.125)	22%
Depreciation/amortisation/ rights/options	(0.677)	(0.676)	0%
Tax	(0.665)	(0.583)	(14%)
Net profit after tax	1.3	1.0	25%
Dividends paid	\$1.70	\$2.00	
Earnings per share	\$1.29	\$1.03	

## Comments on financial results

- Global markets continue to be volatile leading to subdued valuations of portfolios and hence revenues based on funds under management;
- Net flows to managed funds are under pressure across the industry due to investors' continued nervousness as well as a trend generally toward investing directly;
- Regulatory changes are leading to an environment where up-front fees are disappearing and the relationship with advisers is evolving.

The following summary of the company's results should be read with these dynamics in mind.

- Funds under management increased by \$30.3 million, \$21.6 million due to net inflows and \$8.7 million due to market movements.
- Net inflows of \$21.6 million reflected positive inflows of \$31.4 million to our superannuation fund (up from \$27.9 million last year) offset by \$9.8 million of net outflows from our managed funds products (\$4.9 million net inflow last year).
- Revenues increased by \$1.1 million representing an increase of 8% over the previous year. A significant impact on revenue for the year was the acquisition fee paid by the Australian Ethical Property Trust for the purchase of Lawley House. Removing this transaction

leads to underlying revenue growth of 1%, which is lower than the growth in funds under management. This slower revenue growth is due to a reduction in fees on inflows and an overall reduction in our average revenue margin due to a greater portion of our business coming from the wholesale investment market.

- Operating expenses increased by \$0.7 million, an increase of 6% over the previous year. Total expenses included costs associated with employment restructures during the year of \$445,000.
- After adjusting for employment restructure costs, employment costs increased by 2% being largely due to a general salary increase half way through the year.
- Superannuation administration costs increased by 17%. This reflects a 4% increase in member numbers and a 7% increase in administration charges.
- Other increases in expenses reflect investment in information technology to more efficiently perform our core investment management and client service functions.

## Community grants

Under our constitution 10% of operating profit (after notional tax) is donated to charitable, benevolent and conservation causes. In 2011 grants of \$152,802 will be made bringing our total community grants to almost \$1.3 million. We continue to be very proud of our commitment to our community and strive to increase our level of non-financial involvement also.

## Investment performance

Although we are pleased that the majority of our funds achieved positive returns, it was a tough year for ethical investments due to the outperformance of sectors not typically in the portfolios such as resources and few outperformed their respective mainstream benchmarks. However, our long term performance remains very strong and we continue to be well positioned within investment markets and, with an increased awareness of ethical issues such as climate change, there is a growing recognition amongst investors of the need to invest and save in a more ethically positive way.

## Comments on business operations

### Restructure of Sales and Marketing

Our sales and marketing area has been successfully restructured with the employment of two new executives in the senior management team (Adam Kirk and Paul Smith) and a realignment of team responsibilities to enhance synergies between sales, marketing and client relationship management.

## Founders

During the year two of the founders of Australian Ethical, Howard Pender and James Thier left their executive positions after many years of service. James and Howard were both involved with the company when it was founded in 1986 and have each contributed enormously to its success over the years.

## Client service improvements

We continue to make improvements to our client service function, a core area of the business. During the course of the year we commenced a proactive sales follow up and relationship management program. We also in-sourced our superannuation call centre from our service provider, Pillar. All initial calls are now managed by Australian Ethical leading to a more consistent client service experience.

## Marketing improvements

We have made a number of improvements in the way in which we market and service our products to clients. We have made significant improvements to the interactivity of the website including allowing individuals and employers to join our superfund online. This has resulted in an almost doubling of our new client uptake on a monthly basis.

## Outlook, strategy and focus

Despite the uncertainty in investment markets and the changing regulatory environment, we remain positive and optimistic for the future for Australian Ethical. We have responded to this new environment with some internal restructurings and have maintained good profitability through this period of change.

Our three year focus is to strengthen the growth of our superannuation product, retain our position within non-super investments, broaden our client reach and simplify and streamline our business and ensure that it is operationally robust. We aim for a culture that is excellent in our four core areas of ethical analysis, client service, investment performance and operational support.

We thank all shareholders for your continued support and look forward to the coming year with a clear strategy, strong focus and optimism.

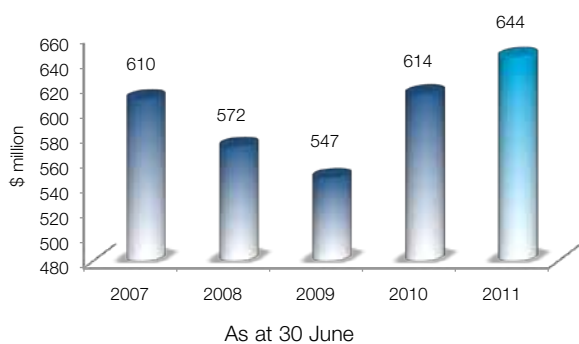


Phillip Vernon  
Managing Director

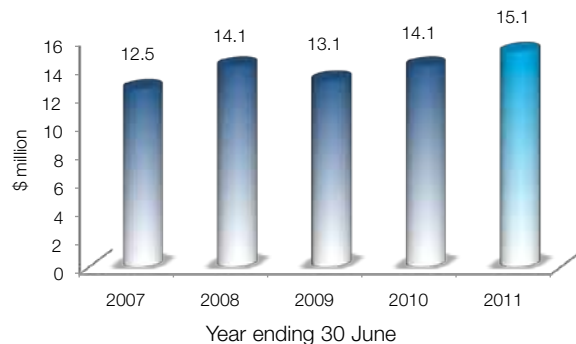
André Morony  
Chair

# Financial summary to 30 June 2011

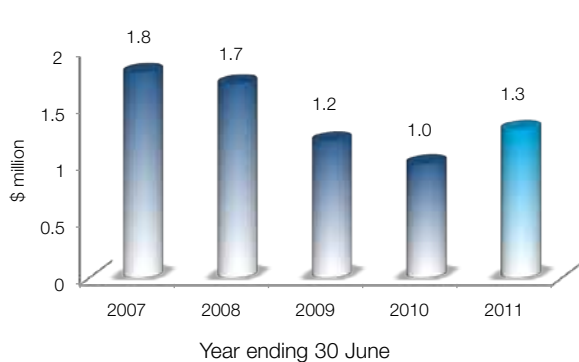
## Funds under management



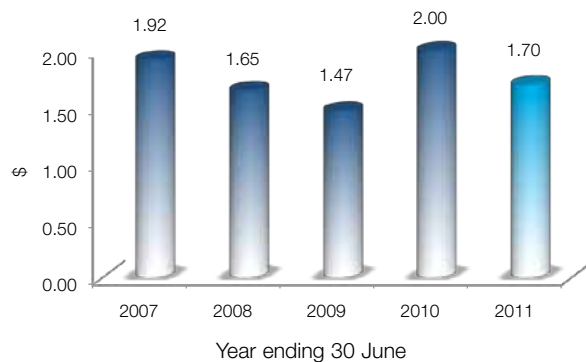
## Revenue



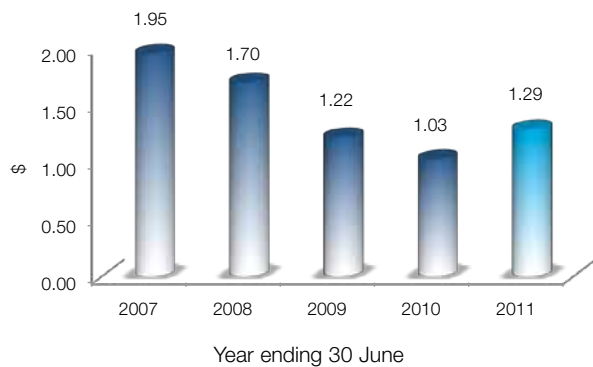
## Profit after tax (NPAT)



## Dividends paid



## Basic earnings per share



## Return on equity

