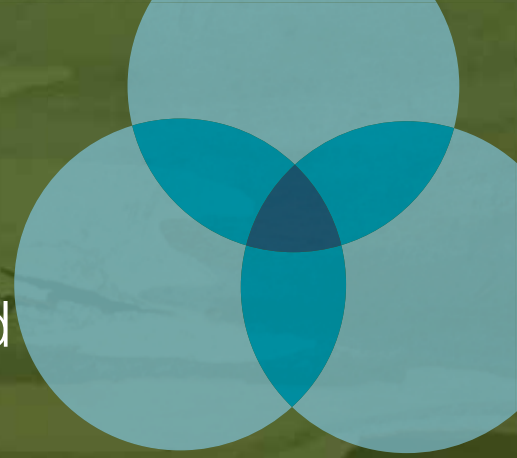


Australian Ethical Investment Ltd
Sustainability report 2007



australianethical[®] 
investment + superannuation

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for investors, society and the environment

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Front cover photo: Babinda Boulders, Queensland © Philip Sloane

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Strategy and analysis

Chief executive officer's statement

Sustainability has always been a central part of Australian Ethical's identity. Sustainability principles are present in all aspects of Australian Ethical's business and are a feature of the company's constitution. Reporting on sustainability is not only a way to be transparent about our achievements and challenges; it is also an opportunity to share experiences with other small and medium sized enterprises and stakeholders. Consistent reporting enables us to monitor our performance and constantly improve our efforts. As in previous years, this, our sixth sustainability report, is guided by the Global Reporting Initiative (GRI) guidelines, the global framework for reporting on economic, social and environmental performance. It is also our second report based on the enhanced G3 GRI guidelines and includes additional external benchmarks with which to compare our performance.

Australian Ethical's major highlight in 2006–07 was the relocation to Trevor Pearcey House, our fully refurbished new head office in Bruce, Canberra. The office refurbishment and fit out was undertaken within the ethos of the Australian Ethical Charter and was designed to achieve environmental benefits and resource efficiency as well as increased staff comfort and productivity. Environmental benefits include reduced waste going to landfill through the reuse and recycling of materials, a reduction in energy and water consumption and lower greenhouse gas emissions. Staff benefit from improved air quality and a more natural environment. Australian Ethical has received a number of awards recognising the sustainable refurbishment of Trevor Pearcey House including the 'world leadership' six star rating by the Green Building Council of Australia – the first building in the Australian Capital Territory (ACT) and the third in Australia to receive such a rating. The new office will enable more accurate measurement of electricity, gas and water use, and greenhouse gas emissions and provide a baseline from which quantitative targets can be set in future.

Every year Australian Ethical donates 10 per cent of its profit to charitable, benevolent and conservation organisations. In 2007 a record \$224 964 was donated to 41 community groups including our first major project grant of \$50 000 to The Australia Institute for their project to create teaching materials on climate change for Australian high schools. Increasing public concern over climate change, particularly in light of the ongoing drought, continues to focus mainstream attention on sustainability issues. Australian Ethical expects this trend to continue. The growing recognition that environmental, social and ethical risks can impact investor returns represents an opportunity for Australian Ethical. Our long-standing and committed approach to sustainability makes our business and products attractive to a growing numbers of investors.

We continue to see a financial incentive to having both deep green products and a deep green approach to our operations. The launch of the World Trust in June 2007 combines the work of numerous years to apply the Australian Ethical Charter to the world market. We are committed to ensuring that all our products as well as our own operations remain true to the Australian Ethical Charter. Failure to do so would expose the company to reputation risks.

The ongoing resources boom continues to present a challenge as most of the companies in the materials and energy sectors do not meet the tenets of the Australian Ethical Charter. To manage expectations of unitholders and superannuation members, effectively communicating the funds' performance and Australian Ethical's commitment to its long-standing investment principles remains an ongoing need. On an operational level, the increasing skills shortage makes attracting and retaining staff a challenge. To attract staff, businesses must not only provide competitive remuneration, but provide fulfilling roles, work/life balance and align with an individual's personal values. While Australian Ethical has a natural advantage in a number of these areas, we need to be mindful in maintaining our leading role.

We hope that this report provides useful information on Australian Ethical's environmental, social and economic performance. As always, we encourage feedback from all readers on how to improve our reporting. You may submit questions and comments via the Australian Ethical website www.austethical.com.au, or the feedback form at the end of this report.



Anne O'Donnell
Chief executive officer

Company profile

Australian Ethical Investment Ltd is an independent fund manager based in Canberra, Australia. The company was established in 1986 for the purpose of pooling investor savings, specialising in environmental and socially responsible investment. It originally managed a private ethical trust until 1989, when what is now the Australian Ethical Balanced Trust opened for public subscription. Australian Ethical became a publicly listed company on the Australian Securities Exchange in December 2002. As at 30 June 2007 the company had \$552 million in funds under management on behalf of approximately 18 000 unitholders and superannuation members. At the end of the reporting period covered by this sustainability report, Australian Ethical had 56 staff working for the company. The revenue for Australian Ethical for the year to 30 June 2007 was \$12 086 455, which is an increase of 25 per cent on the previous financial year.

The company has a commitment to improve the ethics of corporate Australia and promote ecologically sustainable and socially just enterprises through judicious investment throughout Australia as well as internationally. It currently manages five retail unit trusts: the Balanced Trust, Equities Trust, Large Companies Share Trust, World Trust and Income Trust. It also manages a wholesale trust, the International Equities Trust in which the World Trust invests. Its wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, is Trustee for five accumulation and five pension superannuation strategies – each modelled on one of the five Australian Ethical retail trusts.

All investments are selected to assist in:

- achieving a just and sustainable society
- protecting the natural environment
- providing a competitive financial return to investors.

To do this, all investments are selected using the Australian Ethical Charter (see page 5) which aims to provide investment support to environmental and socially positive activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare, workplace relations and a range of related issues.

As part of the company's constitution, 10 per cent of annual profits are donated to non-profit, charity, benevolent and conservation organisations.

Review of Operations

During the 2006-07 financial year, the company established two further registered managed investment schemes – the Australian Ethical International Equities Trust and the Australian Ethical World Trust. The International Equities Trust is a wholesale trust which aims to offer exposure to high quality companies listed on global share markets and aims to provide long-term growth through such investments. The World Trust is a public offer trust that will hold units in the International Equities Trust. Other than as described, there were no other significant changes in the nature of the company's activities during the year.

In March 2007, the company relocated to Block E, Trevor Pearcey House, Traeger Court, 34 Thynne Street, Bruce ACT 2617. The relocation followed an environmentally exemplary refurbishment of the premises at Trevor Pearcey House. Refurbishment costs including fit out totalled \$1.8 million.

The company's capital structure and policies remain relatively simple. The company currently has no debt and capital not required for working purposes is held as an investment in Trevor Pearcey House and an investment portfolio comprising triple A securities, senior bank debt and corporate rated debt.

Awards

In June 2007, Australian Ethical received a 'special commendation' in the United Nations Association of Australia World Environment Day Awards 2007. The annual national awards program acknowledges action taken at a local level to address global environmental issues. Australian Ethical received the commendation in the green building category for its environmentally exemplary refurbishment of Trevor Pearcey House.

The Australian Ethical Charter[©]

Date of adoption: 1986. Applies worldwide.

The constituting documents of Australian Ethical Investment Ltd, Australian Ethical Superannuation Pty Ltd, all trusts and the superannuation fund contain this Charter.

The Trusts shall seek out investments which provide for and support:

- (a) the development of workers' participation in the ownership and control of their work organisations and places
- (b) the production of high quality and properly presented products and services
- (c) the development of locally based ventures
- (d) the development of appropriate technological systems
- (e) the amelioration of wasteful or polluting practices
- (f) the development of sustainable land use and food production
- (g) the preservation of endangered eco-systems
- (h) activities which contribute to human happiness, dignity and education
- (i) the dignity and well being of non human animals
- (j) the efficient use of human waste
- (k) the alleviation of poverty in all its forms
- (l) the development and preservation of appropriate human buildings and landscapes.

The Trusts shall avoid any investment which is considered to unnecessarily:

- (i) pollute land, air or waters
- (ii) destroy or waste non-recurring resources
- (iii) extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non human animals or the environment
- (iv) market, promote or advertise, products or services in a misleading or deceitful manner
- (v) create markets by the promotion or advertising of unwanted products or services
- (vi) acquire land or commodities primarily for the purpose of speculative gain
- (vii) create, encourage or perpetuate militarism or engage in the manufacture of armaments
- (viii) entice people into financial over-commitment
- (ix) exploit people through the payment of low wages or the provision of poor working conditions
- (x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- (xi) contribute to the inhibition of human rights generally.

Clause 2.2 of the Australian Ethical constitution obliges the directors of the company to report to shareholders on the pursuance of positive clause (a) above in the Charter and matters generally related to the status of employees at the time of the annual general meeting.

Report parameters

Report profile

This is Australian Ethical's sixth sustainability report and covers the period from 1 July 2006 to 30 June 2007. The composition of the board and its committees is reported as at 1 October 2007. Australian Ethical has an annual reporting cycle. The previous report covered the period from 1 July 2005 to 30 June 2006.

For further information regarding this report or its contents, please contact:

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Company Secretary

Australian Ethical Investment Ltd
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Canberra ACT 2601

Phone: 1800 021 227
Facsimile: +61 2 6201 1987
E-mail: companysecretary@austethical.com.au

Report scope and boundary

Defining report content

In defining the report content, Australian Ethical applied the GRI reporting framework's 'Guidance on defining report content' and associated principles. This involved:

- identifying the topics and indicators considered relevant by undergoing an iterative process using the principles of materiality, stakeholder inclusiveness, sustainability context and completeness
- considering the relevance of all indicator aspects identified in the GRI guidelines and financial services sector supplements
- using the tests listed for each principle to assess which topics and indicators were material
- using the principles to prioritise selected topics and decide which were to be emphasised.

Materiality

GRI defines materiality as the threshold at which an issue or indicator becomes sufficiently important that it should be reported (GRI 2006). It refers not only to those topics and indicators that have a significant financial impact on the company, but also includes those economic, environmental and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations (GRI 2006, WCED 1987).

In determining which topics and indicators were material, Australian Ethical took into account a number of internal and external factors. These included Australian Ethical's vision and mission statement, the Australian Ethical Charter (see page 5), the expectations and interests of stakeholders, and Australian Ethical's sustainability impacts, risks and opportunities.

Australian Ethical considered the majority of GRI core indicators to be material. A number of GRI additional indicators were also considered material, as were the majority of indicators contained in the pilot versions of the financial services sector supplements for social and environmental performance. Topics and indicators were prioritised based on the significance of their economic, environmental and social impact and their influence on the assessments and decisions of stakeholders.

Stakeholder inclusiveness

Australian Ethical has identified a number of stakeholders including employees, shareholders, trust unitholders, superannuation members, financial advisors, investee entities, suppliers, the local community and the greater public in general. Australian Ethical also identifies the environment and future generations as stakeholders.

In preparing this report, Australian Ethical has attempted to meet the reasonable expectations and interests of its stakeholders. The expectations and interests of stakeholders has been sought through a number of engagement processes, including surveys, feedback forms and peer review comment.

Report boundary

This report describes the economic, environmental and social performance of Australian Ethical Investment Ltd and Australian Ethical Superannuation Pty Ltd for the year to 30 June 2007. It does not extend to the activities of the holdings/investments of the trusts and super funds managed by the Australian Ethical group, nor does it extend to the activities of its ethics research provider, the Centre for Australian Ethical Research (CAER).

The reporting of a number of environmental indicator aspects including materials, energy, water, and waste is limited to Australian Ethical's Canberra offices in

Downer (to March 2007) and Bruce. It does not include the activities of the seven staff working off site. There has been no change in the report boundary since the previous reporting period.

Report scope

There has been no change in the report scope since the previous reporting period. A list of the GRI indicators covered can be found at the back of this report.

Data measurement techniques

Data has been measured, calculated and compiled according to the GRI G3 indicator protocols. The move to Trevor Pearcey House has enabled Australian Ethical to more accurately measure a number of environmental indicators including our electricity, gas and water use, and greenhouse gas emissions.

Restatements

- Employee classifications were redefined in 2006–07 which resulted in some employees being re-classified. This affected the training indicator, LA10 and the equal opportunities indicators LA13, LA14, INT6 and INT7. Data was recalculated and restated in line with the new employee classifications.

Assurance

Independent external assurance enhances the quality and credibility of a sustainability report. Australian Ethical's policy and practice, since its second sustainability report published in 2003, has been to seek independent external assurance of its sustainability report.

Australian Ethical's 2007 sustainability report was formally reviewed by the firm Thomas Davis and Company, Chartered Accountants. Thomas Davis and Company also audit Australian Ethical's financial report. Thomas Davis and Company visited Australian Ethical's Canberra office on 26 October 2007 and spent a total of 25 hours reviewing the financial/numeric data contained in the report (for example, energy, employee and waste data). A report resulting from this review was provided to the Directors of Australian Ethical and is presented on the following page.

9 November 2007

The Directors
Australian Ethical Investment Limited
Block E, Trevor Pearcey House
Traefer Court, 34 Thynne Street
BRUCE ACT 2617

Dear Sirs,

Independent Review Report to the Directors

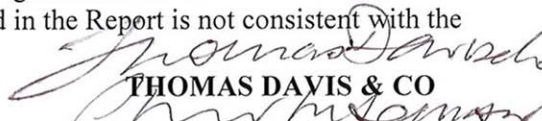
The 2007 Sustainability Report (“the Report”) of Australian Ethical Investment Limited summarises the economic, environmental and social performance of Australian Ethical Investment Limited for the period 1 July, 2006 to 30 June, 2007. Australian Ethical Investment Limited management is responsible for the content of the Report. We agreed with Australian Ethical Investment Limited management to independently review the financial data (including paper use, energy use, employee, office space and waste data) in the Report and to report on the scope of our review procedures and our findings.

We have conducted our review in accordance with Australian Assurance Engagements Standard AUS 108 “Framework for Assurance Engagements” and relevant Australian Auditing Standards. The level of testing and verification undertaken in this review provide less assurance than an audit and does not allow us to provide an audit opinion.

Our review work included:

- Interviews with management responsible for financial data reporting.
- Review of systems and procedures used during the collation and reporting of the financial data.
- Review of the financial data to test the accuracy and reliability of the financial data with source documentation, on a sample basis; and
- Review of the Report in respect of financial data to assess consistency with the findings of the work completed.

Based on our review, we report that nothing has come to our attention that causes us to believe that the financial data presented in the Report is not consistent with the source documentation.


THOMAS DAVIS & CO
P.L. WHITEMAN PARTNER

Chartered Accountants

Governance, commitments and engagement

Governance

Governance structure

Australian Ethical has a unitary board structure. The Australian Ethical Investment Ltd board (and its committees) have responsibility for the oversight and audit of the company's economic, environmental and social policies and procedures. The responsibility for implementation of these policies and procedures rests with Australian Ethical's chief executive officer, Anne O'Donnell.

Board responsibilities

Australian Ethical has formalised the functions reserved to the board and those delegated to management. Responsibility for any function not delegated to management remains with the board.

The primary responsibilities of the board include:

- appointment and appraisal of the performance of the chief executive officer
- the approval of annual financial statements
- the establishment of the goals of the company and strategic plans to achieve those goals
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a regular basis
- risk management, including ensuring that the company has implemented adequate systems of internal controls, together with appropriate monitoring of compliance activities.

Independent directors

The company regards an independent director as a director who is not a member of management (that is a non-executive director) and who:

1. is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
2. has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment
3. within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided
4. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
5. has no material contractual relationship with the company or another group member other than as a director of the company

6. has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Unless there are specific qualitative factors relevant to the relationship, the board is generally of the view that a quantitative materiality threshold arises at 10 per cent of the relevant amount – considered from both the company's perspective and that of the other party.

Board composition

The Board of Australian Ethical did not comprise a majority of independent directors during the reporting period. For five months of the reporting period, the board comprised a majority of executive directors (three out of five directors on the board). For the remaining months of the reporting period, the board comprised an equal number of independent and executive directors (three of each; Table 1).

Table 1: Directors of Australian Ethical during the 2006–07 financial year

Name	Time in office	Position	Independent	Committee memberships
George Pooley	5 years – Resigned 13/10/06	chair, non-executive	Yes	audit – ceased 13/10/06 remuneration (chair) – ceased 13/10/06 finance – ceased 13/10/06 compliance (chair) – ceased 13/10/06
Caroline Le Couteur	16 years	director, executive		remuneration – ceased 24/11/06
James Thier	16 years	director, executive		investment compliance
Howard Pender	16 years	director, executive		finance investment
Naomi Edwards	2 years	director, non-executive	Yes	audit (chair) remuneration investment – commenced 29/06/07
Pauline Vamos	1 year	chair, non-executive	Yes	audit – commenced 27/10/06 remuneration (chair) – commenced 24/11/06 finance – commenced 27/10/06 compliance (chair) – commenced 4/07/06
Justine Hickey	< 1 year – Appointed 1/03/07	director, non-executive	Yes	investment (chair) – commenced 1/03/07

Pauline Vamos was appointed to the board as an independent non-executive director on 1 July 2006. On 13 October 2006 George Pooley resigned as chair of the board, as a director of the company and as a director of its subsidiary, Australian Ethical Superannuation Pty Ltd. On the same day the board appointed Pauline Vamos as chair.

Pauline Vamos resigned from the board and all committees effective 31 August 2007 following her appointment as chief executive officer of the Association of Superannuation Funds of Australia Limited. On 4 September 2007 the board appointed Naomi Edwards as chair. As at 1 October 2007 the board comprises three executive directors and two independent directors. The independent directors are Naomi Edwards and Justine Hickey. Howard Pender, Caroline Le Couteur and James Thier are the executive directors (Table 2).

Table 2: Directors of Australian Ethical as at 1 October 2007

Name	Time in office	Position	Independent	Committee memberships
Caroline Le Couteur	16 years	director, executive		
James Thier	16 years	director, executive		investment compliance and risk
Howard Pender	16 years	director, executive		finance investment
Naomi Edwards	2 years	chair, non-executive	Yes	audit (chair) remuneration investment compliance and risk – commenced 1/09/07
Justine Hickey	<1 year – Commenced 1/03/07	director, non-executive	Yes	investment (chair) remuneration – commenced 1/10/07 finance – commenced 1/10/07

This board composition is a result of the way in which the company has developed, the long-standing commitment of the executive directors and the contribution that they make to board deliberations. In particular, the executive directors have a strong understanding of the Australian Ethical Charter and the implementation of the Charter over a long period. The executive directors play a pivotal role in pursuing the aims of the Charter at all levels of the business.

Since listing on the Australian Securities Exchange, the board has undergone change in its composition and structure. Decisions on future board composition will be guided by whether the board considers it has the right balance of director competencies for governance, for furtherance of the Australian Ethical Charter and

for assisting with and monitoring company performance. Over time, and assuming the availability of suitable candidates, the board expects to move towards a majority of independent directors.

Committees

The board has established the following committees to assist it in its work: audit committee, remuneration committee, finance committee, investment committee and compliance and risk committee. The role and composition, as at 1 October 2007, of each committee is as follows:

Audit committee:

The audit committee provides a forum for the effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate framework of financial internal control and appropriate discharge of 'trading company' fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd.

Membership: Naomi Edwards (chair, independent non-executive director), Ruth Medd (independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity), Philip George (company secretary, executive).

Remuneration committee:

The remuneration committee monitors adherence to guidelines set by the board in regards to remuneration arrangements and makes recommendations to the board on remuneration for the chief executive officer and directors.

Membership: Naomi Edwards (independent non-executive director), Justine Hickey (independent non-executive director).

Finance committee:

The finance committee monitors and reports to the board on the financial situation of Australian Ethical. This committee oversees the budget development process and budget preparation, reviews financial trends, claims and contingencies, and examines proposals for expenditure programs.

Membership: Anne O'Donnell (chair, chief executive officer), Justine Hickey (independent non-executive director), Howard Pender (executive director), Gary Leckie (chief financial officer, executive).

Investment committee:

The investment committee oversees the processes which govern the investment of monies of the trusts for which Australian Ethical is the responsible entity and the investment of monies for which Australian Ethical has a mandate.

Membership: Justine Hickey (chair, independent non-executive director), Naomi Edwards (independent non-executive director), James Thier (executive director), Howard Pender (executive director).

Compliance and risk committee:

The compliance and risk committee is responsible for assessing and reporting on compliance against the compliance plans for the trusts. The committee is also responsible for reviewing the company's risk registers.

Membership: Ruth Medd (independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity), Naomi Edwards (independent non-executive director), James Thier (executive director).

Nomination committee:

During the period the company had no nomination committee. The board does not intend to establish such a committee due to the company's size. The functions normally performed by a nomination committee are performed by the board as a whole, or are delegated to particular directors.

Board and director evaluation

The directors undertake an annual evaluation of their collective and individual performance and seek specific feedback from the senior management team. A component of this evaluation includes assessing the board's performance in regard to the Australian Ethical Charter. An evaluation was undertaken in the 2006–07 financial year.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results collected by the board chair. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The board chair also talks to each director individually about their performance and generally on the evaluation and comments received from their peers. The results of the questionnaire are examined from both a qualitative and quantitative perspective.

Where discussed at a board meeting, results and any action plans are documented in board minutes.

Remuneration

Directors

The aggregate amount of remuneration payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director remuneration to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from its remuneration committee. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

Under the constitution, directors are also entitled to be paid reasonable expenses, remuneration for extra services, retirement benefits and superannuation contributions.

There are currently no explicit linkages between director remuneration and key social and environmental performance indicators.

There are currently no arrangements to pay any director a retirement benefit.

Secretaries, senior managers, executive directors and group executives

The company's fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion and not to have special remuneration arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the chief executive officer, executive directors and secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

'exploit people through the payment of low wages or the provision of poor working conditions'

and to facilitate:

'the development of workers participation in the ownership and control of their work organisations and places.'

The company reviews individual remuneration annually and externally benchmarks remuneration levels every two years. Individual staff remuneration is then considered with reference to the benchmarks and in accordance with guidelines approved by the

board. The board aims to remunerate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5 per cent of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10 per cent in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, options will also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

Performance-based remuneration and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under remuneration policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10 per cent between the period of grant and the period when the options can be exercised.

Staff remuneration is not explicitly linked to key social and environmental performance indicators.

Remuneration Details

Details of the remuneration paid to directors and specified executives during the 2006–07 financial year is set out in Tables 3 and 4. This information is reported so as to distinguish between the structure of non-executive director and executive director remuneration.

Table 3: **Parent entity directors' remuneration**

	Short-term employee benefits			Post employment	Other long-term	Share-based payment		
	Cash salary and fees	Bonus cash	Other	Benefits Super	benefits	Bonus shares	Options	Total
	\$	\$	\$	\$	\$	\$	\$	\$
2007								
George Pooley	19 749	-	-	-	-	-	-	19 749
Caroline Le Couteur	142 449	5 500	-	12 017	3 431	-	7 907	171 304
James Thier	143 516	-	-	11 804	2 016	3 759	5 928	167 023
Howard Pender	138 954	3 575	-	11 633	2 089	-	6 082	162 333
Naomi Edwards*	39 300	-	-	3 150	-	-	-	42 450
Pauline Vamos	52 223	-	-	4 205	-	-	-	56 428
Justine Hickey†	17 314	-	-	741	-	-	-	18 055
Total	553 505	9 075	-	43 550	7 536	3 759	19 917	637 342
* Naomi Edwards had a one off contract with the company to assist in establishing a product profitability model. †Justine Hickey had a one off contract with the company to provide consulting service on an integrated IFSA project. The terms and conditions of these contracts are no more favourable than those that is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual. Naomi Edwards also received sponsorship money totalling \$2500 in relation to a conservation and social justice event.								
2006								
George Pooley	57 188	-	-	-	-	-	-	57 188
Ray De Lucia	3 259	-	-	-	-	-	-	3 259
Caroline Le Couteur	131 882	-	-	11 484	3 196	4 300	7 536	158 398
James Thier	124 586	2 153	-	10 300	1 638	1 000	6 048	145 725
Howard Pender	113 237	-	-	10 291	1 791	1 613	3 128	130 060
Naomi Edwards	28 420	-	-	2 558	-	-	-	30 978
Total	458 572	2 153	-	34 633	6 625	6 913	16 712	525 608

The names and positions of specified executives in office at any time during the 2006–07 financial year were:

Anne O'Donnell	chief executive officer
David Ferris	investment manager
Mark Bateman	chief financial officer – resigned 2 February 2007
Philip George	company secretary/legal counsel
Ruth Medd	director of wholly owned entity
Gary Leckie	chief financial officer – appointed 2 February 2007

Table 4: **Specified executives' remuneration**

	Short-term employee benefits			Post employment benefits	Other long-term benefits	Share-based payment		
	Cash salary and fees	Bonus cash	Other	Super		Bonus shares	Options	Total
	\$	\$	\$	\$	\$	\$	\$	\$
2007								
Anne O'Donnell	190 804	5 500	-	17 259	5 659	-	12 043	231 265
David Ferris	158 681	-	-	13 843	5 046	5 290	9 307	192 167
Mark Bateman	140 481	5 500	-	7 076	-	-	7 916	160 973
Philip George	162 880	5 500	-	14 088	3 503	-	9 754	195 725
Ruth Medd	28 500	-	-	1 800	-	-	-	30 300
Gary Leckie	118 374	5 500	-	10 257	2 849	-	5 974	142 954
Total	799 720	22 000	-	64 323	17 057	5 290	44 994	953 384
2006								
Anne O'Donnell	172 147	-	-	15 225	4 817	4 300	10 100	206 589
David Ferris	134 878	-	-	11 764	3 044	4 135	8 773	162 594
Mark Bateman	113 643	4 300	-	10 008	3 287	-	7 076	138 314
Philip George	140 622	2 718	-	12 330	2 926	-	5 208	163 804
Ruth Medd	24 710	-	-	1 459	-	-	-	26 169
Total	586 000	7 018	-	50 786	14 074	8 435	31 157	697 470

Economic, environmental and social policies

Australian Ethical's vision

By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.

In addition to selecting every investment with which we are involved in accordance with the Australian Ethical Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Australian Ethical Charter. In particular we seek to:

- ensure our promotional material is comprehensive, transparent and readily understood;
- achieve a high standard of administrative service for investors in our products;
- ameliorate wasteful or polluting practices in our own business operations;
- encourage, care for and provide educational opportunity for our fellow workers, respect their individual needs and aspirations; and
- nurture staff participation in the ownership and control of Australian Ethical.

Australian Ethical's mission

Short form

for investors, society and the environment

Long form

Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our Charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

Date of adoption: 26 October 2001. Applies worldwide.

Australian Ethical Charter

The board is bound by the Australian Ethical Charter that is set out in the Australian Ethical constitution. The Charter sets out 23 ethical principles applied across the entire operations and activities of the company (see page 5).

Code of conduct

The board has endorsed a code of conduct which applies to all employees and directors. Australian Ethical's code of conduct is designed to provide guidance to employees and directors on standards expected by the company in everyday business operations. Australian Ethical always seeks to adhere to the code in any dealings with stakeholders. The company also strives to achieve conduct that is over and above current best practice. A summary of the code of conduct outlining specific standards of conduct follows.

Specific standards of conduct:

- we must be aware of conflicts of interest
- we must not participate in insider trading

- we must not make unauthorised gains or payments
- we must only use company assets as authorised
- we must not disclose confidential information
- we must ensure everyone has an equal opportunity
- we must compete fairly
- we must take into account any environmental, health and safety impacts before making any business decision
- we must not make unauthorised public statements
- we must not make unauthorised political donations on behalf of Australian Ethical
- we must be familiar with policies and procedures that relate to our work.

The full version of the Australian Ethical code of conduct can be found on Australian Ethical's website www.austethical.com.au.

The board has also adopted a separate policy for the management of conflicts of interest.

Risk management and identification

The board is responsible for the company's system of internal controls. The board monitors the operational and financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

The board monitors that appropriate actions are taken to ensure the company has an appropriate internal control environment in place to manage the key risks identified. Recently the board has delegated to its compliance and risk committee the responsibility:

- to oversee and monitor the implementation of the company's risk management systems
- to review on a quarterly basis the company's risk registers and recommend to the board any changes to those risk registers.

The company has established a formal 'Statement on Risk Management', together with supporting documents, 'AEI Guide for Risk Management' and section risk registers, that document the major risks facing the company, including ethical risks and the way in which these risks are to be managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed.

A description of the company's risk management policy and internal compliance and control systems is on the company's website.

The chief executive officer and chief financial officer certify to the board that the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control.

The chief executive officer, risk management officer and compliance officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group.

Commitments to external initiatives

Precautionary principle

Australian Ethical has adopted a precautionary approach to sustainability issues. This approach is based on the principle that the lack of scientific information should not be a reason to delay cost effective measures to prevent environmental harm or damage. An example of the application of this approach is through the application of the Charter to investment decisions and the involvement with a number of sustainability initiatives and associations.

External initiatives

Australian Ethical is a signatory to the following initiatives:

- *Carbon Disclosure Project*
'The Carbon Disclosure Project (CDP) provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on greenhouse gas emissions' (CDP 2007)
- *UN Principles for Responsible Investment*
'The Principles for Responsible Investment aim to help integrate consideration of environmental, social and governance (ESG) issues by institutional investors into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries' (PRI 2007)

Association memberships

Australian Ethical or its subsidiary Australian Ethical Superannuation, are members of the following industry and business associations:

- *Association for Sustainable & Responsible Investment in Asia (ASrIA)*
 Australian Ethical is a founding member of ASrIA – ‘a not for profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region’ (ASrIA 2007)
- *Association of Superannuation Funds of Australia Limited (ASFA)*
 ‘ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia’s superannuation funds, their trustees and their members’ (ASFA 2007)
- *Australian Employers Network on Disability*
 ‘The Australian Employers Network on Disability is a not for profit organisation funded by its members to take a leadership role in advancing employment for people with disability’ (AEND 2007)
- *Ethical Investment Association (EIA)*
 ‘The EIA’s primary objective is to promote the concept, practice and growth of ethically, socially and environmentally responsible investing in Australia and New Zealand’ (EIA 2007)
- *Global Reporting Initiative (GRI)*
 ‘The GRI’s vision is that reporting on economic, environmental, and social performance by all organisations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its sustainability reporting framework’ (GRI 2007)
- *Investment & Financial Services Association Limited (IFSA)*
 ‘IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries’ (IFSA 2007)
- *IPS Worldwide*
 ‘IPS Worldwide is a human resource, risk management and health services company providing high quality human capital solutions to leading organisations. IPS Worldwide is committed to pushing the envelope by leading development and innovation in tailored workplace programs that assist organisations better manage their human resources, improve the productivity of their employees and their experience of the workplace’ (IPS Worldwide 2007)

Stakeholder engagement

Stakeholder identification

Australian Ethical's stakeholder engagement is based upon the values and goals set out in the company's corporate vision and mission statements as well as the objectives of the Charter. Australian Ethical's identified stakeholders include employees, enquirers, the local community, the general public, shareholders, trust unitholders, superannuation members, financial advisers that receive information on the company's products, investee entities and suppliers. Additionally, the company identifies the environment and future generations as stakeholders.

Approaches to stakeholder engagement and response to concerns

Engagement with employees

Staff advocate

Australian Ethical engages with employees primarily through the use of a staff advocate. The staff advocate's primary role is to voice the views, position and opinions of non-management staff at board level within Australian Ethical and facilitate the flow of communication and cooperation between staff, management and the board. The staff advocate is elected by the staff every two years and dedicates around 10 per cent of the standard full-time working week to their duties. The staff advocate for 2006–07 was Gary Leckie.

During 2006–07, the main area of employee consultation was in relation to the fit-out of Australian Ethical's new headquarters. For example, features such as the downstairs kitchenette, the disabled toilet, lockers and workspace partition height were the result of consultation with staff.

Employee satisfaction and surveying employees

Australian Ethical began conducting annual staff satisfaction surveys in 2005. The questionnaire covers the core topics of job security, remuneration and benefits, work/life balance, training and development, internal communication structure, and Australian Ethical's social and environmental performance. In 2007, 75.5 per cent of staff responded to the survey. This was in line with the 2006 survey response rate of 76 per cent. Tables 5 and 6 summarise survey results from 2007 and 2006.

The staff survey asked employees how satisfied they were with the company overall. The majority of staff (85 per cent) indicated that they were 'very satisfied' or 'somewhat satisfied' with Australian Ethical as an employer, an increase of 9 per cent compared to the previous year (76 per cent). The survey also revealed that a majority of Australian Ethical's staff feel positive about their current role in the

company with 82 per cent of survey respondents indicating they were ‘very satisfied’ or ‘somewhat satisfied’ with their current role, a slight increase compared to 2006. Job security at Australian Ethical was perceived to be very positive in 2007. The number of staff indicating they were ‘very satisfied’ with job security increased from 32 per cent in 2006 to 62 per cent in 2007. The above figures show that overall Australian Ethical’s staff are generally satisfied with their employer and position. This trend has consistently increased since staff satisfaction began to be measured.

A majority of employees indicated they were largely content with both remuneration and benefits at Australian Ethical. The proportion of staff that were ‘very satisfied’ with remuneration at the company increased significantly from 8 per cent in 2006 to 25 per cent in 2007. However, over 20 per cent of respondents still indicated they were dissatisfied with their remuneration. This year’s survey recorded a large increase in satisfaction with the benefits Australian Ethical provides to employees. While in 2006, 44 per cent of employees were either ‘very satisfied’ or ‘somewhat satisfied’ with company benefits, in 2007, 100 per cent of respondents were either ‘very satisfied’ or ‘somewhat satisfied’, an outstanding result.

Internal communication is generally perceived to be positive by Australian Ethical’s employees. Although the proportion of ‘very satisfied’ staff reduced slightly from 19 per cent in 2006 to 14 per cent in 2007, the proportion of staff that were ‘somewhat satisfied’ increased substantially from 43 per cent in 2006 to 70 per cent in 2007. At the same time the proportion of respondents that indicated that they were ‘somewhat dissatisfied’ with internal communications at Australian Ethical fell sharply from 22 per cent in 2006 to 8 per cent in 2007.

To measure work/life balance at Australian Ethical employees were asked about their satisfaction on flexibility of their work hours. A majority of staff, 68 per cent, were ‘very satisfied’ with their work/life balance at Australian Ethical, a slight increase from 2006. Satisfaction with company sponsored training increased significantly since 2006 from 24 per cent to 51 per cent in 2007.

Table 5 Employee satisfaction survey results for 2007

Measure ¹	Staff responses (percentage of survey respondents)				
	Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Current Role	3	5	10	35	47
Australian Ethical as an employer	0	10	5	52	33
Job security	0	5	20	13	62
Remuneration	3	18	0	54	25
Benefits	0	0	0	60	40
Work/life balance	0	5	3	24	68
Training	8	5	26	10	51
Internal communication	0	8	8	70	14

¹ Some staff assessed questions as 'non applicable'. Therefore not all measures equal 100 per cent.

Table 6 Employee satisfaction survey results for 2006

Measure ¹	Staff responses (percentage of survey respondents)				
	Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Current Role	0	8	11	51	30
Australian Ethical as an employer	0	3	22	49	27
Job security	0	5	24	35	32
Remuneration	8	14	38	32	8
Benefits	0	6	47	22	22
Work/life balance	3	0	11	22	62
Training	8	16	24	22	24
Internal communication	0	22	16	43	19

¹ Some staff assessed questions as 'non applicable'. Therefore not all measures equal 100 per cent.

Sustainability committee

Australian Ethical established a sustainability committee in 2002 to address sustainability issues within the company. The sustainability committee meets on a regular basis and consists of five members from various areas within the organisation. This means that a broad cross section of the organisation is represented by the committee.

The sustainability committee plays an important role in developing and implementing economic, environmental and social company policies. During 2006–07 the sustainability committee organised a number of initiatives including:

- company sustainable transport days
- presentations on waste and recycling at staff morning teas

- maintaining the company sustainability library
- providing support for the company's blood donation initiative
- providing input to the planning, design, refurbishment and retrofit of the company's new headquarters in Fern Hill Park, Bruce.

Volunteering

Australian Ethical encourages staff to volunteer their time to organisations whose aims and activities are consistent with the Charter. Under the company's volunteering policy, staff can take one full paid day off a year (or blocks of time equivalent to one day) to volunteer with approved organisations. Australian Ethical also supports staff engagement with identified stakeholders such as the community. In the last year staff organised various fundraising initiatives including Lunch for Leukaemia, support for Red Cross blood donations, fundraising for men's health through the Movember initiative and Hawaiian Shirt Day for the ACT Eden-Monaro Cancer Support Group.

Engagement with shareholders

Australian Ethical engages with shareholders on a number of levels. The company encourages shareholders to write letters to the company secretary, investment committee or the board to facilitate shareholder communication. Additionally, annual general meetings are held after hours to encourage attendance and participation, and a question section is included in the meeting notice sent out to shareholders to encourage shareholder feedback.

Shareholders also have rights to put resolutions at general meetings which are set out in the *Corporations Act 2001*, Chapter 2G, Division 4 – Members' rights to put resolutions etc. at general meetings.

At the annual general meeting (AGM) held on Thursday, 23 November 2006, the chair responded to key topics raised by stakeholders which included:

- governance
- internal capability, including the new premises
- our charter and investments
- marketing and growth
- dividend policy

The company included a triennial survey in its *Aim High* newsletter in December 2006 aimed at quizzing investors on their views of ethical investment and other big issues facing Australia at the moment.

Engagement with enquirers, trust unitholders and superannuation members

Australian Ethical is a deep green fund manager and as a result unitholders, superannuation members and enquirers concerns have a tendency to focus on maintaining a deep green stance. These concerns include Australian Ethical's stance on ethical issues such as uranium, water, energy, health, food production, animal testing, information technology and alternative business structures. Australian Ethical is committed to applying the Charter to all investments within its funds.

Australian Ethical provided 13 free road show seminars in 2006–07. Five of these road shows were in capital cities, the rest were in regional centres. These seminars provide an opportunity for stakeholders, unitholders, superannuation members and the general public to engage with Australian Ethical. Australian Ethical is one of the few financial services to provide seminars like this in regional centres.

The Australian Ethical website has contact telephone and fax numbers, postal addresses and online enquiry forms for superannuation members, unitholders, shareholders and other stakeholders who wish to ask questions, provide feedback or make suggestions.

Engagement with broader stakeholders

Australian Ethical also engages with broader stakeholders such as the community, the environment and future generations by:

- ensuring all investment decisions are consistent with the Australian Ethical Charter
- donating 10 per cent of the company's profit through the Australian Ethical community grants program annually
- striving for workplace sustainability through the retrofit and refurbishment of the company's new premises
- providing tours of the company's new premises to demonstrate the concept of applied green building and workplace sustainability to the general public.

Management approach and performance indicators

Economic performance indicators

The 2006–07 financial year was another incredibly prosperous year for Australian Ethical, with very positive inflows and greater than anticipated growth in funds under management resulting in a substantial increase in revenue and profits for the company. The following section outlines the company’s economic performance for the year beginning 1 July 2006 and ending 30 June 2007.

Economic performance

As at 30 June 2007, funds under management totalled \$552 million (excluding distribution). This is an increase of \$135 million on the financials presented last year when funds under management totalled \$417 million (excluding distribution) at 30 June 2006 (Figure 1). The distribution amount for the 2007 year was \$59 million, compared to the 2006 distribution amount which was \$41 million. Funds under management increased across the company’s investment trusts and also in each of the corresponding superannuation strategies (Figures 2, 3 and 4). The company continues to apply the principles of the Australian Ethical Charter in its investment and business activities. Hence as more investor funds are invested into the company investment vehicles, more and more money is being invested according to the ethical guidelines outlined in the company charter – the Australian Ethical Charter.

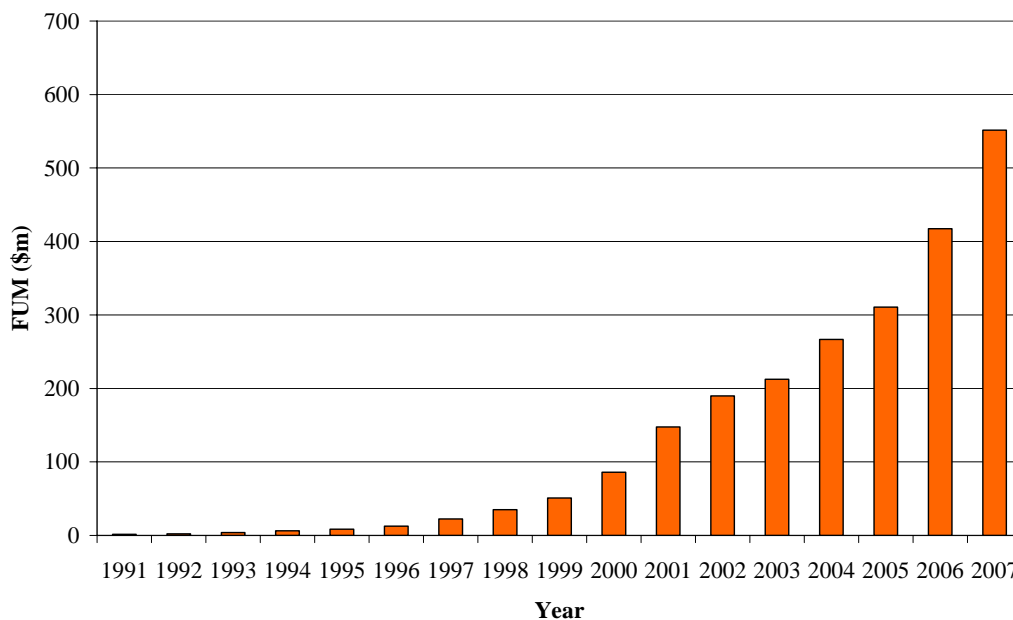


Figure 1: **Growth of funds under management (years ending 30 June) – figures are net of crossholdings**

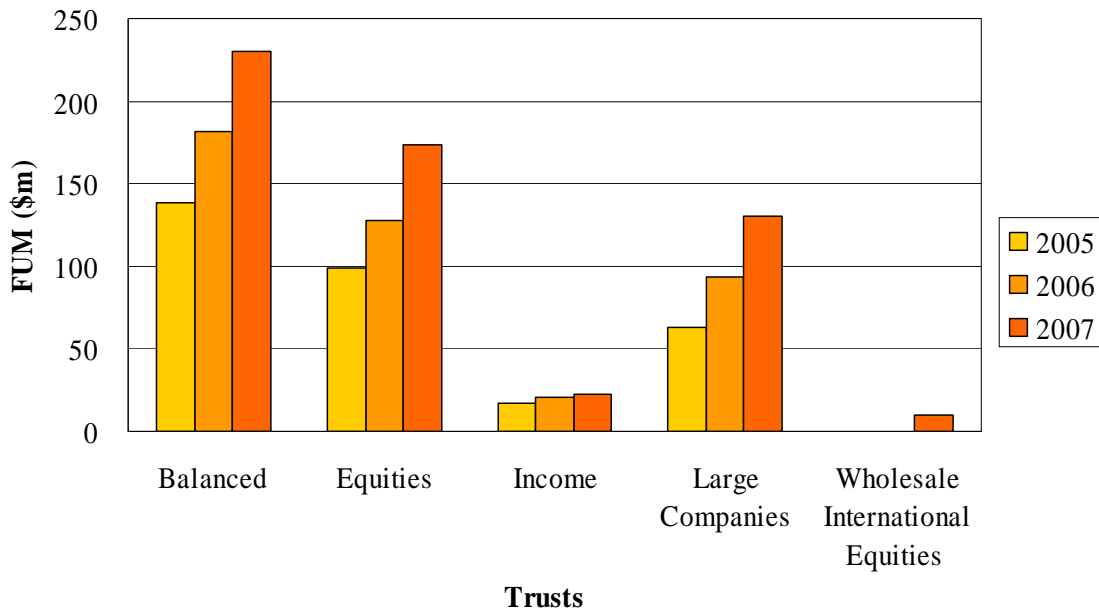


Figure 2: **Unit trusts – funds under management as at 30 June 2005, 2006 and 2007 – figures include crossholdings**

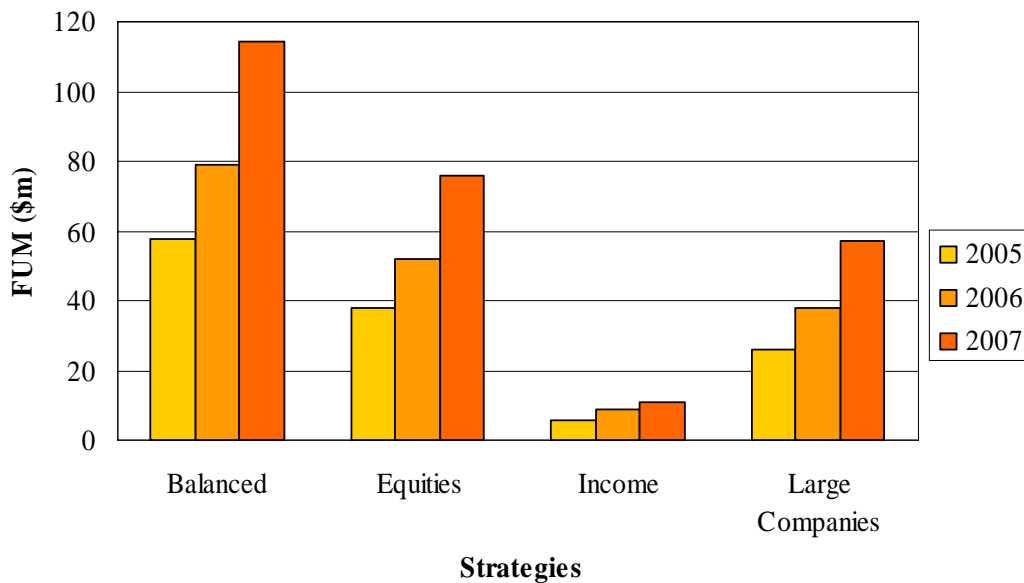


Figure 3: **Superannuation accumulation and rollover strategies – funds under management as at 30 June 2005, 2006 and 2007¹**

¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

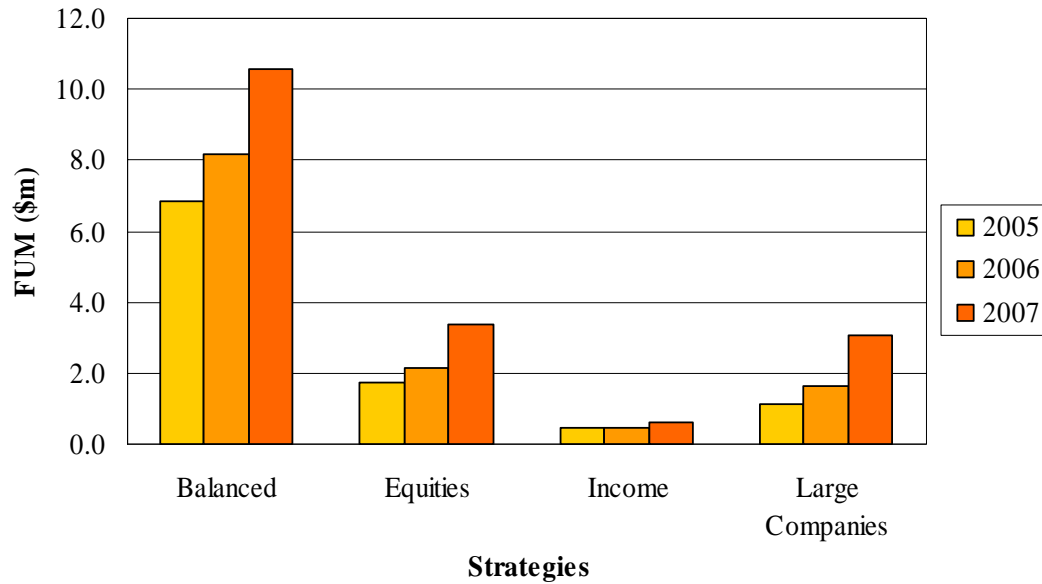


Figure 4: **Superannuation pension strategies – funds under management as at 30 June 2005, 2006 and 2007¹**

¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

Revenue for the year to 30 June 2007 was \$12 086 455, up from \$9 661 723 from the previous reporting period ending 30 June 2006 (Table 7).

Net profit after tax for the year was \$1 819 177, which represents an increase of 34 per cent or \$456 565 on the profit generated by the company last year. The final dividend declared for the year was \$1.52 per ordinary share (fully franked). This amount is in addition to the interim dividend of 40 cents per ordinary share that was paid in March 2007. The total dividend for the year was \$1.92, which is an increase of 126 per cent over the 85 cents per ordinary share paid in the last financial year. Economic value retained increased by 49.5 per cent to \$982 502 (Table 7). In the same period the company's net assets increased from \$6 273 783 to \$7 684 133 (Table 8).

Table 7: Economic performance indicators for the financial years 2004–05, 2005–06 and 2006–07

Economic performance indicator	Financial year		
	2004–05	2005–06	2006–07
Direct economic value generated			
Revenues	\$7 422 277	\$9 661 723	\$12 086 455
Economic value distributed			
Operating costs	\$2 879 593	\$3 516 920	\$4 228 953
Employee wages and benefits ¹	\$3 186 271	\$3 827 029	\$4 754 081
Payments to capital providers (dividend)	\$631 589	\$705 750	\$836 675
Payroll tax	\$119 902	\$159 432	\$222 570
Income tax	\$353 865	\$625 599	\$836 710
Total tax (total payment to government)	\$473 767	\$785 030	\$1 059 280
Community investments - tithes	\$98 277	\$170 132	\$224 964
Economic value retained			
Economic value generated less economic value distributed	\$152 830	\$656 862	\$982 502

¹Excludes payroll tax.

Table 8: Economic performance indicators as at 30 June 2005, 2006 and 2007

Economic performance indicator	Balance as at 30 June		
	2005	2006	2007
Total assets	\$6 533 613	\$8 279 224	\$10 052 296
Net assets	\$5 046 886	\$6 273 783	\$7 684 133

Australian Ethical's community grants

Australian Ethical is proud to donate 10 per cent of its profits each year as prescribed by its constitution and in this way actively supports local and international communities. In 2006–07 Australian Ethical donated \$224 964 to 41 community groups (Appendix A), a 32 per cent increase on the \$170 132 donated to 50 community groups in 2005–06 (Appendix B). Since 1997 Australian Ethical has made available grants worth over half a million dollars to worthwhile causes or community groups which align their activities with those espoused by the Australian Ethical Charter.

Further information on the community grants, including application forms, can be found on the website www.austethical.com.au.

Financial implications of climate change

Australian Ethical's business is unique and the company is, by virtue of the nature of its business operations, very much aware of environmental issues in day to day operations. Of the many environmental issues considered, one of the major ones is

the issue of climate change. Australian Ethical sees focus on the environment and climate change per se as providing further opportunities and competitive advantage in its niche market in the funds management industry as a deep green funds manager in Australia. Investment with Australian Ethical represents an investor's decision to work with Australian Ethical to help solve or alleviate some of the environmental and social problems faced today, like climate change, through the ethical investment of funds. As the issue of climate change is taken up by the media and people witness the effects firsthand, awareness of this issue will increase and broaden the number of potential investors with Australian Ethical.

While the company is aware of the risks and opportunities climate change presents, the company has not quantified the financial implications of climate change for the organisation to date.

Superannuation obligations

When it comes to superannuation for Australian Ethical employees, the retirement plans offered by the company are accumulation superannuation strategies that are based on the requirements outlined by government legislation. There are no defined benefit plans offered by Australian Ethical. As is mandated for Superannuation Guarantee Contributions, the company currently pays nine per cent of every salary to the accumulation superannuation strategy/ies of the employee's choice. All of the employees of the company participate in the superannuation scheme, which means that Australian Ethical is fulfilling its superannuation obligations, as is required by the Australian legislative environment.

Financial assistance from the government

Australian Ethical does not receive any direct financial benefits from the Australian government, nor is the government represented in Australian Ethical's shareholding. Any changes in government legislation pertaining to superannuation requirements could impact favourably on the ethical investment business per se. Any impact from legislative changes would obviously depend on the nature of the legislative change and Australian Ethical's investment market share at the time of the legislative change. For example if the mandatory percentage required to be invested in superannuation investment vehicles were to rise substantially across the board, this would have a positive impact on the overall investment funds flowing into the superannuation strategies offered by the company. Hence this kind of scenario would be a very positive development for Australian Ethical, should it come to pass.

Market presence

Suppliers

The Australian Ethical Charter is the guiding set of principles that Australian Ethical uses to guide its business and investment activities. Tenet 'b' of the Charter supports the production of high quality products and tenet 'c' supports the development of locally based ventures. Hence both of these tenets are adhered to in the day to day purchasing and sourcing of goods undertaken by Australian Ethical in its local business community.

As a small to medium sized enterprise with 56 employees at the end of June 2007, Australian Ethical needs to purchase a moderate amount of stationery, cleaning, staff amenities and corporate office supplies for the head office operations. The company head office is based in Bruce, Canberra, Australian Capital Territory (ACT) and this office building is considered its location of significant operation.

During the year Australian Ethical sourced most of its business supplies locally, generating and supporting business in the local ACT region. The company's three main suppliers have offices close to Australian Ethical's operations in Canberra and are the businesses of choice for these purchases.

In addition to the purchasing of locally sourced goods, Australian Ethical also has a policy enabling it to pay up to 20 per cent more for environmentally or socially exemplary goods and, where possible, these are also sourced locally. For example the company sources fair trade coffee from the local Fyshwick markets.

Hiring

Australian Ethical's procedures for hiring locally and the proportion of senior management hired from the local community at locations of significant operation is outlined below.

The company hiring procedure requires that potential employees be hired from the local area in the first instance. To facilitate this kind of hiring process, the Canberra employment market is accessed through the Canberra Times and local agencies that cover Canberra as a first step. Australian Ethical also utilises an environmental jobs network and a disability work group when recruiting new employees. All senior management positions are approached in the same fashion described here. Hence the company seeks to employ local people first, before looking interstate or if necessary internationally.

All new employees are taken through an induction process that outlines policies and procedures that they need to adhere to with regard to environmental and social issues

when employed by Australian Ethical. All Australian Ethical employees are also required to familiarise themselves with and adhere to the comprehensive Australian Ethical code of conduct (see page 19).

Indirect economic impacts

As part of its service to the Australian community, Australian Ethical undertakes public seminars and presentations on ethical investment to heighten awareness generally about these types of issues. Broadly speaking these initiatives provide public benefit to the community through commercial, in-kind and pro bono engagement. In some cases, seminars and presentations have led to the development of local initiatives and involvement of Australian Ethical in these initiatives.

Australian Ethical has recently increased focus on sponsorships helping engagement with empathic groups and their members or supporters. Major sponsored events during 2006–07 included the Big Canberra Bike Ride, the TAP Gallery’s Ethical Art Prize, the Sustainable House Day and the Triumphant Refugee Film Festival. There is also the community grants and tithing program which has been covered in more detail elsewhere in this report.

Australian Ethical also regularly puts out media releases highlighting links between ethical investment and topical environmental and social issues of interest to the community and stakeholders at large.

Environmental performance indicators

Green Building

According to Ecovision Solutions, commercial buildings in Australia collectively spend over \$4 billion a year on electricity and this is growing at a rate of around 4 per cent annually (Zampetakis 2007, p. 12). This astounding figure indicates that commercial buildings are major contributors to climate change through the use of electricity to power things that most office workers take for granted – artificial lighting, air conditioning and heating. What is most astounding; however, is the relative ease by which electricity use can be reduced through the intelligent use of natural lighting, fresh air and the sun; indeed, the building sector could slash emissions by 35 per cent with green building measures (Perinotto 2007, p. 2).

Features such as air conditioning can be replaced with cool beam climate control systems, thermo efficient design and proper insulation which not only significantly reduce or eliminate the need for traditional energy-hungry air conditioning systems, they provide a markedly more natural feeling working environment.

The reliance on artificial lighting can also be significantly reduced in a number of ways. With large windows and translucent wall partitions, natural light can easily disperse throughout a workplace. Additionally, the installation of occupancy and light sensors allows for optimal artificial light use in situations where natural light is not sufficient. Not only does this enhance the feeling of a more natural workplace through the use of natural light, it reduces the need for artificial lighting. Ideally, this approach would be combined with the installation of energy efficient light fittings, reducing the reliance on mains electricity when artificial lighting is used.

Green building does not just provide environmental benefits, it has been recently documented that a green workplace correlates with reduced illness rates, increased productivity, increased billable hours and increased workplace satisfaction (Duncley 2007, p. 59).

For new buildings, a sustainability approach can be taken from day one. Architects, builders and engineers can design and construct buildings from the beginning with sustainability as a priority. The problem facing Australian commercial buildings is improving and maximising the eco-efficiency of existing buildings, many of which were designed in an era where these issues were rarely taken into consideration. Here, Australian Ethical leads by example in sustainable building, having retrofitted an existing building. Through the refurbishment and fit-out of the new headquarters, Australian Ethical has demonstrated that it is practically and economically feasible to refit existing workplace infrastructure to achieve a six star environmental rating. The

domain of 'green building' isn't restricted to the construction of new buildings, and the cost can be comparable to standard building refurbishment. By doing this, Australian Ethical has proven that this approach to sustainable change is feasible and a prime example of what companies can do to mitigate environmental impacts. Most importantly, Australian Ethical's new headquarters demonstrates that a sustainable workplace is not synonymous with sacrifice, and such initiatives save money, reduce emissions and increase employee comfort.

Through the refurbishment of its new headquarters, Australian Ethical has demonstrated how this can be done. In late 2005, Australian Ethical purchased a standard 20 year old office block in Bruce, ACT and began to retrofit the building within the ethos of the Australian Ethical Charter. This retrofit was designed to achieve significant environmental benefits as well as increase staff comfort and productivity. With this in mind, the new headquarters was refurbished with regard to:

Staff health, comfort and control

The building was retrofitted with staff health and comfort in mind. Features to increase this included:

- better access to natural light through the open barrel vault roof, four internal stacks (which also act as heat exhaust vents) and limited office partitioning
- better access to natural ventilation through operable windows; over 90 per cent of the buildings floor space is naturally ventilated
- more comfortable feeling of warmth/'coolth' by gas boosted hydronic radiator heating and natural ventilation for passive cooling
- improved air quality through the use of low volatile organic compound (VOC) paints, carpets and wood products.

Energy usage

The new building has the following features intended to reduce ongoing greenhouse gas emissions:

- passive cooling and ventilation combined with a wider thermal comfort band reducing demand on mechanical systems
- double glazed windows
- external walls are 'reverse brick veneer'; this ensures the thermal mass on the inside is insulated from the outside air temperature
- R6 insulation under the metal deck roof
- improvements to shading panels
- exposing the ground floor slab
- evacuated tube solar hot water heating
- highly efficient T5 artificial lighting
- lighting is timer and occupancy controlled

- workspaces designed to take maximum advantage of natural light.

The building is designed to be passively cooled in the warmer months by a ‘night purge’. This involves the windows automatically opening at night when the temperature drops to draw cool air into the building, while the hot air from inside the building is exhausted via the four internal stacks and the louvered windows in the barrel vault.

Water usage

Conscious of the limited availability of water due to the drought, Australian Ethical implemented a number of water saving strategies:

- taps upgraded to an output of four litres per minute
- showerheads upgraded to 5A standards with an output of six and nine litres per minute
- upgraded single flush toilets to dual flush systems with a 9/4.5L system
- installation of waterless urinals
- rainwater tanks plumbed to the bathrooms for toilet flushing
- garden drip irrigation with moisture sensor.

Waste

Australian Ethical was conscious of the waste created by the retrofitting of buildings, and consequently strived to minimise the waste going to landfill by ensuring the recycling rate of building materials was as high as possible. Some uses of recycled business material waste were:

- glass blocks used in the building reused for the stacks and wall partition to maximise the use of natural lighting
- 250m² of carpet tiles were reused
- all ceiling tiles were reused
- noise insulation in the ceiling from the old fit-out was reused in partition walls
- metal shade structures re-modelled and re-painted. In some cases new mesh was installed
- floor tiles in the old computer room were painted and used for wall decorations
- reused large quantities of v-jointed plasterboard, doors and some air conditioning ducting from the original fit-out
- steel frames and mesh found in the ceiling space were reused to make a bicycle enclosure
- materials that could not be reused were, in general, sent to recycling.

The usage of recycled business materials resulted in the recycling rate for the project being over 80 per cent by weight.

Reducing resource consumption

As an office based business, Australian Ethical's direct environmental impact includes the consumption of paper and stationery, energy and water use, transport, waste, and greenhouse gas emissions. In keeping with the Australian Ethical Charter, we seek to ameliorate wasteful or polluting practices (tenet 'e' of the Charter) in our own operations.

Australian Ethical purchasing policy

- Australian Ethical will consider ethical issues in deciding what to buy
- Australian Ethical will follow the 4 R's – reduce, reuse, recycle and refuse – in considering whether to make purchases
- In general, Australian Ethical is prepared to pay up to a 20 per cent premium for a more sustainable product and will consider a higher premium for an exemplary product
- Australian Ethical will consider alternatives to travel, especially air travel, before business travel is undertaken (e.g. phone conferences).

Eco-efficient practices

Australian Ethical has implemented a number of eco-efficient practices into its business operations in order to reduce the amount of resources consumed. These include:

- double-sided printing as default option on all computers
- use of Evolve 100 per cent post-consumer recycled printer and photocopy paper (www.evolve-papers.com)
- paper reuse trays on desks
- paper and cardboard recycling facilities
- purchasing office stationery made from recycled materials where possible
- recycling of printer toner cartridges
- printing of *Aim High* newsletter and product disclosure statements on 100 per cent recycled, uncoated chlorine-free paper using vegetable-based inks; the company and trust annual reports are printed on the same paper except that it is coated (calcium carbonate)
- use of paper pens for outreach made using 100 per cent recycled paper tubes
- electronic copies of the product disclosure statements available on the Australian Ethical website www.austethical.com.au
- recycling facility in kitchen for glass, plastic and aluminium
- compost bin in kitchen for organic matter and organic matter compost facility outside
- the purchase of Green Power electricity and the offsetting of travel related greenhouse gas emissions via Climate Friendly www.climatefriendly.com

Materials

Paper

Australian Ethical uses substantial amounts of paper. For the year ended 30 June 2007, Australian Ethical used approximately 1.2 million A4 sheets of 100 per cent recycled paper (equivalent to 98 trees using non-recycled paper; see Table 9). Unit trust and superannuation product disclosure statements (PDS) made up approximately 30.0 per cent (367 739 A4 sheets) of the paper used; newsletters, 25.8 per cent (316 000 A4 sheets); office printing and photocopying paper, 15.7 per cent (192 033 A4 sheets); and trust annual reports, 7.9 per cent (96 600 A4 sheets). Letterhead paper, superannuation annual reports, superannuation fund statements, annual reports to shareholders, compliment slips, leaflets and other general print-runs (for example seminar flyers) made up the remainder of Australian Ethical's 2006–07 paper use (Table 9).

Table 9: Paper usage for the financial years 2004–05, 2005–06 and 2006–07¹

Paper usage	Financial year		
	2004–05	2005–06	2006–07
A4 sheets			
Unit trust PDS	120 295	152 955	137 250
Superannuation PDS	276 468	228 830	230 489
Newsletters	290 000	304 000	316 000
Leaflets	0	223 743	43 033
Annual report to shareholders	8 800	12 600	14 280
Trust annual report	175 500	138 000	96 600
Half yearly trust report	13 500	19 500	0
Printer and photocopier paper	265 941	321 507	192 033
Letterhead paper	86 667	46 000	30 000
Compliment slips (A4 equivalent)	4 072	3 817	900
Super fund statements (mail house)	24 003	26 676	69 264
Super annual report	16 002	30 000	31 500
Other	5 374	52 547	62 819
Total A4 sheets	1 286 622	1 560 175	1 224 169

¹ Paper usage data excludes paper envelopes.

Paper use in 2006–07 decreased by 336 006 A4 sheets (22 per cent) compared to 2005–06. The largest falls were recorded in leaflets (down 180 710 A4 sheets) and printer and photocopy paper (down 129 474 A4 sheets). These two categories recorded the largest increases in the previous year. The largest increases in 2006–07 occurred in super fund statements (up 42 588 A4 sheets) and newsletters (up 12 000 A4 sheets).

Printer and photocopier paper usage per average full-time equivalent staff member (based in the Canberra office) fell from 8 879 A4 sheets in 2005–06 to 4 849 A4 sheets in 2006–07, a decrease of 45 per cent. This followed a nine per cent increase between 2004–05 and 2005–06 (Table 10). Australian Ethical’s office paper use compares favourably with the median office paper use of 34 organisations in a recent benchmarking study by the Commissioner for Environmental Sustainability (2007). The study reported a median figure of slightly less than 20 reams per FTE (approximately 10 000 A4 sheets). The best performing organisation was the Queensland EPA which used just 3.2 reams per FTE (1600 A4 sheets).

Table 10: Printer and photocopier paper usage per average full-time equivalent staff member for the financial years 2004–05, 2005–06 and 2006–07¹

Printer and photocopier paper	Financial year		
	2004–05	2005–06	2006–07
A4 sheets			
Printer and photocopier paper	265 941	321 507	192 033
A4 sheets/average FTE staff ¹	8 155	8 879	4 849

¹ Average full-time equivalent (FTE) staff based in Canberra office.

The continued growth in the number of Australian Ethical investors and superannuation members makes reducing our paper use a challenge. The use of technology is greatly assisting Australian Ethical to meet this challenge by reducing the need for information to be sent in hard copy format. For example, potential investors can access the product disclosure statements via the Australian Ethical website and much of the information previously mailed to investors is now sent by e-mail (where e-mail has been supplied and consent given). As technology improves, Australian Ethical hopes to provide more information to its stakeholders via electronic means, restricting and reducing our paper use.

Stationery

Stationery use, as represented by total dollar costs, decreased by \$435 or 8 per cent in the 2006–07 financial year. Cost per average full-time equivalent staff member declined by \$24 or sixteen per cent (Table 11). The continued reduction in stationery consumed per staff member is in line with Australian Ethical’s 4 R’s Policy – reduce, reuse, recycle and refuse.

Table 11: Stationery costs for the financial years 2004–05, 2005–06 and 2006–07

Stationery costs	Financial year		
	2004–05	2005–06	2006–07
Total cost	\$5 295	\$5 441	\$5 006
Cost/average FTE staff ¹	\$162	\$150	\$126

¹ Average full-time equivalent (FTE) staff based in Canberra office.

Energy

Australian Ethical's energy use for the 2006–07 financial year was estimated using data for the Downer Business Centre from July 2006 to March 2007 and data from Trevor Pearcey House for the remainder of the financial year.

Electricity

During 2006–07, Australian Ethical used an estimated 76 248 kWh of electricity compared to 79 644 kWh in 2005–06, a decrease of 4 per cent (Table 12). On a space-adjusted basis, electricity use declined from 124 kWh/sqm to 107 kWh/sqm over the same period, representing a decrease of 14 per cent (Table 12). To neutralise the impact of this electricity, Australian Ethical purchased 76 248 kWh of Green Power from ActewAGL (sourced from mini-hydro, biomass and wind).

Table 12: **Electricity usage for the financial years 2004–05, 2005–06 and 2006–07**

Electricity used	Financial year		
	2004–05	2005–06	2006–07
Total kWh	68 183	79 644	76 248
kWh/sqm	116	124	107

Australian Ethical's electricity use at Trevor Pearcey House is substantially less than its old offices at Downer. Electricity use (kWh/sqm) for the fourth quarter of 2006–7 at Trevor Pearcey House was 46 per cent lower than for the same period in 2005–06 at the Downer Business Centre (Table 13).

Table 13: **Electricity usage for the fourth quarter of the 2005–06 and 2006–07 financial years (Downer Business Centre versus Trevor Pearcey House)**

Electricity used	Downer Business Centre	Trevor Pearcey House	Change (%)
	Fourth quarter 2005–06	Fourth quarter 2006–07	
kWh/sqm	33	18	-46%

Gas

Gas use fell from 382 393 MJ in 2005–06 to 230 779 MJ in 2006–07, a decrease of 40 per cent (Table 14). In terms of MJ/sqm, gas use fell from 593 MJ to 339 MJ over the same period (Table 14). Part of this fall is because of a return to more normal gas use after a spike in 2005–06 when the business centre's main gas boiler was in operation throughout summer and early autumn. Also contributing to the improved performance was the move into Trevor Pearcey House, which uses substantially less gas than the old offices at Downer. Between March and June 2007, 1725 litres of liquefied petroleum gas was delivered to Trevor Pearcey House (equivalent to 43 815 MJ). Gas use (MJ/sqm) for the fourth quarter of 2006–7 at Trevor Pearcey

House was 77 per cent lower than for the same period in 2005–06 at the Downer Business Centre (Table 15).

Table 14: Gas usage for the financial years 2004–05, 2005–06 and 2006–07

Gas used	Financial year		
	2004–05	2005–06	2006–07
Total MJ	195 005	382 393	230 779
MJ/sqm	335	593	339

Table 15: Gas usage for the fourth quarter of the 2005–06 and 2006–07 financial years (Downer Business Centre versus Trevor Pearcey House)

Gas used	Downer Business Centre	Trevor Pearcey House	Change (%)
	Fourth quarter 2005–06	Fourth quarter 2006–07	
MJ/sqm	194	44	-77%

Total energy

Australian Ethical's lower gas and electricity consumption resulted in total energy consumption falling from 669 113 MJ in 2005–06 to 505 271 MJ in 2006–07, a decrease of 24 per cent. In terms of MJ/sqm and MJ/average FTE staff, the fall in total energy use was even greater, decreasing 30 and 31 per cent, respectively (Table 16). Total greenhouse gas emissions from energy use fell 13 per cent in 2006–07 to 93.46 tonnes CO₂-e, while emissions per square metre fell 21 per cent to 0.133 tonnes CO₂-e over the same period. This is 58 per cent better than the average building performance benchmark and 1 per cent better than best practice benchmark (Table 16).

Table 16: Energy usage and greenhouse gas emissions for the financial years 2004–05, 2005–06 and 2006–07

Energy used	Financial year		
	2004–05	2005–06	2006–07
Total MJ ¹	440 466	669 113	505 271
MJ/sqm	751	1 037	725
MJ/average FTE staff ²	13 507	18 479	12 759
GHG emissions (tonnes CO ₂ -e)	82.90	107.86	93.46
GHG emissions (tonnes CO ₂ -e/sqm)	0.141	0.167	0.133
GHG emissions compared to average building performance benchmark	-55%	-47%	-58%
GHG emissions compared to best practice benchmark	5%	25%	-1%

¹ Sum of total gas and electricity usage, where 1 kWh = 3.6 MJ.

² Average full-time equivalent staff based in Canberra office.

Total energy use (electricity and gas combined) for the fourth quarter of 2006–7 at Trevor Pearcey House was 65 per cent lower than for the same period in 2005–06 at the Downer Business Centre. Greenhouse gas emissions per square metre fell 56 per cent to 0.021 tonnes CO₂-e over the same period (Table 17).

Table 17: Energy use and greenhouse gas emissions per square metre for the fourth quarter of the 2005–06 and 2006–07 financial years (Downer Business Centre versus Trevor Pearcey House)

Energy used	Downer Business Centre	Trevor Pearcey House	Change
	Fourth quarter 2005–06	Fourth quarter 2006–07	
MJ/sqm	313.7	108.5	-65%
GHG emissions (tonnes CO ₂ -e/sqm)	0.047	0.021	-56%

Water

Australian Ethical’s water use for the 2006–07 financial year was estimated using data for the Downer Business Centre for the first three quarters of 2006–07 and data from Trevor Pearcey House for the fourth quarter. It is estimated that Australian Ethical’s water usage was 213 kL in 2006–07, a 19 per cent decrease on the 263 kL used in 2005–06 (Table 18). This is approximately 58 per cent less than the median Canberra office benchmark, and 14 per cent lower than the best practice benchmark (Table 18). The lower water consumption at Australian Ethical’s environmentally exemplary Trevor Pearcey House was a major contributor to this result.

Table 18: Water usage for the financial years 2004–05, 2005–06 and 2006–07

Water used	Financial year		
	2004–05	2005–06	2006–07
kL/sqm	0.63	0.41	0.32
Total kL	374	263	213
Change in Total kL	65%	-30%	-19%
Total kL compared to median benchmark ¹	-12%	-43%	-58%
Total kL compared to best practice benchmark ²	81%	16%	-14%
kL/average FTE staff ³	11.5	7.2	5.4

¹ Calculated benchmark based on a median Canberra office water consumption of 0.72 kL/net lettable area (NLA) sqm (Department of the Environment and Heritage 2006).

² Calculated benchmark based on best practice Canberra office water consumption of 0.35 kL/net lettable area (NLA) sqm (Department of the Environment and Heritage 2006).

³ Average full-time equivalent staff based in Canberra office.

Australian Ethical water consumption at Trevor Pearcey House is substantially lower than its old offices at the Downer Business Centre due to a number of water efficient features incorporated into the building (outlined on page 37).

Australian Ethical's water use at Trevor Pearcey House was 81 per cent lower than the median Canberra office benchmark and 61 per cent lower than the best practice benchmark (Table 19). Compared to Australian Ethical's old offices at the Downer Business Centre, water consumption was 64 per cent lower on a kL/sqm basis and 49% lower in terms of total kL (Table 19).

Table 19: Quarterly water usage at the Downer Business Centre and Trevor Pearcey House during the 2006–07 financial year

Water Used	Downer Business Centre	Trevor Pearcey House	Change (%)
	Average of first three quarters 2006–07	Fourth quarter 2006–07	
kL/sqm	0.09	0.03	-64%
Total kL	61	31	-49%
Total kL compared to median benchmark	-48%	-81%	
Total kL compared to best practice benchmark	8%	-61%	

Transport

During 2006–07, 59 per cent of Australian Ethical employees travelled to and from work by car, with 48 per cent travelling alone and 11 per cent travelling with others. This is 20 per cent lower than the overall average for the ACT (83 per cent) (ACT Sustainable Transport Plan, 2007). During the same period, 15.5 per cent of employees travelled to work by bicycle, a significant jump from the 3.1 per cent in previous year and well above the overall average for the ACT (3 per cent) (ACT Sustainable Transport Plan, 2007). The remaining employees used a variety of transport methods, including motorcycle, train, bus and walking. Ten per cent of employees worked from home in 2006–07 (Figure 5).

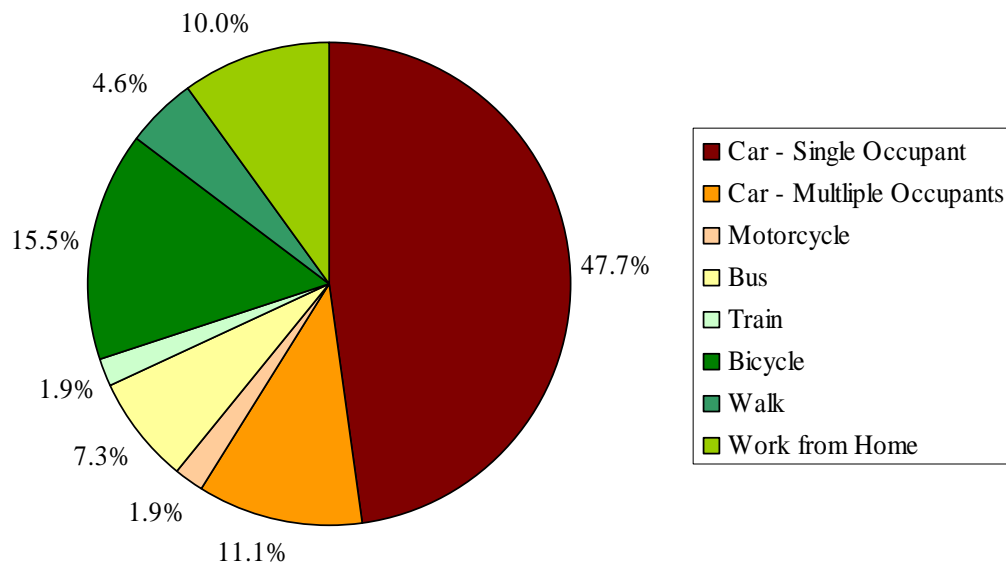


Figure 5: **Primary transport used by Australian Ethical staff to commute to work in the year to 30 June 2007**

Australian Ethical staff made 358 flights and 414 taxi cab trips during 2006-07 (2005-06: 316 flights and 275 taxi cab trips). As Australian Ethical is conscious of the greenhouse emissions generated by this travel, the company offset the emissions using Climate Friendly www.climatefriendly.com.

Australian Ethical also seeks to promote alternative transport days, such as National Ride to Work Day, to encourage staff to ride, walk or take alternative transport to and from work. To encourage the use of public transport, Australian Ethical has corporate bus tickets available for employees who need to travel during work hours for work purposes. Additionally, Australian Ethical endeavours to use teleconferences or video conferences where possible to replace face-to-face meetings that may require travel. Where business travel cannot be avoided, Australian Ethical encourages employees to choose the most sustainable travel option, such as rail travel over air travel and will pay for accommodation should an overnight stay be required to facilitate the use of rail.

Emissions, effluent and waste

Waste

It is estimated that Australian Ethical produced 4 673 kg of waste in the 2006–07 financial year, compared to the 3 408 kg of waste generated during the 2005–06 financial year, an increase of 37 per cent (Tables 20 and 21). Approximately 4 127 kg (88 per cent) of the 4 673 kg of waste was recycled, while 546 kg (12 per cent) went to landfill. The majority of waste was paper, making up approximately 71 per cent of Australian Ethical's total waste.

The increase in total waste in 2006–07 is largely a result of an increase in the amount of paper recycled during the year (up by 1 325 kg). A large amount of paper was recycled prior to Australian Ethical's move to its new offices in Bruce and this contributed to the result. It is expected that the amount of paper recycled will fall in 2007–08. Other less significant increases were recorded in the amount of food organics recycled (up by 91 kg), food organics to landfill (up by 26 kg) and recyclable containers to landfill (up by 13 kg) (Tables 20 and 21).

The biggest falls were recorded in general waste to landfill (down by 101 kg), cardboard recycled (down by 42 kg), paper to landfill (down by 36 kg), recyclable containers recycled (down by 8 kg) and cardboard to landfill (down by 3 kg) (Tables 20 and 21).

Table 20: Waste for the year to 30 June 2007

Waste type	Weekly waste (kg)	2006–07 waste (kg)	% of waste sub-total	% of total waste
Waste to landfill				
Paper	0.1	7	1	0
Cardboard	0.1	6	1	0
Recyclable containers ¹	1.3	65	12	2
Food organics	3.0	156	29	3
General waste ²	6.0	312	57	7
Sub-total	10.5	546	100	12
Waste recycled				
Paper	63.5	3 304	80	71
Cardboard	2.5	129	3	2
Recyclable containers ¹	3.6	187	5	4
Food organics	9.8	507	12	11
Sub-total	79.4	4 127	100	88
Waste generation total³	89.9	4 673		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towels etc.

³ Australian Ethical's Canberra offices only.

Table 21: Waste for the year to 30 June 2006

Waste type	Weekly waste (kg)	2005–06 waste (kg)	% of waste sub-total	% of total waste
Waste to landfill				
Paper	0.8	43	7	1
Cardboard	0.2	9	1	0
Recyclable containers ¹	1.0	52	8	2
Food organics	2.5	130	20	4
General waste ²	7.9	413	64	12
Sub-total	12.4	647	100	19
Waste recycled				
Paper	38.1	1979	72	58
Cardboard	3.3	171	6	5
Recyclable containers ¹	3.8	195	7	6
Food organics	8.0	416	15	12
Sub-total	53.1	2761	100	81
Waste generation total³	65.6	3408		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towel etc.

³ Australian Ethical's Canberra offices only.

Greenhouse gas emissions

During 2006–07 Australian Ethical saved the equivalent of 86.20 tonnes of carbon dioxide from entering the atmosphere, and offset a further 108.14 tonnes (Table 22). Australian Ethical saved 77.16 tonnes of carbon dioxide by purchasing 76 248 kWh of Green Power electricity from ActewAGL under the GreenChoice program.¹ The company also saved a further 9.04 tonnes of carbon dioxide by recycling 88 per cent (4.127 tonnes) of the waste that it generated in the period covered by this report.

The company offset 108.14 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of carbon credits from Climate Friendly (www.climatefriendly.com).

Prior to its greenhouse gas emissions being off-set, Australian Ethical generated 8 per cent more emissions in 2006–07, compared to 2005–06 (Tables 22 and 23). The increase in emissions was largely due to a significant increase in the number and distance of air flights, which more than offset a reduction in gas use. A number of these additional flights were a result of visiting international companies to be included in the new World Trust.

¹ Green Power is generated from renewable sources such as mini-hydro, biomass and wind.

Table 22: **Greenhouse gas (GHG) emissions for the year to 30 June 2007¹**

GHG emissions (t CO2-e)	Saved	Generated	Offset	Net
Electricity	77.16	0.00	0.00	0.00
Gas	0.00	16.29	16.29	0.00
Waste recycled	9.04	0.00	0.00	0.00
Waste to landfill	0.00	0.45	0.45	0.00
Air flights	0.00	89.50	89.50	0.00
Taxi cabs	0.00	1.90	1.90	0.00
Total	86.20	108.14	108.14	0.00

¹ Greenhouse gas emissions from gas and waste were calculated using the Australian Greenhouse Office Factors and Methods Workbook, December 2006. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator (www.climatefriendly.com). Emissions saved by using Green Power electricity were sourced from invoices and calculated by ActewAGL.

Table 23: **Greenhouse gas (GHG) emissions for the year to 30 June 2006¹**

GHG emissions (t CO2-e)	Saved	Generated	Offset	Net
Electricity	80.60	0.00	0.00	0.00
Gas	0.00	27.26	27.26	0.00
Waste recycled	5.75	0.00	0.00	0.00
Waste to landfill	0.00	0.62	0.62	0.00
Air flights	0.00	71.17	71.17	0.00
Taxi cabs	0.00	1.00	1.00	0.00
Total	86.35	100.05	100.05	0.00

¹ Greenhouse gas emissions from gas and waste were calculated using the Australian Greenhouse Office Factors and Methods Workbook, December 2006. Emissions from air flights and taxi cabs were calculated using Greenfleet's online calculator (www.greenfleet.com.au). Emissions saved by using Green Power electricity were sourced from invoices and calculated by ActewAGL.

Products and services

Australian Ethical provides financial products and services which earn a competitive return for a chosen risk while contributing to a sustainable society and the protection of the natural environment through ethical investment.

Australian Ethical uses the Charter to inform decisions on financial products and services. Australian Ethical invests in approximately 145 entities through its unit trusts. Investments cover large and small enterprises over long and short terms, as well as the asset classes of interest-bearing securities, equities (shares) and property. They include a variety of renewable energy sources, recycling, permaculture, eco-tourism, efficient transport, pollution reduction, health care and education.

Australian Ethical regularly engages with companies on ethical issues including potential environmental impacts. In 2006–07, Australian Ethical engaged with

companies on issues including timber sourcing, military involvement and animal testing.

Compliance

Australian Ethical Investment was not subject to any significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations in 2006-07.

Environmental protection expenditure

Australian Ethical spent a total of \$6998 on environmental protection for the 2006–07 financial year. This included:

- the cost of off-setting greenhouse gas emissions through Climate Friendly
- paying a premium for Green Power generated from renewable energy sources
- sustainability committee initiatives – alternative transport events, a compost bin and books for the sustainability library.

The company also spent \$1.8 million refurbishing and refitting our 20 year old building to an environmentally exemplary six green star rated building.

Labour practices and decent work performance indicators

The Australian Ethical Charter seeks investments that promote workers' ownership of their work organisations and places, and those activities which contribute to human happiness, dignity and education. Australian Ethical not only seeks to apply these principles to its investments but also in its own operations and work environment. The following section reports on workplace practices and related performance indicators for the financial year 2006–07.

Australian Ethical workforce

Australian Ethical's workforce continues to grow. In 2006–7 Australian Ethical employed a total of 56 employees, which reflects a 16.7 per cent increase since 2005–06. The increase was recorded for both the total staff number and full time equivalent (FTE) staff. Australian Ethical mainly employs permanent staff, with only two staff members on fixed term contracts. This reflects Australian Ethical's commitment to job stability and enhancing corporate knowledge. The majority of the workforce is based in Canberra; however, we also have staff in Melbourne, Sydney, Brisbane and coastal NSW. A summary of Australian Ethical's workforce is provided in Tables 24 and 25.

Table 24: **Australian Ethical's workforce by status for the financial years 2004–05, 2005–06 and 2006–07**

Australian Ethical's workforce	Financial year		
	2004–05	2005–06	2006–07
<i>Status</i>			
Employees – total number of staff	46	48	56
Ongoing contractors – number of staff ¹	1	0	0
Supervised workers – number of staff	0	0	0
Total staff number (including casuals, contractors and supervised workers) ¹	46	48	56
Employees – FTE ²	39.4	41.9	48.9
Ongoing contractors – FTE	0.3	0.0	0
Supervised workers – FTE	0	0	0
Total FTE staff (including casuals, contractors and supervised workers)	39.7	41.9	48.9

¹ Some executive directors worked as both employees and ongoing contractors in 2004 and 2005.

² Full-time equivalent (FTE).

Table 25: **Australian Ethical's workforce by net employment creation, employment type, employment contract and location for the financial years 2004–05, 2005–06 and 2006–07**

Australian Ethical's workforce	Financial year		
	2004–05	2005–06	2006–07
<i>Increase in staff numbers</i>			
Net increase in staff numbers for year	5	2	8
Total staff number at 30 June	46	48	56
Increase in staff numbers for year	12.2%	4.3%	16.7%
Net increase in FTE staff for year	3.8	2.3	7.0
Total FTE staff at 30 June	39.7	41.9	48.9
Increase in FTE staff for year	10.6%	5.7%	16.7%
<i>Permanent Staff by employment type</i>			
Full-time	31	31	36
Part-time ¹ – number of staff	15	17	18
Part-time – FTE	8.7	10.9	10.9
<i>Employment contract</i>			
Indefinite or permanent – number of staff	45	48	54
Indefinite or permanent – FTE	39.1	41.9	46.9
Fixed term or temporary – number of staff	1	0	2
Fixed term or temporary – FTE	0.6	0	2
<i>Employment location</i>			
Canberra office – number of staff	41	42	49
Canberra office – FTE	35.5	36.2	42.4
Other – number of staff	5	6	7
Other – FTE	4.2	5.7	6.5

¹ Including casual employees of Australian Ethical.

Staff turnover

Staff turnover was 18.9 per cent in 2006–07, with slightly more women leaving than men. This is a significant increase on the 6.4 per cent turnover recorded in 2005–06, and in line with the 18.2 per cent turnover in 2004–05. There was also evidence of higher turnover in the under 30 age group. While in 2004–05 the turnover rate was zero, it increased to 4.3 per cent in 2005–06 and 9.4 per cent in 2006–07. All leaving staff members in 2006–07 were based at the Canberra office (Table 26).

Table 26: Staff turnover for the financial years 2004–05, 2005–06 and 2006–07

Staff turnover ¹	Financial year		
	2004–05	2005–06	2006–07
<i>Turnover by employment type</i>			
Full-time employees departing	4	3	7
Part-time employees departing	4	0	3
Part-time employees departing – FTE	2.6	0	1.5
Employees departing (total) – FTE	6.6	3	8.5
Total staff at 30 June	44	47	53
Total FTE staff at 30 June	38.8	41.6	48.1
Staff turnover (% of total staff)	18.2%	6.4%	18.9%
Staff turnover (% of FTE staff)	17.0%	7.2%	17.7%
<i>Turnover by gender</i>			
Staff departing – female	5	1	6
Female staff turnover (% of total staff)	11.4%	2.1%	11.3%
Staff departing – male	3	2	4
Male staff turnover (% of total staff)	6.8%	4.3%	7.5%
<i>Turnover by age group</i>			
Staff departing <30	0	2	5
<30 Age group turnover (% of total staff)	0%	4.3%	9.4%
Staff departing 30-50	6	1	3
30-50 Age group turnover (% of total staff)	13.6%	2.1%	5.7%
Staff departing >50	2	0	2
>50 Age group turnover (% of total staff)	4.5%	0%	3.8%
<i>Turnover by location</i>			
Canberra office	8	2	10
Other	0	1	0

¹ Figures include permanent, temporary and probationary employees but not casual staff or contractors.

Employee benefits

Australian Ethical recognises that a healthy work/life balance is important. Therefore the company tries to attract and retain staff through a range of employee benefits that help to foster family relationships, on-going educational development and personal development. All benefits offered to permanent full-time employees are extended to permanent part-time staff. Most employee benefits also apply to fixed-term full and part-time employees.

Australian Ethical's current employment conditions include:

- flexible working hours, subject to business needs
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service
- up to three days paid compassionate leave as often as required
- allowing sick leave to be used to care for sick relatives
- paternity leave
- up to three hours paid study leave per week, plus two days paid study leave per year
- three days additional leave between Christmas and New Year
- the choice of being paid monthly or fortnightly
- a subsidised personal development program
- free access for staff and their families to a counselling service
- annual leave loading of 17.5 per cent
- salary sacrificing for notebook computers, portable printers, electronic diaries and additional superannuation contributions
- one day of paid volunteer work each year (or blocks of time equivalent to one day) with approved organisations.

Besides offering a healthy work/life balance to its employees Australian Ethical promotes employee ownership of the company, a principle documented in clause 2.2 of the company constitution. The company gives effect to this clause through an employee ownership and share option plan and a profit sharing scheme with annual bonuses. Under the same clause directors are required to report the status of employees to shareholders in the annual general meeting. Australian Ethical also requires a staff advocate be elected by employees to ensure that non-management staff members have a voice at board level.

Employee assistance program

Australian Ethical offers a free face-to-face and 24/7 telephone counselling service to all employees and their immediate families. The service is completely confidential and is not restricted to work-based problems. IPS Worldwide is the current provider of this service.

Occupational health and safety

Australian Ethical maintains a register for all workplace injuries occurring in both the Canberra office and off-site locations. There were no injuries, occupational diseases or fatalities recorded in the 2006–07 financial year.

The average number of days taken as sick leave per FTE staff member increased slightly from 4.2 days in 2005–06 to 5.3 days in 2006–07 (Table 27). The increase was in part due to a large number of influenza cases during the year. Australian Ethical is now developing a response to increase awareness on how to prevent flu outbreaks within its office space. Other health and safety measures include presentations on ergonomic work spaces, employee assistance provisions, and fire safety/evacuation procedures.

Table 27: Sick leave taken (days) during the financial years 2004–05, 2005–06 and 2006–07

Sick leave taken during year ¹	Financial year		
	2004–05	2005–06	2006–07
Average sick leave taken (days)/staff member	5.0	3.8	4.8
Average sick leave taken (days)/FTE staff	5.6	4.2	5.3

¹ Figures do not include casual or contract staff.

Accrued annual leave

Employees are entitled to 20 paid working days of leave every 12 months of continuous service. Leave is accrued pro rata per day working. Average annual leave accrued per FTE staff decreased from 19.7 days in 2006 to 17.9 days in 2007 (Table 28). The amount of accrued leave can be used as a proxy for stress levels in the company (excessive amounts of accrued leave may be an indicator of higher stress levels). In busy times when employees are facing a large workload it is likely that less leave is taken and accrued leave (and stress) increases. Stress can cause physical and mental harm, and holidays should be used as a mechanism for stress relief. The amount of accrued leave at 30 June 2007 does not appear to be excessive relative to the annual entitlement of 20 days leave.

Table 28: Average annual leave accrued (days) per FTE staff as at 30 June 2005, 2006 and 2007

Annual leave accrued¹	Balance date		
	30.06.2005	30.06.2006	30.06.2007
Average annual leave accrued (days)/FTE staff	17.7	19.7	17.9

¹ Figures do not include casual or contract staff.

Training and education

Training and development

Australian Ethical continues to recognise the immense benefits to be gained from facilitating on-going training and professional development of its staff. For employees, training schemes adopted by Australian Ethical offer the opportunity for increasing skills and career opportunities as well as improved job satisfaction. Australian Ethical, as an employer, also benefits from enhanced skills and knowledge of its staff. Higher satisfaction levels of its employees contribute to a positive work environment and increases Australian Ethical's ability to attract and retain talented personnel.

Staff training is provided based on discussion at the time of performance appraisals. Australian Ethical seeks to provide its employees training and development opportunities to improve their current and future responsibilities. Training required is fully paid during working hours and after hours training entitles the employee to time off in lieu. The company also encourages its employees to complete private external study and professional development courses by offering both financial support and paid study leave. Australian Ethical's reimbursement system refunds course fees 100 per cent, up to \$2000 per year per employee with the completion of the course. To attend, or travel to, classes or to complete course work for approved programs staff may take paid study leave for three hours per week. An additional two full days per year of paid study leave may also be taken for exam preparation or to finalise course requirements.

During the 2006–07 financial year Australian Ethical staff completed a total 3666 hours of training and development, at an average 65 hours per staff member. This represents a 28 per cent decrease in total training hours compared to the 2005–06 financial year, when Australian Ethical staff completed a total 5120 hours of training and development at an average 109 hours per staff member. Figure 6 displays a breakdown of the average hours spent on training and development per employee category. Training is measured as paid training (structured training for which Australian Ethical paid as work time, including paid study leave) and private study (structured education/study pursued externally for which Australian Ethical provided financial support).

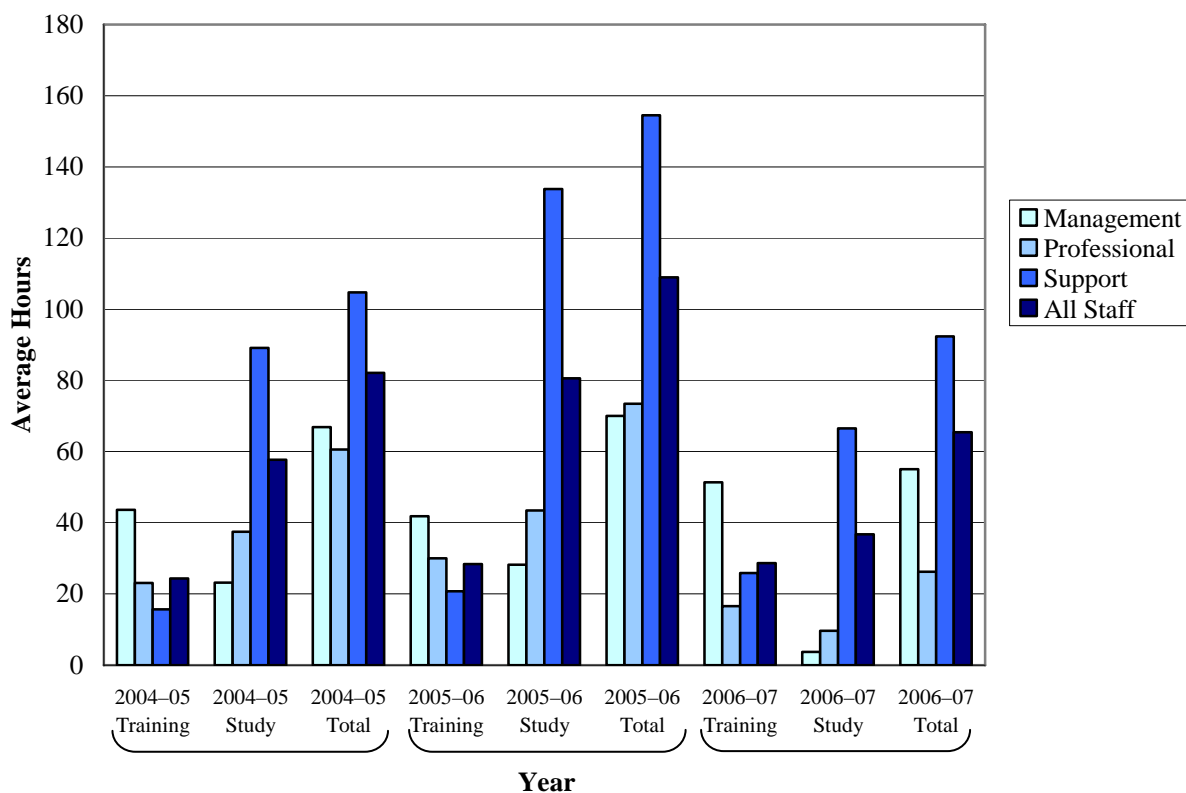


Figure 6: **Average hours of training undertaken by staff during the financial years 2004-05, 2005-06 and 2006-07**

Of the average 65 hours of training per employee, paid training took up 29 hours per employee, about the same as the time per employee spent on paid training in 2005-06. Private study was a slightly higher proportion of total training with 37 hours average per staff member. However, the total average time spent on private study dropped from 81 hours in 2005-06 to 37 hours per staff member in 2006-07. The decrease reflects the fact that several staff members completed external training courses, tertiary degrees and diplomas in 2006. This resulted in less private study and paid study leave being taken. Offsetting this was an increase in short courses undertaken during work hours.

As in previous years, a large proportion of the total private study was undertaken by support staff completing their graduate and post graduate education. During 2006-07, support staff undertook an average 92 hours of training and development, of which 67 hours was private study and 26 hours was paid training. The decrease in private study was mainly due to staff completing their studies during the year. Average training hours for professional staff dropped significantly from 73 hours training to 26 hours, a decrease of 64 per cent. This was also caused by numerous professional staff completing their studies during 2006. Management undertook significantly less private study than support and professional staff, reflecting the fact

that managers have already completed their tertiary education and training is mainly conducted through conferences and short courses. While managers had an average of 51 hours of training (an increase from 42 in 2005–06), only 4 hours of private study was undertaken per manager in 2006–07, compared to 28 in 2005–06. Again the decrease is due to a staff member completing a diploma course during 2006.

In 2006–07 Australian Ethical spent a total of \$133 260 on training and development, which is an increase of almost \$30 000 compared to the previous year, when a total of \$105 333 was spent. The increase of the total expenditure for training and development is also reflected in spending per employee. In 2006–07 approximately \$2514 was spent per staff member, an increase of \$273 per employee. The increase in expenditure and decrease in average hours training per employee is due to differences in the types of training undertaken. The number of conferences and short courses attended increased in 2006–07 while reimbursements for course fees decreased.

Skills management and lifelong learning programs

Australian Ethical is committed to provide personal development and lifelong learning to all of its employees – this approach goes beyond company sponsored training.

Besides promoting professional skills development as described above, Australian Ethical promotes personal development through its employee personal development program. The program grew out of a lunchtime yoga group, subsidised by Australian Ethical, and expanded to include a wide range of interests. It covers sporting costs, gym memberships, as well as dance and music classes and entitles every employee for a reimbursement twice a year. The personal development program aims to encourage employees to incorporate health, fitness and stress relief into every working week. This initiative is also a way for Australian Ethical to contribute to human happiness, dignity and education within its own workplace.

Severance pay and job placement services

In some cases restructuring a business may result in positions becoming redundant. If such a case occurs Australian Ethical has guidelines to ensure fair treatment of the employee working in the redundant position. After all the position is redundant and not the employee. Australian Ethical seeks to inform affected staff as soon as possible and offers the option of staying for a period of up to three months after being advised. Every attempt will be made to redeploy the employee within the company. If no mutually acceptable position is found, the employee will receive redundancy pay. The payment is calculated based on the time of service and age of the employee. Australian Ethical also considers paying four weeks of salary for staff members that have been employed less than twelve months by the company.

Additionally the affected employee will have access to a recruitment service to assist finding employment outside of the company. All costs of this service are covered by Australian Ethical.

Performance appraisal

Australian Ethical conducts annual performance appraisals of all employees. The appraisal is conducted as a 360 degree evaluation and includes input from all of the employee's colleagues, team and supervising staff. Reviews are required to be conducted in a positive and constructive manner as they are seen as an opportunity for personal growth. In this spirit performance appraisals provide feedback to staff and also act as a map for training plans and future career development.

Diversity and equal opportunity

Equal opportunity policy

Australian Ethical's Charter seeks equal opportunities and opposes any activities that discriminate by way of race, religion and sex in employment, marketing or advertising practises. To underline equal opportunities at its workplace Australian Ethical has a separate policy covering the aspects of non-discrimination and equal pay, it states that

'All employees shall receive fair and equitable treatment in all aspects of employment without regard to political affiliation or beliefs, union membership, gender, marital status, sexual orientation, pregnancy, physical disability or ethnic origin. Equal pay will be provided for equal work.'

Gender breakdown for employee categories and governance bodies

The gender composition of Australian Ethical's corporate governance bodies and employee categories is given in Table 29. As at 30 June 2007, four of the six Australian Ethical board members were female, a ratio of 67 per cent. This is up from a ratio of 40 per cent female at 30 June 2006. Similar figures can be reported for Australian Ethical Superannuation with three out of five, or 60 per cent female directors at 30 June 2007 compared to 40 per cent female at 30 June 2006. Australian Ethical is outstanding compared to top 200 ASX listed companies where on average only 8.7 per cent of directors are female. It also compares well to companies within the diversified financials sector, where 15.6 per cent of directors are female. Australian Ethical's performance in this area indicates the company's exceptional ability to promote gender equality within its leadership team.

Overall, females represented 41 per cent of Australian Ethical's employees at 30 June 2007, a slight increase on the previous year. This ratio is lower than that in the

finance and industry sector, where 52 per cent are female. The percentage of females in management increased from 20 to 25 per cent between 30 June 2006 and 30 June 2007, which while positive is still lower than the finance and insurance average of 32 per cent. At the same time, the percentage of female professionals at Australian Ethical stayed relatively constant at 13 per cent. In contrast to other employee classifications professionals had the smallest ratio of women. During the year, the percentage of females in the support category fell slightly from 67 per cent to 64 per cent (Table 29).

Table 29: Composition of corporate governance bodies and employee categories as of 30 June 2006 and 2007¹

Category	Balance date					
	30.06.2006			30.06.2007		
	Total	%Male	% Female	Total	%Male	% Female
Australian Ethical board	5	60	40	6	33	67
AES board	5	60	40	5	40	60
Compliance committee	3	67	33	3	33	67
Management	10	80	20	12	75	25
Professional	17	88	12	16	87	13
Support	21	33	67	28	36	64
Total	48	62.5	37.5	56	59	41

¹ Employee categories changed in 2006–07 figures for previous years were recalculated.

Ratio salaries of female to male by employee category

To measure pay equality, Australian Ethical calculated the ratio of female to male salary based on basic salaries and packaged salaries (Tables 30 and 31). The basic salary ratio was based on hourly rates excluding additional benefits. At the management level pay equality of basic salary was almost 100 per cent, with only a small gender gap of 2 per cent in favour of female staff evident. The largest gender gap was found within the employee classification of professionals, which was primarily made up of male employees. While the basic salary ratio of professionals was in favour of female staff in 2004–05, it turned in the following year and continued to decrease in 2006–07. On average female professionals earned 80 per cent of the basic salary male colleagues received. The salary ratio of support staff in previous years was also slightly in favour of female staff and shifted to favour males staff in 2006–07. However, the gap was relatively small and inequalities are based on work related issues rather than on gender discrimination.

Table 30: **Ratio of female to male basic salaries per hierarchy level during the financial years 2004–05, 2005–06 and 2006–07¹**

Category	Financial year		
	2004–05 F:M salary ratio (%)	2005–06 F:M salary ratio (%)	2006–07 F:M salary ratio (%)
Management	129	135	102
Professional	112	87	80
Support	107	113	95

¹ Employee categories changed in 2006–07 figures for previous years were recalculated.

In contrast to basic salaries, the packaged salary ratio includes superannuation, leave loadings, profit sharing and options schemes. Ratios in both categories differ only slightly, with little or no difference in the overall results and trends (Table 31).

The overall pay gap in the insurance and finance sector was reported as approximately 37 per cent in 2004 – a female/male ratio of 63 per cent in packaged salary. As it is unlikely that figures on equal pay shifted significantly in the last three years it can be assumed, based on the large difference to the industry average, that Australian Ethical still outperforms its peers on providing more equal pay.

Table 31: **Ratio of female to male salary packages per hierarchy level during the financial years 2004–05, 2005–06 and 2006–07¹**

Category	Financial year		
	2004–05 F:M salary ratio (%)	2005–06 F:M salary ratio (%)	2006–07 F:M salary ratio (%)
Management	128	133	102
Professional	111	87	81
Support	106	112	97

¹ Employee categories changed in 2006–07 figures for previous years were recalculated.

Human rights performance indicators

Investment and procurement practices

Australian Ethical is committed to avoid any activity that is connected to possible human rights violations. The Australian Ethical Charter spells out that any investment that contributes to the inhibition of human rights shall be avoided. This principle is interpreted to consider both the sector in which an investee company is involved as well as its location. All companies undergo a human rights screening to prevent investments with human right risks.

Australian Ethical provides financial services and products. Typically its activities are office-based and therefore Australian Ethical has not considered potential human rights risks in its supply chain. As a result no policy on suppliers and their exposure to human rights risks was in place in 2006–07.

Australian Ethical does not specifically monitor the human rights performance of its operations and is not able to report on employee training or on policies and procedures concerning human rights relevant to its operations.

Non-discrimination and indigenous rights

No incidents of discrimination on the grounds of race, colour, sex, religion, political opinion, national extraction or social origin were reported in 2006–07.

Australian Ethical's main office and majority of staff are located within the Canberra region. The group recognises the Ngunnawal people as the traditional custodians of the Canberra area. Australian Ethical has not recorded any incidents involving indigenous rights in the reporting period related to either employees or to communities near the company's operations.

Freedom of association and collective bargaining, child labour, forced and compulsory labour, and security practices

Australian Ethical activities are typically office-based and do not involve operations with a high human rights risk exposure. There were no operations identified in sectors or geographical areas that constitute a risk to the right to exercise freedom of association, or activities that carry significant risks of incidents of child labour or hazardous work for young people. Australian Ethical has no operations in countries or sectors that carry risks of forced or compulsory labour. The company does not employ any security staff, and therefore does not need to communicate human rights policies to security officers.

Society performance indicators

Community

Australian Ethical has implemented a grants program which is designed to allow for small community organisations whose aims and goals are consistent with the Charter to seek funds. In 2007 a record \$224 964 has been paid to 41 organisations, an increase that is close to \$55,000 from the previous year.

The board has reviewed the structure of the grants for 2007 and future years. The grants now consist of two components – the payment of two major project grants per year and around 25 smaller grants. The large major project grants will typically be

made to one social and one conservation project each year. However, as 2007 is the first year in which a major project grant is being paid, only one project has been selected and 40 smaller organisations have received grants. In 2006–07, Australian Ethical provided support for local community groups including Pedal Power ACT, the Canberra Environment and Sustainability Resource Centre, and the National Trust of Australia (ACT) – St John’s Church Heritage Conservation Fund. A full list of grant recipients for 2006-07 is in Appendix A.

As the company is increasingly able to support the community with larger grants, the board wants to ensure that it supports larger projects that have a lasting tangible impact. Significant projects that can be supported over a number of years are sought. A grant committee has been established to short list potential projects, and invite and review applications.

The major project grant for 2007 is The Australia Institute’s ‘Teaching materials on climate change for Australian schools’ project, which involves the production and dissemination of a series of discrete teaching materials on the scientific, economic, political and ethical aspects of climate change for students in the early years of high school.

Australian Ethical also recognises the need to support unpaid work that is often unrecognised in the wider society. The Australian Ethical grants program acknowledges small community organisations that perform outstanding volunteer work throughout Australia and recognises that these organisations rely on grants to continue their positive work.

Corruption

Risks related to corruption are assessed and managed as part of ongoing compliance processes. The Australian Ethical code of conduct explicitly refers to and prohibits bribery:

‘As a general rule, don’t accept (or offer to give) gifts, services, discounts, gratuities or other gains from (or to) people who conduct business with Australian Ethical. There are some exceptions – small gifts or invitations to local social or sporting functions are generally acceptable. The offering of bribes to anyone is prohibited outright. Breaking this principle could compromise all concerned and is illegal.’

Additionally, the Australian Ethical code of conduct explicitly addresses other areas of corruption relevant to the financial sector. These include:

- conflicts of interest
- disclosure of confidential information

- insider trading
- fair competition.

The specific instructions to insider trading are:

‘If you have non-publicly known, price-sensitive information such as: information acquired through working on investments, information about a proposal, information about any other entity in which Australian Ethical may have an interest; or information that has come to your knowledge through your employment with Australian Ethical, then you must not deal in that entity's investments or pass that information on to another person or encourage another person (for example, a family member) to make any investments in the entity. In addition, as a general rule, you should not buy or sell Australian Ethical shares between the close of the financial year, or half year, and the announcement of our results.’

Australian Ethical also addresses the issue of bribery and corruption in the compliance manual. The compliance manual aims to ensure Australian Ethical's compliance with relevant legislation. These procedures aim to:

- identify roles and responsibilities of management and staff with regard to compliance
- prevent compliance failures
- deal with compliance failures which may occur
- monitor, assess and report
- record, analyse and store information
- educate staff on compliance.

All employees of Australian Ethical receive training on the code of conduct, which covers the company's anti-corruption policies. There were no recorded incidents of non-compliance with the code of conduct, including incidents of corruption for 2006–07.

Public policy

Occasionally, Australian Ethical will lobby local and state governments on issues that relate to its core business of ethical investment. In 2006–07, Australian Ethical sent letters to the ACT, New South Wales and South Australian governments questioning their investments in tobacco through their superannuation funds, as well as letters to the Western Australian government regarding the government's stance on uranium investments in their superannuation funds.

The company is often asked for comment on the nature of ethical investment, especially in relation to the defining feature of the company, the Australian Ethical

Charter and the position taken in relation to investment in uranium mining. Australian Ethical has distinguished itself from other 'ethical' investment funds on the public policy issue of uranium mining, and media reports reflect this public stance.

Political donations

Australian Ethical's code of conduct explicitly prohibits unauthorised political donations and states that only the board may make political donations on behalf of the company. Australian Ethical made no political donations during the 2004–05, 2005–06 and 2006–07 financial years.

It is Australian Ethical's view that corporate donations to political parties distort the democratic principle of one vote one value and allow for disproportionate access to and influence of politicians.

Anti-competitive behaviour

There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices.

Compliance

There were no significant fines or non-monetary sanctions for non-compliance with laws and regulations.

Product responsibility performance indicators

Asset management policy

Australian Ethical offers investors something in addition to the conventional investment approach. The company uses a unique combination of financial and ethical objectives in the selection of its investments. These objectives are part and parcel of the investment process for any investment.

The objectives consist of:

- containment of the risk of investing
- obtaining a financial return commensurate with any risk taken
- avoiding investment in activities which are socially or environmentally detrimental
- prioritising investment in profitable activities which bring social or environmental benefits.

Australian Ethical selects investments for the trusts that aim to contribute to a just and sustainable human society, the protection of the natural environment, at the same time providing a return commensurate with any risk taken.

Each investment should meet the positive elements of the Australian Ethical Charter which is an integral part of the investment process. The use of this Australian Ethical Charter makes Australian Ethical's investment methodology unique in the ethical investment market.

The application of the Australian Ethical Charter defines the universe of investments for the trusts. As at 30 June 2007, this universe covered a broad spectrum of sectors and countries (Tables 32 and 33).

Table 32: Percentage of investments by sector as at 30 June 2007

Sector	Balanced trust	Equities trust	Income trust	Large companies trust	Wholesale international equities trust
Consumer discretionary	3.78	9.30	2.38	9.64	7.62
Consumer staples	1.56	1.95	-	3.09	4.08
Corporate - international	0.38	2.00	-	-	2.09
Corporate - unlisted	6.79	0.57	11.62	-	-
Energy	3.23	9.64	-	3.32	1.86
Financials	28.15	1.88	38.92	21.00	12.71
Health care	7.97	18.39	-	23.05	13.11
Industrials	9.48	16.43	-	17.61	20.45
Information technology	1.39	12.12	-	4.03	5.42
Managed funds	7.73	0.46	-	-	-
Materials	0.41	0.89	-	-	-
Property	0.09	-	-	-	-
Property trusts	2.19	-	-	2.03	-
Securitised debt	12.84	-	35.58	-	-
Telecoms services	-	-	-	-	-
Utilities	12.72	23.56	2.19	16.00	15.50
Other	1.28	2.81	9.30	0.24	17.15

Table 33: **Percentage of investments by country as at 30 June 2007**

Country	Balanced trust	Equities trust	Income trust	Large companies trust	Wholesale international equities trust
Australia	83.57	72.17	90.97	63.97	17.15
Denmark	2.24	4.17	-	3.88	4.56
France	-	-	-	-	-
Germany	-	-	-	1.61	8.57
Hong Kong	-	-	-	-	1.93
Italy	-	1.93	-	2.30	7.11
Japan	1.17	2.01	-	1.79	10.08
Netherlands	0.38	2.00	-	-	2.09
New Zealand	0.84	-	-	0.81	1.76
Norway	1.15	1.90	-	2.11	3.25
Singapore	-	-	-	-	1.73
Spain	1.71	2.35	-	2.59	3.33
Sweden	-	-	-	1.62	4.32
Switzerland	0.69	-	-	1.03	2.50
United Kingdom	0.46	1.54	-	2.38	7.93
United States	7.78	11.93	9.03	15.92	23.68

Debate is an integral part of the Australian Ethical decision making process – for this reason Australian Ethical is keen to hear from stakeholders. While we reserve the right to exercise judgment regarding investment selection, comments about the ethical profiles of trust investments are reported regularly to the Australian Ethical investment committee by the Centre for Australian Ethical Research Pty Ltd (CAER), Australian Ethical’s research providers.

Australian Ethical aims to be as transparent as possible about the results of the investment process. The product disclosure statements include details of companies invested in and a regularly updated listing of investments also appears on the company website www.austethical.com.au.

In October 2005, Australian Ethical became one of the first fund managers to receive certification under the new Ethical Investment Association (EIA) Sustainable Responsible Investment (SRI) certification program. This symbol involves verification of Australian Ethical’s investment selection processes through an independent auditing process managed by the association. Further information can be found at www.eia.org.au.

Australian Ethical is known as a specialist in the field of ethical or socially responsible investment. Researchers from CAER, in conjunction with Australian

Ethical analysts, investigate potential investee enterprises to assess the ethical dimension of considered investments. This work is supervised by the investment committee and combines financial and ethical analysis to determine the investment selection priorities. By utilising the services of CAER and the work of Australian Ethical analysts, the investment committee monitors and keeps abreast of major new scientific initiatives, outcomes and developments. Attendance at conferences and seminars covering environmental and social issues also assist researchers in identifying potential risks and opportunities. This research capacity allows an active approach to seeking out enterprises dedicated to the sustainable improvement of communities, company operations and business across the environmental, social and ethical spectrum.

The investment philosophy is based on the principles of the Australian Ethical Charter. The Charter provides guidance in setting out types of activities to be supported, as well as types of activities to be avoided. Thus, for example, Australian Ethical is supportive of companies whose business and/or activities involve the efficient use of human waste, but avoids investment in companies considered to unnecessarily promote products or services in a misleading manner.

On the one hand there are certain types of companies Australian Ethical will not invest in (for example, companies operating in the tobacco, uranium or gambling industries), while on the other hand Australian Ethical is also very active in its positive approach to investment selection. Australian Ethical differs from most ethical fund managers because of this, that is, it does not merely apply negative screening to the range of potential investments, it also supports positive sustainable investments.

When making decisions on the ethical merits of a company, Australian Ethical first considers the core business activity of the company in question. Investment becomes a possibility if the core activity of the company falls into any of the areas the Charter highlights Australian Ethical might support, and in particular if the investment does not directly contravene any principles the charter seeks to avoid.

Having made a decision, it is necessary to determine whether the way in which the company behaves in carrying out its core activities might contravene an aspect of the Australian Ethical Charter, or might be identified as being supported by the Charter. This in-depth ethical research is generally carried out by CAER. Information used in CAER's research process is gathered from a range of publicly available sources. These sources include company publications, media, government information and material from non-government organisations.

After deliberations have allowed suggested potential investments to be accepted according to the Charter, thorough financial analysis is undertaken by Australian Ethical Investment financial analysts.

Australian Ethical's monitoring of investments is very rigorous. Hence once a company makes it through the investment selection process set out above, it becomes an investment that is subject to regular and ongoing monitoring. All companies within the trusts have a formal ethical review at least annually with continual monitoring through media sources occurring throughout the year. All unitholder queries regarding the ethical performance of investee companies are responded to in a timely fashion and a review and summary of enquiries is passed to the investment committee as part of a quarterly meeting process.

If for example an investee company diversifies into an excluded industry or engages in unacceptable practices, a review will be performed which may involve company engagement (either correspondence, telephone or face-to-face) both prior to and after the event. If, on the weight of evidence, the stock or investment is no longer considered appropriate, it will be divested as soon as it is possible.

In developing the engagement process for a particular investment, Australian Ethical and CAER work together to formulate the best approach suited to the issue or the particular situation. Clear documentation of the whole engagement process is maintained by Australian Ethical and CAER. During the 2006–07 financial year Australian Ethical and CAER engaged with 17 companies on environmental and social issues. This represented twelve per cent of the 145 investee entities held at the end of the 2007 financial year.

Proxy voting policy

Australian Ethical has made a commitment to vote (or make a considered decision to abstain) on investee company resolutions where it has voting authority and responsibility to do so (consistent with IFSA Standard No 13.00 – Proxy Voting). At 30 June 2006, the percentage of investments where Australian Ethical held the right to vote was approximately 70 percent. As at the end of June 2007 this percentage represented approximately 93 percent of the investments held by the company. This reflects a substantial increase in proxy voting coverage over the previous year.

Decisions on how to vote proxies are made on a company-by-company, resolution-by-resolution basis with regard to the following points:

- the preservation and increase of the value of the investment in the best interests of members in the trust
- improving and upholding the governance of investee companies
- the overall performance of the investee company

- the application of the Australian Ethical Charter with respect to the resolution under consideration.

During the 2006–07 financial year, Australian Ethical voted proxies for almost all Australian investee companies where notification was received. There were only ten entities for which no proxies were voted, mainly because there were no requirements to do so, there were no voting rights or no notification was received. A total of 467 resolutions were voted on across the Balanced Trust, Equities Trust, and Large Companies Share Trust (no shares are held by the Income Trust, which means this precludes the trust from the proxy voting process).

Of the 467 resolutions voted on across the three Trusts, 12 were voted ‘against’ and Australian Ethical ‘abstained’ from voting on eight. The negative votes related to remuneration issues (director fees and the issue of options to directors), discharging directors and executive management from liability, a proposal regarding a company’s energy use and a performance share plan being limited to senior executives, including the executive directors of a company. The resolutions which were abstained from voting on this year related to companies making political donations, insufficient information being provided for a particular resolution and analysts being uncertain of some international company laws.

In May 2006 Australian Ethical registered with Proxyedge, so the company has been able to vote online for international, as well as domestic holdings for the period covered by this report. The company recently moved to use National Custodian Services as its custodian and will be able to vote online through Votex from now on. This means all future proxy voting will take place online through the Votex system.

Further information on Australian Ethical’s proxy voting policy and proxy voting record for the period 1 July 2006 to 30 June 2007 is available on the company’s website www.austethical.com.au.

Product and service labelling

Under the *Corporations Act 2001* (amended by the Financial Services Reform Act), a retail client should receive a product disclosure statement before acquiring a financial product. A product disclosure statement is a document that sets out the key features of the financial product being offered and should include any risks, benefits and cost involved with the financial offering. Australian Ethical’s policy is to complete and distribute a product disclosure statement as required by law and in accordance with company compliance procedures.

Company procedure includes the review of product disclosure statements by appropriate sections within Australian Ethical, this is then completed through

verification and sign-off by the section head. Product disclosure statements are reviewed by Australian Ethical's legal team and board delegates who are deemed responsible for overseeing the review of the document.

In addition to this, tenet 'b' of the Australian Ethical Charter states that the company should seek out and support production of high quality and properly presented products and services. Adherence to this tenet is required internally by Australian Ethical as well, as it is enshrined in the company constitution. Hence the same standard applies to the company's internal operations as the Charter would require the company's support of an investee company or potential investment. In short 100 per cent of the company's products and services are subject to these information requirements.

In the 2006–07 financial year there were no incidents of non-compliance with regulations and voluntary codes concerning products and service labelling.

The company regularly monitors customer satisfaction to gauge potential specific areas of concern for customers. During the 2006–07 financial year, the company recorded a total of 48 complaints. This is an increase from the 36 complaints recorded in 2006. The most common complaints were in relation to general processing, representing around 23 per cent of overall complaints, a decrease of around 4 per cent on the previous year. Less than 5 per cent of complaints were concerning fees. All complaints were addressed in a professional and satisfactory manner.

Marketing communications

Company marketing activities are carried out within the broader context of the Australian Ethical business plan and the overall strategy of the marketing section. These company activities are carried out in accordance with marketing section procedures and the Australian Ethical constitution. Programs for adherence to laws, standards, and voluntary codes that have particular relevance to Australian Ethical's marketing activities include the *Corporations Act 2001*; Goods and Services Tax; National Privacy Principles; Copyright; *Spam Act 2003*; *Trade Practices Act 1974*, Australian Securities and Investments Commission (ASIC); Investment and Financial Services Association Limited; Association of Superannuation Funds of Australia Limited; and the Advertising Standards Council.

Customer privacy

There were no complaints from customers regarding breaches of customer privacy or losses of customer data during the 2006–07 financial year.

Compliance

No significant breaches were reported to ASIC during the reporting period. The Australian Prudential Regulation Authority (APRA) was notified of several minor matters as required under the group's registrable superannuation entity licence. The company secretary maintains a breach register and the compliance committee compiles an annual report for the Australian Ethical board.

Concluding remarks

This 2007 sustainability report is Australian Ethical's sixth such report. Each report has been prepared with reference to the global reporting initiative. Australian Ethical is one of a very select few small to medium enterprises around the world that can boast such a strong history of sustainability reporting.

We hope that you have found the report both interesting and informative. If you have any suggestions on ways in which to improve the content and quality of the report, please fill in the feedback form located at the back of this report or on the Australian Ethical website www.austethical.com.au.

For further information on Australian Ethical's economic, environmental and social activities, please contact:

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Appendices

Appendix A – Organisations awarded grants under Australian Ethical's community grants program – 2007

\$50 000

- The Australia Institute: *teaching materials on climate change for Australian Schools*

\$10 000

- The National Trust of Australia (ACT) – St Johns Church Heritage Conservation Fund: *conservation of the Golden Sun Moth and its habitat*
- Engineers Without Borders: *improving the curriculum, teaching capacity and graduate success of the Cambodian School of Prosthetic and Orthotics (CSPO)*
- Friends of the Earth Australia: *anti-nuclear campaigns*

\$6600

- ACT Eden Monaro Cancer Support Group
- Barefoot Economy
- Australian Marine Conservation Society
- Camp Quality
- Australians for Disability and Diversity Employment
- Pedal Power ACT
- WIRES (NSW Wildlife Information, Rescue and Education Service)
- Bicycle Federation of Australia
- NRMA CareFlight
- WaterAid Australia

\$2900

- Animal Liberation NSW
- Asylum Seeker Resource Centre

- Australian Crohn's & Colitis Association
- Australian Drug Foundation
- Canberra Environment and Sustainability Resource Centre
- Conservation Council south east region and Canberra
- Edgar's Mission
- Head High
- Hepburn Wildlife Shelter
- National Parks Association of New South Wales
- Rainforest Rescue
- Respite Care Bega Valley
- Aid/Watch
- Animals Asia Foundation (Australia)
- Chrysalis Insight Incorporated
- Fair Trade Association of Australia and New Zealand
- HopeStreet Urban Compassion
- International Women's Development Agency
- Kids Under Cover
- Mineral Policy Institute
- New Internationalist Publications
- Prison Fellowship Australia (Victoria)
- Vulcana Women's Circus
- Darling Range Wildlife Shelter
- Marine Stewardship Council (Asia Pacific)
- The Friends of Oolong
- Wildlife Preservation Society of Queensland

Appendix B – Organisations awarded grants under Australian Ethical’s community grants program – 2006

\$9000

- Australian Marine Conservation Society
- Australians for Disability and Diversity Employment
- Eden Aboriginal Evangelical Church
- Médecins Sans Frontières

\$6000

- Alternative Technology Association
- Solar Power for East Timor
- Australian Bush Heritage Fund
- Clean Ocean Foundation
- Engineers without Borders – WA Chapter
- Lismore Soup Kitchen
- The Coastwatchers Association

\$3500

- Australian Conservation Foundation
- Barefoot Economy
- Deadly Treadlies
- Environmental Defenders Office – ACT
- Hopetree Cleaners with a Mission
- Huon Valley Environment Centre
- Southern Cross Kid’s Camps
- TEAR Australia
- The Wilderness Society
- Tolga Bat Rescue
- Water Aid

\$2050

- Animal Liberation – NSW
- Anti-Slavery Project

- Australia and New Zealand Solar Energy Society
- Australian Seabird Rescue
- Bicycle Federation of Australia
- Wyalong & District Community Transport Group Inc
- Brush Tailed Rock Wallaby Recovery team
- Camp Ichthus
- Communities at Work
- Conservation Council of the South East Region
and Canberra
- Fair Trade Association of Australia and New Zealand
- Foster Care of Australia’s Unique Native Animals
- Friends of the Earth Australia (Climate Justice campaign)
- Greening Australia – SA
- Hepburn Wildlife Shelter
- International Women’s Development Agency
- Kingfisher Centre
- Migrant Resource Centre
- Mineral Policy Institute
- Murrumbateman Landcare Group
- Najidah Association
- Otis Foundation
- Pedal Power
- RSPCA Lonsdale Shelter – SA
- The Climate Group
- Total Environment Centre
- Towamba Community Progress Association
- Wildcare
- NSW Wildlife Information and Rescue Service (WIRES)

Global reporting initiative indicators

GRI content index

Source: Global reporting initiative (GRI) G3 guidelines

PROFILE	Page No.	Reason for omission
1. STRATEGY AND ANALYSIS		
1.1 Statement from the most senior decision maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	1-2	
1.2 Description of key impacts, risks, and opportunities.	1-2	
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation.	3	
2.2 Primary brands, products, and/or services.	3	
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	3	
2.4 Location of organisation's headquarters.	3	
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	3	
2.6 Nature of ownership and legal form.	3	
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	3	
2.8 Scale of the reporting organisation, including: <ul style="list-style-type: none"> • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalisation broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. 	3	
2.9 Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> • The location of, or changes in operations, including facility openings, closings, and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations). 	4	
2.10 Awards received in the reporting period.	4	
3. REPORT PARAMETERS		
Report Profile		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	6	
3.2 Date of most recent previous report (if any).	6	
3.3 Reporting cycle (annual, biennial, etc.)	6	
3.4 Contact point for questions regarding the report or its contents.	6	
Report Scope and Boundary		
3.5 Process for defining report content, including: <ul style="list-style-type: none"> • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. 	6	
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	7	
3.7 State any specific limitations on the scope or boundary of the report.	7-8	
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	7	

3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	8	
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	8	
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	7-8	
<u>GRI Content Index</u>		
3.12 Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found: <ul style="list-style-type: none"> • Strategy and Analysis 1.1 – 1.2; • Organisational Profile 2.1 – 2.10; • Report Parameters 3.1 – 3.13; • Governance, Commitments, and Engagement 4.1 – 4.17; • Disclosure of Management Approach, per category; • Core Performance Indicators; • Any GRI Additional Indicators that were included; and • Any GRI Sector Supplement Indicators included in the report. 	74	
<u>Assurance</u>		
3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider(s).	8-9	
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
<u>Governance</u>		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	10-14	
4.2 Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement).	11-12	
4.3 For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	11-12	
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: <ul style="list-style-type: none"> • The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and • Informing and consulting employees about the working relationships with formal representation bodies such as organisation level 'work councils', and representation of employees in the highest governance body. Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period. 	23, 26	
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	15-18	
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	19-20	
4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	11-13	

4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. Explain the degree to which these: <ul style="list-style-type: none"> • Are applied across the organisation in different regions and department/units; and • Relate to internationally agreed standards. 	5, 18-20	
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	10	
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	14	
<u>Commitments to External Initiatives</u>		
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	21	
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	21	
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: <ul style="list-style-type: none"> • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic. 	21-22	

<u>Stakeholder Engagement</u>		
4.14 List of stakeholder groups engaged by the organisation. Examples of stakeholder groups are: <ul style="list-style-type: none"> • Communities; • Civil society; • Customers; • Shareholders and providers of capital; • Suppliers; and • Employees, other workers, and their trade unions. 	23	
4.15 Basis for identification and selection of stakeholders with whom to engage.	23	
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	23-27	
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	23-27	
5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS		
<u>Economic Performance Indicators</u>		
<u>Disclosure on Management Approach</u>		
<u>Aspect: Economic Performance</u>		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. (Core)	28-31	
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change. (Core)	31-32	
EC3 Coverage of the organisation's defined benefit plan obligations. (Core)	32	
EC4 Significant financial assistance received from government. (Core)	32	

Aspect: Market Presence		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)	-	Australian Ethical was not able to collect this information for the 2006–07 report. The company aims to include this indicator in the future.
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)	33	
EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. (Core)	33-34	
Aspect: Indirect Economic Impacts		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core)	34	
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)	-	Australian Ethical was not able to collect this information for the 2006–07 report. The company aims to include this indicator in the future.
Environmental Performance Indicators		
Disclosure on Management Approach	35-49	
Aspect: Materials		
EN1 Materials used by weight or volume. (Core)	39-40	
EN2 Percentage of materials used that are recycled input materials. (Core)	38-39	
Aspect: Energy		
EN3 Direct energy consumption by primary energy source. (Core)	41-42	
EN4 Indirect energy consumption by primary source. (Core)	41	
EN5 Energy saved due to conservation and efficiency improvements. (Additional)	41-43	
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)	41-43	
EN7 Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)	35-37, 41-43	
Aspect: Water		
EN8 Total water withdrawal by source.	43-44	
EN9 Water sources significantly affected by withdrawal of water. (Additional)	-	Water is supplied to Australian Ethical's offices by ActewAGL. ActewAGL provides water services to the people of the Australian Capital Territory (ACT). The ACT draws its water supply from two separate catchment systems, the Cotter River catchment and the Googong system. These water sources are not significantly affected by Australian Ethical's water use.
EN10 Percentage and total volume of water recycled and reused. (Additional)	-	During 2006–07, zero cubic metres of water were recycled/re-used (zero per cent of total water use). Neither Australian Ethical's old office at the Downer Business Park nor its new office at Trevor Pearcey House recycle or re-use water. Trevor Pearcey House does have rainwater tanks which collect water from the roof for use in flushing the toilets; however, this is not counted under this indicator.

Aspect: Biodiversity		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)	-	Australian Ethical's offices during 2006-07 were located in an urban environment in the Canberra suburbs of Downer and Bruce. These sites are not located in, or adjacent to, protected areas or areas of high biodiversity value.
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)	-	Australian Ethical, through its activities, products and services, seeks to preserve endangered ecosystems and biodiversity. During 2006-07, the company did not have a significant impact on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
EN13 Habitats protected or restored. (Additional)	-	During 2006-07, Australian Ethical was not directly involved in the protection or restoration of habitat.
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	-	As outlined in the Australian Ethical Charter, Australian Ethical seeks to preserve endangered ecosystems and biodiversity. In addition to selecting every investment with which we are involved in accordance with the Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Charter.
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)	-	Australian Ethical's offices during 2006-07 were located in an urban environment in the Canberra suburbs of Downer and Bruce. There are no IUCN Red List species or national conservation list species with habitats in the area affected by operations.
Aspect: Emissions, Effluent, and Waste		
EN16 Total direct and indirect greenhouse gas emissions by weight. (Core)	47-48	
EN17 Other relevant indirect greenhouse gas emissions by weight. (Core)	47-48	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	42-43, 47-48	
EN19 Emissions of ozone-depleting substances by weight. (Core)	-	Australian Ethical is an office based company. Emissions of ozone-depleting substances is considered to be a non-material issue for Australian Ethical. The company does not currently measure or report on this issue.
EN20 NO, SO, and other significant air emissions by type and weight. (Core)	-	Australian Ethical is an office based company. Emissions of NO _x , SO _x , and other air emissions is considered to be a non-material issue for Australian Ethical. The company does not currently measure or report on this issue.
EN21 Total water discharge by quality and destination. (Core)	-	Water discharged by Australian Ethical is limited to rainwater and domestic sewage. The company does not discharge effluents or process water to a facility for treatment.

EN22 Total weight of waste by type and disposal method. (Core)	46-47	
EN23 Total number and volume of significant spills. (Core)	-	As an office based company, Australian Ethical does not directly handle oil or fuel; however, a small amount of cleaning products are stored on-site. There were no significant spills recorded during 2006–07.
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)	-	The majority of Australian Ethical’s waste is general office waste, not deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII. A small proportion may be considered hazardous (e.g. batteries etc); however, this is not considered to be material.
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation’s discharges of water and runoff. (Additional)	-	As noted above, water discharged by Australian Ethical is limited to rainwater and domestic sewage. The limited amount of runoff from the Downer Business Park and Trevor Pearcey House does not significantly affect the biodiversity value of the local urban water bodies, Lake Burley Griffin and Lake Ginninderra..
Aspect: Products and Services		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)	48-49	
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	-	With the exception of marketing documents, Australian Ethical does not produce a physical product that can be recycled at the end of its useful life. Enquirers receiving Australian Ethical’s marketing documents may recycle the paper; however, it is unclear what percentage of the total documents mailed this would comprise.
Aspect: Compliance		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. (Core)	49	
Aspect: Transport		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation’s operations, and transporting members of the workforce. (Additional)	44-45, 47-48	
Aspect: Overall		
EN30 Total environmental protection expenditures and investments by type. (Additional)	49	
Labour Practices and Decent Work Performance Indicators		
Disclosure on Management Approach	50-60	
Aspect: Employment		
LA1 Total workforce by employment type, employment contract, and region.	50-51	
LA2 Total number and rate of employee turnover by age group, gender, and region.	51-52	
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	53	

Aspect: Labour/Management Relations		
LA4 Percentage of employees covered by collective bargaining agreements. (Core)	-	All of Australian Ethical's staff are employed under individual contracts due to the size of the company and the diversity of positions held by employees within it.
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. (Core)	-	Australian Ethical does not have a minimum period for notifying employees of any substantial operational changes. The company has stated, however, that a minimum of three months' notice will be given to any employee whose position has been made redundant due to business restructuring. The policies manual is currently being updated as the issue is currently not documented.
Aspect: Occupational Health and Safety		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)	-	Australian Ethical does not have a joint management/worker health and safety committee. However, employees are encouraged to raise potential occupational health and safety issues with their manager, the human resources manager or office administrator. This is stressed in the induction process.
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region. (Core)	54-55	
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)	-	Australian Ethical is not present in countries with high rates of communicable diseases nor is it in an industry linked to specific diseases or conditions. The company, therefore, does not have targeted education in this area.
LA9 Health and safety topics covered in formal agreements with trade unions. (Additional)	-	Australian Ethical does not have formal agreements with trade unions.
Aspect: Training and Education		
LA10 Average hours of training per year per employee by employee category. (Core)	55-57	
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	57	
LA12 Percentage of employees receiving regular performance and career development reviews. (Additional)	58	
Aspect: Diversity and Equal Opportunity		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)	58-59	Australian Ethical currently only collects data on the gender breakdown of governance bodies and employee groups. The company is looking at reporting additional diversity indicators in the future.
LA14 Ratio of basic salary of men to women by employee category. (Core)	59-60	

Human Rights Performance Indicators		
Disclosure on Management Approach	60-61	
Aspect: Investment and Procurement Practices		
HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)	60-61	
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	60-61	
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)	60-61	
Aspect: Non-Discrimination		
HR4 Total number of incidents of discrimination and actions taken. (Core)	61	
Aspect: Freedom of Association and Collective Bargaining		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)	61	
Aspect: Child Labour		
HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)	61	
Aspect: Forced and Compulsory Labour		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)	61	
Aspect: Security Practices		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional)	61	
Aspect: Indigenous Rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)	61	
Society Performance Indicators		
Disclosure on Management Approach	61-64	
Aspect: Community		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)	61-62	
Aspect: Corruption		
SO2 Percentage and total number of business units analysed for risks related to corruption. (Core)	62-63	
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core)	62-63	
SO4 Actions taken in response to incidents of corruption. (Core)	62-64	
Aspect: Public Policy		
SO5 Public policy positions and participation in public policy development and lobbying. (Core)	63-64	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)	64	
Aspect: Anti-Competitive Behaviour		
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional)	64	
Aspect: Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. (Core)	64	

Product Responsibility Performance Indicators		
Disclosure on Management Approach	64-71	
Aspect: Customer Health and Safety		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	-	Australian Ethical facilitates the ability for investors to invest ethically. This investment process takes into account cradle to grave impacts of business operations and their products, as well as health and safety. This indicator is not directly applicable to the services offered by the company. Company operations are all undertaken in the light of the Australian Ethical Charter, which requires the life cycle stages and health and safety impacts of businesses and their operations.
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)	-	As with the PR1 indicator above, while certain regulations and codes with regards to health and safety impacts are considered through the Australian Ethical Charter, the incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of business products and services are not relevant to company operations. Investment products and services provided by the company do not fall into the parameters of this particular indicator.
Aspect: Product and Service Labelling		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)	69-70	
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. (Additional)	69-70	
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)	69-70	
Aspect: Marketing Communications		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	70	
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. (Additional)	71	
Aspect: Customer Privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)	70	
Aspect: Compliance		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)	71	

GRI Application Level



Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures OUTPUT	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	

*Sector supplement in final version

Financial services: social performance indicators

Source: Global reporting initiative financial services sector supplement: social performance, November 2002.

SOCIAL PERFORMANCE INDICATORS (SPIs)	Page No.	Reason for omission
Corporate Social Responsibility (CSR) Management		
Management System		
CSR1 CSR Policy: Description of social elements of the CSR policy, including corporate definition of CSR.	5	
CSR2 CSR Organisation: Description of the structure and relevant CSR responsibilities, including explanation of the installed procedures.	10	
CSR3 CSR Audits: Number of audits and auditor hours.	8	
Sensitive Issues		
CSR4 Management of Sensitive Issues: Description of the procedures for handling issues sensitive to stakeholders and responsiveness.	23-27	
Compliance		
CSR5 Non-Compliance: Number of non-compliance incidents with any law or regulatory code of conduct.	64	
Participation		
CSR6 Stakeholder Dialogue: Description of stakeholder dialogue and involvement procedures.	23-27	
Internal Social Performance		
Policy		
INT1 Internal CSR Policy: Description of social responsibility issues covered in the company's human resources policies.	5	
Employment and Social Protection		
INT2 Staff Turnover and Job Creation	50-52	
INT3 Employee Satisfaction: Employee satisfaction, based on survey results, covering: <ul style="list-style-type: none"> • job security • remuneration & benefits • work/life-balance (including work pressure and stress) • training & development • internal communication culture • company's social performance towards society. 	23-25	
Compensation		
INT4 Senior Management Remuneration: Remuneration of senior management and board of directors. Includes all compensation	15-18	
INT5 Bonuses Fostering Sustainable Success: Bonuses that are not oriented purely towards short term financial success, but which contain additional sustainability elements.	16	
Equal Opportunity		
INT6 Female-Male Salary Ratio: Ratio of female to male salaries including bonuses, etc. per hierarchy level.	59-60	
INT7 Employee Profile: Employee profile per hierarchy level and country according to: <ul style="list-style-type: none"> • gender • ethnicity (for countries where this issue is of high relevance) • disability 	58-59	Australian Ethical currently only collects data on the gender breakdown of employee groups. The company is looking at reporting additional diversity indicators in the future.
Performance to Society		
Contributions		
SOC1 Charitable Contributions: Contributions to charitable causes, community investments and commercial sponsorships.	31-32	
Economic Value Creation		
SOC2 Economic Value Added: 'Value added' expresses the economic value created by a company's activities.	-	Australian Ethical was not able to collect this information for the 2006-07 report. The company aims to include this indicator in the future.

Suppliers		
Performance of Suppliers		
SUP1 Screening of Major Suppliers: Policy and procedures to screen suppliers' social performance.	-	Australian Ethical currently does not screen major suppliers.
Performance towards Suppliers		
SUP2 Supplier Satisfaction: Supplier satisfaction with e.g., prompt payment, prices and treatment.	-	Australian Ethical currently does not monitor supplier satisfaction although there are no recorded complaints from suppliers.
Asset Management		
Policy		
AM1 Asset Management Policy (socially relevant elements): Social criteria applied by the reporting organisation in Asset Management.	64-68	
Fostering Social Capital		
AM2 Assets under Management with High Social Benefit: Provision of tailored and innovative products and services applying special positive ethical/sustainability criteria.	64-68	
AM3 SRI Oriented Shareholder Activity: Description of activities with companies invested in, where CSR issues either are raised in communications with board and management or explicitly considered when exercising shareholder rights.	64-68	

Financial services: environmental performance indicators

Source: Global reporting initiative financial services sector supplement: environmental performance, March 2005.

ENVIRONMENTAL PERFORMANCE INDICATORS (EPis)	Page No.	Reason for omission
F1 Description of environmental policies applied to core business lines.	5	
F2 Description of process(es) for assessing and screening environmental risks in core business lines.	64-68	
F3 State the threshold(s) at which environmental risk assessment procedures are applied to each core business line.	64-68	
F4 Description of processes for monitoring clients' implementation of and compliance with environmental aspects raised in risk assessment process(es).	64-68	
F5 Description of process(es) for improving staff competency in addressing environmental risks and opportunities.	64-68	
F6 Number and frequency of audits that include the examination of environmental risk systems and procedures related to core business lines.	64-68	
F7 Description of interactions with clients/investee companies/business partners regarding environmental risks and opportunities.	64-68	
F8 Percentage and number of companies held in the institution's portfolio with which the reporting organisation has engaged on environmental issues.	64-68	
F9 Percentage of assets subjected to positive, negative and best-in-class environmental screening.	64-68	
F10 Description of voting policy on environmental issues for shares over which the reporting organisation holds the right to vote shares or advise on voting.	68-69	
F11 Percentage of assets under management where the reporting organisation holds the right to vote shares or advise on voting.	68-69	
F12 Total monetary value of specific environmental products and services broken down according to the core business lines.	28	
F13 Value of portfolio for each core business line broken down by specific region and by sector.	64-66	

Glossary

Abbreviation	Expanded name	Definition
FTE	full-time equivalent	Term used to express full-time and part-time staff on an equivalent full-time basis.
GRI	Global Reporting Initiative	This promotes international harmonisation in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making.
J	Joule	Unit of energy.
kl	Kilolitre	1000 litres.
KWh	Kilowatt-hour	Measure of electrical energy equivalent to a power consumption of 1000 watts (1000 joules/second) for one hour. Note: 1 kWh = 3.6 MJ.
MJ	Mega joule	1 000 000 joules.
W	Watt	Unit of power, equivalent to one joule per second.

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Australian Ethical Sustainability Report 2007

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