

australian**ethical**

SUSTAINABILITY
REPORT 2009

australian**ethical**[®] 
investment + superannuation

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'Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.'

Margaret Mead

Courtesy of The Institute for Intercultural Studies, Inc., New York

About this report

Report profile

This is Australian Ethical Investment Limited's (australian**ethical**'s) eighth sustainability report and covers the period from 1 July 2008 to 30 June 2009. australiane**thical** has an annual reporting cycle. The previous report covered the period from 1 July 2007 to 30 June 2008.

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Report scope and boundary

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 2009. It does not extend to the activities of the investments of the trusts and super funds managed by the australiane**thical** group, nor does it extend to the activities of its ethics research provider, CAER – Corporate Analysis Enhanced Responsibility.

The reporting of a number of environmental indicator aspects including materials, energy, water and waste is limited to australiane**thical**'s Canberra offices in Bruce. It does not include the activities of staff working off site. There has been no change in the report boundary since the previous reporting period.

Report scope

This report uses the GRI G3 Sustainability Reporting Guidelines & Financial Services Sector Supplement. The final Financial Services Sector Supplement was released in October 2008. An updated 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.

Restatements

Data that has been restated is identified in the text along with an explanation of the effect of any restatements and the reason for the restatement.

Assurance

australian**ethical**'s 2009 sustainability report was formally reviewed by Thomas Davis and Company, Chartered Accountants. A report resulting from this review was provided to the Directors of australiane**thical** and is presented on pages 44–46.

Chief Executive Officer's report



As this will be my last sustainability report to you as CEO, I thought I would indulge in a little retrospection. There is always so much to do that it is easy to lose sight of what we have achieved. Occasionally, it is useful to pause and look back. When I joined **australianethical** in late 2000 the company had \$85 million funds under management and profitability was minimal. We were little known in the mainstream financial market, indeed those who did know us considered us a quaint market oddity and I remain convinced that industry colleagues expected me to turn up to meetings in a caftan and were disappointed when I did not. There have been many challenges in our journey to increase the professionalism of the organisation and to grow our business and to do so in a way which did not compromise our commitment to the **australianethical** Charter. We have built a strong and profitable business which has weathered the most difficult of financial times well. We are now recognised as an expert in our field and respected for the commitment we have shown to our principles. We have met the challenges of continuous changes in legislation which have been thrust upon us. Today **australianethical** has a very professional and dedicated senior team and our key person risk has been significantly reduced. We are now well placed to handle the regulatory risks we face as a result of future changes to the superannuation system in Australia. These achievements are the result of a team effort. I have been privileged to lead that team and I am very proud that through our growth and significant change we have been able to retain the core of our distinct culture.

australianethical's long history of incorporating environmental, social and governance criteria into our investment approach presents us with a fantastic opportunity as these issues shift to the mainstream. A growing acceptance of the need for action on climate change and increased interest in the regulation of the finance sector has led to a greater awareness of sustainable investment. As a company, we are well placed to capitalise on growth in demand for responsible investment options.

Sustainability has always been a central focus for **australianethical**. I am proud that I have also overseen significant achievements in this area in my tenure as CEO. From the publishing of our first sustainability report in 2002 to our move to the six green star Trevor Pearcey House in 2007, **australianethical** has always taken practical steps to improve our environmental performance.

One of the environmental challenges we face as an organisation is reducing the amount of energy, water and paper used in our offices, as well as minimising the amount of greenhouse gas emissions and waste we produce. As demonstrated in the environment section of this report, we are leaders in the areas of energy and water efficiency. **australianethical** is determined to reduce its printer and photocopier paper use and has set a 10 per cent reduction target for 2009–10.

australianethical continues to lead our sector in philanthropy. Despite the difficult economic conditions facing fund managers in fiscal 2009, **australianethical** again gave 10 per cent of its profits to non-profit organisations, honouring the commitment in our constitution. \$140,868 was given to a diverse range of community organisations including Co-operation in Development (CO-ID), who build schools in some of the poorest regions of Bangladesh. Over the last decade **australianethical** has donated almost \$1 million in total to community organisations.

In this year's report we have placed particular emphasis on the issue of advocacy. The past 12 months has served as a reminder of some of the challenges we face as a result of climate change. Australia has seen some of the worst storms, floods and bushfires in its history. This has emphasised the need for greater corporate responsibility. Apart from improving our own environmental performance, **australianethical** can help build a more sustainable society by influencing the behaviour of others. This includes increasing company and investor awareness of environment, social and governance issues.

australianethical has a strong record when it comes to advocacy. Through proxy voting and company engagement we have always tried to change the behaviour of other companies for the better. We are now proud to be increasing our advocacy efforts with the launch of the Climate Advocacy Fund. The Fund will take holdings in companies with a view of changing their behaviour from the inside. It will focus on the full range of issues related to climate change, including greenhouse gas emission abatement, sustainable property development, population health, energy supply, bio-diversity and transport.

We have aligned our report with the G3 guidelines published by the Global Reporting Initiative (GRI 2008). GRI's G3 guidelines are used by companies and organisations worldwide as a framework for sustainability reporting. 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 **australianethical** website www.australianethical.com.au.

A handwritten signature in black ink, appearing to read 'Anne O'Donnell'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Anne O'Donnell
Chief Executive Officer

Company profile

australian**ethical** 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. australiane**ethical** became a publicly listed company on the Australian Securities Exchange in December 2002. As at 30 June 2009 the company had 53 employees and \$535 million in funds under management on behalf of over 18,000 responsible investors. Revenue for the year to 30 June 2009 was \$13,131,431, a seven per cent decrease 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 using judicious investment throughout Australia as well as internationally. It currently manages six retail unit trusts: the Balanced Trust, Smaller Companies Trust (previously known as the Equities Trust), Larger Companies Trust (previously known as the Large Companies Trust), Income Trust, International Equities Trust and Property Trust. Its wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, is Trustee for five accumulation and five pension superannuation strategies: the Balanced Strategy, Equities Strategy, Large Companies Share Strategy, World Strategy and Income Strategy.

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 australiane**ethical** Charter (see page 9) 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

australian**ethical** carefully navigated the turmoil of the global financial markets over the last twelve to eighteen months. While inflows have reduced significantly, particularly to our non-superannuation managed funds, we have held outflows at a stable level and preserved investor confidence in both our brand and our investment approach.

There were no significant changes to the size, structure or ownership of australiane**ethical** during the reporting period.

In August 2008 Martin Halloran was appointed Chief Investment Officer, bringing considerable experience and strength to the AEI investment team. In November 2008,

the company's Chief Information Officer (and executive director), Caroline Le Couteur, left the company after being elected to the ACT Legislative Assembly as a member of the ACT Greens.

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 in an investment portfolio comprising triple A rated (or equivalent) securities, senior bank debt and corporate rated debt.

Events subsequent to balance date

On 11 August 2009 the company announced that Anne O'Donnell would end her employment as CEO effective 11 December 2009. The Board has commenced a search for a replacement CEO and expects to complete this by November 2009.

On 8 October 2009 the company launched the Australian Ethical Property Trust – this trust aims to provide a lower risk vehicle for investors, while capitalising on government and consumer support for green buildings. It is unique in the market, and once it starts to grow will be an exciting option within our product suite.

In October 2009 the company also announced details of the Climate Advocacy Fund – this is a new type of trust in the Australian market. It will be a low fee, passive portfolio construction, index fund that advocates in a responsible way through its shareholdings on matters relevant to the australiane**ethical** Charter. It will have a particular focus in the early years on climate and environmental issues, but may also engage with investee companies on broader issues under our Charter, such as social issues.

Awards

australian**ethical** won a number of sustainability awards this year.



Banksia Built Environment Award received for Trevor Pearcey House from the Banksia Environmental Foundation Awards – July 2008

Trevor Pearcey House won the Banksia Environmental Foundation award for the Built Environment. The Banksia Environmental National Awards, now in its twentieth year, are regarded as the most prestigious environmental awards in Australia. The Prime Minister, Kevin Rudd, is the Chief Patron of the awards. Deputy Prime Minister, Julia Gillard and the Minister for the Environment, Heritage and the Arts, Peter Garet attended the awards evening.



Australian Ethical Equities Trust awarded the Ethical Investor Fund of the Year Award at the 2008 Australian Sustainability Awards – December 2008

Lonsec, the award judge said 'the fund scored highly on the depth of socially responsible investment and was a clear outperformer over the assessed period.' The Australian Ethical Equities Trust was ranked second, first, first and first over one, two, three and five years out of 40 Multi-Sector High Growth funds (Morningstar).



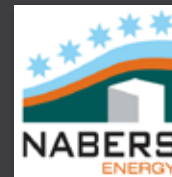
First runner up for Best SME Report at the CR Reporting Awards 2008 – March, 2009

Australian Ethical Investment's 2007 Sustainability Report was awarded first runner up for Best SME Report at the CR Reporting Awards 2008. Global and independent, the CR Reporting Awards identify and acknowledge the best in corporate non-financial reporting. The CR Reporting Awards are managed by CorporateRegister.com the world's largest online directory of corporate responsibility and sustainability reports.



Infinity Award presented to the Australian Ethical Retail Superannuation Fund for the most environmentally and socially conscious fund – March 2009

For the second year in a row, the Australian Ethical Retail Superannuation Fund won the Infinity Award at the Conference of Major Super Funds (CMSF). The Infinity Award, presented by SuperRatings, signifies the Fund as Australia's most environmentally and socially conscious fund and a leader in sustainable investment and sustainable business practices.



Awarded 5 star NABERS Energy whole building rating for Trevor Pearcey House – June 2009

NABERS benchmarks a building's greenhouse impact on a scale of one to five, one star being the most polluting and five stars the least. The rating system assists owners and tenants to reduce energy use, energy costs and greenhouse emissions. The NABERS Energy rating is effective until July 2010.

Shareholder Advocacy

australian**ethical** has a long and proud history of advocacy. It is our belief that in order to build a more sustainable society it is imperative that organisations strive to improve their environmental performance and also try to positively influence the behaviour of others. australiane**thical** has consistently engaged a variety of companies with the aim of increasing awareness of environmental, social and governance (ESG) issues. For example, over the last few years numerous Australian companies have been encouraged to participate in the Carbon Disclosure Project (CDP). There has also been a drive to increase investor awareness of ESG issues through a number of initiatives, including a biannual *Aim High* newsletter. australiane**thical** has noticed an increased awareness of environmental, social and governance issues among investors in the past decade.

For some investors there is a tension between a desire to move portfolios away from unsustainable or 'unethical' industries (a capital boycott), the consequent cost of active portfolio management and the desire to achieve investment returns in line with the broader market for low fees.

The Climate Advocacy Fund has been developed for investors concerned with this tension. As a part-owner of companies in the index, the fund will engage directly with companies to pursue improved ESG outcomes. Such engagement is central to the advocacy process. It is a persistent, methodical and intellectually informed process to create sustainable and meaningful improvements in corporate behaviour.

The fund's corporate researchers use matrices developed over many years to identify and monitor ESG issues relevant to companies included in the S&P/ASX 200. Shortcomings are raised with companies through letters and meetings, the results of which are made public.

If this process fails to deliver appropriate improvements in corporate behaviour, the next stage is to propose and support resolutions at company annual general meetings (AGMs). The arrangements for this fund mean it will participate in the process of putting resolutions at AGMs, a right not often afforded to small groups of concerned shareholders.

Today, companies are placing increased importance on the value of responding positively to such engagement and the resulting public goodwill.

The Climate Advocacy Fund will focus on the full range of issues related to climate change, including greenhouse gas emission abatement, sustainable property development, population health, energy supply, bio-diversity and transport.

When companies are asked about their record on corporate social responsibility, a common response is that their owners, the investors, are not interested.

Owners raising issues directly with company management can lead to improved performance on ESG issues by:

- improving knowledge of the issues involved

- raising the profile and priority of the issues within the company
- empowering individuals within the company who are personally motivated on these issues
- raising awareness within the company of stakeholder views and concerns on these issues, and flagging potential areas of reputational risk for the company

If these approaches fail, concerned investors can seek to put statements or resolutions to meetings of shareholders. Resolutions do not have to be passed to have an impact. Even resolutions that are not carried inform other shareholders about a company's poor record or highlight the level of interest in addressing specific issues.

Research shows that companies which perform well on ESG measures also perform well financially, so long-term investors should regard dialogue on these issues as good financial management.

A number of organisations provide reporting frameworks for companies to disclose their greenhouse gas emission 'footprint.' The CDP and the GRI sustainability reporting guidelines are useful resources for investors who want to take these matters into account in managing their portfolios. They provide industry sector benchmarks that help investors to judge the leaders and laggards.

In some cases, the Climate Advocacy Fund as a first step might send letters to senior managers of companies that have not responded to reporting frameworks, asking them about their non-participation and encouraging them to respond in future. This communication would also provide a positive message, providing the company with relevant contact details, timelines and links to resources to help them in preparing future responses.

A second step would be to participate in resolutions put to company AGMs to encourage such reporting. For example, 24 resolutions were filed during the 2009 corporate voting season in the United States requesting companies to issue sustainability reports to the GRI standards. These resolutions were filed by sponsors associated with the Interfaith Center for Corporate Responsibility, which is based in New York (www.iccr.org).

climate
ADVOCACYfund

Investing ethically

Ethical investment integrates environmental, social and governance factors into all financial decisions. In **australianethical**'s case, these factors are enshrined in the **australianethical** Charter to contribute to a sustainable society and the protection of the natural environment while obtaining a financial return commensurate with associated risks.

australianethical has been specialising in ethical and sustainable investment for over two decades. **australianethical**'s product range includes ethical superannuation and managed funds, both offering a broad range of investment strategies.

Ethical and sustainable investors seek to benefit from investment in companies whose activities make a positive difference on a range of ethical, social and environmental issues.

So as well as making personal efforts to reduce water and energy use, taking public transport and recycling, sustainable investment allows money to work towards making a positive difference too.

While many sustainable funds only avoid certain stocks, **australianethical** is unique in actively seeking investment in companies with superior environmental and social credentials. These companies are generally in industries such as renewable and efficient energy, organic foods, sustainable transport, recycling and water technologies.

australianethical invests in approximately 128 entities through its managed funds. 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.

For over two decades **australianethical** has produced competitive financial returns allied with strong ethical values.

Why it works

Taking account of a company's environmental, social and governance performance makes good investment sense. Over the long term companies that do better at managing their environmental risks and responsibilities should also perform better commercially.

The managers of the companies we select are more likely to think ahead, to care for staff, customers and the environment, and to use resources wisely.

Sustainable investment screening helps avoid companies with a higher risk of serious health, safety or environmental problems in the future leading to fines, compensation payouts and investor contempt.

Society is increasingly requiring business to meet the full environmental costs of production. This leads to an increasing demand for sustainable goods and services, raising the profits of the firms that supply them. We believe sustainable industries are the industries of the future.

Our sustainable investments

australianethical goes beyond offering just a 'one size fits all' sustainable/ethical investment option. Rather it offers a broad range of investment options suitable for different times of life and different financial circumstances. Options range from a conservative income fund through to more high risk share-based funds. Investment options are described in detail in product guides and documents.

All of **australianethical** investment options adhere to the same rigorous ethical criteria.

The **australianethical** 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.

All of **australianethical's** investment decisions are aligned with our Charter. The charter guides the sort of corporate activities that **australianethical** seeks to avoid or support. The Charter contains both environmental and social components, including specific human rights elements.

Date of adoption: 1986. Applies worldwide.

The constituting documents of Australian Ethical Investment Ltd contain this Charter.

THE TRUSTS SHALL AVOID ANY INVESTMENT WHICH IS CONSIDERED TO UNNECESSARILY:

- i. pollute land, air or water
- 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 **australianethical** 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.*

Governance

The following section outlines **australianethical's** governance structure and related policies, with particular emphasis on environmental, social and ethical issues. For further detail on **australianethical's** corporate governance please refer to **australianethical's** 2009 annual report and website www.australianethical.com.au.

Governance structure

australianethical has a unitary board structure, with one board of directors comprising non-executives and executives. The board is responsible for overseeing the company's goals and for developing strategic plans to achieve those goals. The **australianethical** 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 **australianethical's** CEO.

As at 30 June 2009 the board of **australianethical** comprised seven directors of which three were considered independent (Table 1).

Table 1: **australianethical** board of directors during 2008–09

Name	Position	
Caroline Le Couteur	Executive, non-independent	Retired 27 November 2008
James Thier	Executive, non-independent	
Howard Pender	Executive, non-independent	
Naomi Edwards (Chair)	Non-executive, independent	
Justine Hickey	Non-executive, independent	
Anne O'Donnell (CEO, Managing Director)	Executive, non-independent	Resigned directorship 11 August 2009
Les Coleman	Non-executive, non-independent	
André Morony	Non-executive, independent	

Committees

To assist in its work the board has established the following committees: Audit, Compliance and Risk committee; Remuneration and Nominations committee; and Investment committee. The role and composition of each committee as at 30 June 2009 is detailed below.

Audit, Compliance and Risk committee:

The Audit, Compliance and Risk 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. The 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 (chair, independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity), Naomi Edwards (independent non-executive director), Les Coleman (non-independent, non-executive director).

Remuneration and Nominations committee:

The Remuneration and Nominations 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. The committee is responsible for assessing the necessary and desirable competencies of directors, ensuring the directors have the appropriate mix of competencies to enable the board to discharge its responsibilities effectively, developing board succession plans to ensure an appropriate balance of skills and expertise is maintained, and making recommendations to the board relating to the appointment and retirement of directors

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

Investment committee:

The investment committee oversees the processes which govern the investment of monies of the trusts for which **australianethical** is the responsible entity and the investment of monies for which **australianethical** has a mandate. The committee also oversees the ethics of investments, through developing a policy to ensure desired and consistent application of the **australianethical** Charter, and monitors product consistency with the Charter.

Membership: Justine Hickey (chair, independent non-executive director), Howard Pender (executive director), André Morony (independent non-executive director).

Board and director evaluation

The directors undertake an annual self-assessment of their collective and individual performance and seek specific feedback from the senior management team.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results

Governance

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. An assessment in accordance with the above process was undertaken in the relevant period.

Economic, environmental and social policies

australian**ethical**'s vision

To be (and be recognised as) Australia's pre-eminent ESG investment manager and to provide investors and shareholders with a competitive return for chosen risk.

australian**ethical**'s mission

To invest monies safe trusted to us in a way that delivers competitive rates of return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the environment AND to promote the investment of money in this way.

In addition to selecting every investment according to the **australianethical** Charter, **australianethical** aims to conduct its operations in accordance with the tenets of the **australianethical** Charter as well. In particular it aims to:

- ensure 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 business operations
- encourage, care for and provide educational opportunity for fellow workers, respect their individual needs and aspirations
- nurture staff participation in the ownership and control of **australianethical**

australian**ethical** Charter

The board is required to further the aims set out in the **australianethical** Charter as incorporated in the **australianethical** constitution. The Charter sets out 23 ethical principles applied across the entire operations and activities of the company (see page 9).

Code of conduct

australianethical's code of conduct has been endorsed by the board and applies to all employees and directors. The code provides professional and ethical standards expected

by the company. **australianethical** always seeks to adhere to the code in dealings with stakeholders. The company strives to achieve conduct that is over and above best practice.

Specific standards of conduct throughout 2008–09:

- we must be aware of conflicts
- we must not participate in insider trading
- we must not make unauthorised gains or payments
- we must only use company assets as authorised
- we have obligation of care and diligence
- we must protect confidential and personal 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 **australianethical**
- we must be familiar with policies and procedures that relate to our work
- we have responsibilities to shareholders and the community

The full version of the **australianethical** code of conduct and its share trading policy can be found on **australianethical**'s website www.australianethical.com.au. The code was last updated on 27 August 2008. A whistleblowing support policy guides employees on how to disclose or alert the company on any individual or organisational malpractice. The company's external counselling service may be used by employees to discuss and consider their personal position if unsure about procedures relating to the code of conduct or any other company policy.

The board has also adopted a separate policy for the management of conflicts of interest. The company's compliance officer maintains a conflict of interest register which is reviewed at each board and audit, compliance and risk committee meeting. Details on board responsibility and the independence of directors are documented in **australianethical**'s 2009 annual report (pages 9-10).

Remuneration

Directors:

Remuneration of directors is determined by the general meeting which occasionally sets the aggregated amount of remuneration payable to directors. Within the approved aggregated amount, fees paid to individual directors for services as a director are determined by the board. Currently, the chair receives the highest amount, with other directors receiving a lesser, equal amount. Directors' pay is determined with regard to market rates

Governance

for similar businesses operating in similar industries, and recommendations made by the remuneration committee. **australianethical** currently has no explicit linkages between director remuneration and key social and environmental performance indicators. Details of the remuneration paid to directors and specified executives during the 2008–09 financial year are set out in the director's report within the 2009 annual report (pages 19-20).

Secretaries, senior managers, executive directors and group executives:

australianethical's fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. To ensure this principle the company reviews individual remuneration annually. Remuneration levels are reviewed along external benchmarks and **australianethical**'s own policies relating to employee benefits and work/life balance. Further details on remuneration of senior managers, executive directors and group executives are set out in **australianethical**'s 2009 annual report (pages 17-18).

Performance-based remuneration and company performance:

During the reporting period remuneration of three senior executives included an 'at risk component' linked to performance criteria. There was no explicit linkage between the performance criteria set for the senior executive and key social and environmental performance indicators (see details in 2009 annual report, pages 18-20).

As determined by the company constitution all permanent staff are eligible to participate in the staff bonus. The payment of the bonus is set by reference to the company's profit for a relevant year. An incentive relating to medium and long term company performance during the period was **australianethical**'s employee share ownership plan. The plan was used to promote employee ownership of the company. Details of the employee share ownership plan and options issued under the plan are set out within the 2009 annual report (page 52-53). Staff remuneration is not explicitly linked to key social and environmental performance indicators.

Risk management and identification

The company has established policies for the oversight and management of material business risks. The company's risk management guide is available from the corporate governance section of the company's website.

The board has required management to implement a risk management system consistent with the company's risk management guide. The board has required management to report to it on whether material business risks are being appropriately managed. During the relevant period,

management has reported to the board's Audit, Compliance and Risk committee and directly to the board as to the effectiveness of the entity's management of its material business risks.

The CEO and risk management 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 the precautionary principle. The precautionary principle dictates that if an action or policy might cause severe or irreversible harm to the public or to the environment, in the absence of a scientific consensus that harm would not ensue, the burden of proof falls on those who would advocate taking the action. Examples of australiane**thical**'s use of the precautionary principle include the application of the Charter to all investment decisions, being a signatory to the UN Principles for Responsible Investment, and involvement with a number of other sustainability initiatives and associations.

External initiatives

australian**ethical** appreciates the importance of supporting external initiatives which promote a sustainable future in ways which is relevant to australiane**thical**'s goals and activities; as such australiane**thical** is a signatory to the following initiatives:

- *Carbon Disclosure Project*
'The Carbon Disclosure Project launched in 2000 to collect and distribute high quality information that motivates investors, corporations and governments to take action to prevent dangerous climate change.'
(CDP 2009)
- *UN Principles for Responsible Investment*
'The PRI aim to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.'
(PRI 2009)

Association memberships

Further to the involvement in initiatives such as the UN PRI, australiane**thical** also holds memberships in various associations and industry bodies related to the superannuation and ethical investment sector; the advancement of equal opportunities and employee satisfaction; and customer service. australiane**thical** or its subsidiary australiane**thical** 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 2009)

- *Association of Superannuation Funds of Australia Limited (ASFA)*
'ASFA is a national, not-for-profit, non party political organisation that represents the interests of Australia's superannuation funds, their trustees and their members.'
(ASFA 2009)
- *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 the equitable inclusion of people with disability in all aspects of business.'
(AEND 2009)
- *Responsible Investment Association Australasia (RIAA)*
'The Responsible Investment Association Australasia (RIAA) is the peak industry body for professionals working in responsible investment in Australia and New Zealand.'
(RIAA 2009)
- *Financial Ombudsman Service*
'The Financial Ombudsman Service helps to increase public awareness and access to external dispute resolution processes for consumers by providing a single national service for banking, insurance and investment disputes in Australia.'
(FOS 2009)
- *Global Reporting Initiative (GRI)*
'The Global Reporting Initiative's (GRI) vision is that disclosure on economic, environmental, and social performance become as commonplace and comparable as financial reporting, and as important to organizational success.'
(GRI 2009)
- *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 2009)
- *Investor Group on Climate Change Australia/New Zealand (IGCC)*
'The IGCC represents institutional investors, with total funds under management of approximately \$500 billion, and others in the investment community interested in the impact of climate change on investments.'
(IGCC 2009)
- *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 2009)

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. australiane**thical**'s primary 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. Furthermore, the company identifies the environment and future generations as stakeholders in the company.

Approaches to stakeholder engagement and response to concerns

Engagement with employees

Staff advocate

The views and ideas of all australiane**thical**'s employees are strongly valued by the company's board and management – indeed it is the company's employees which ultimately determine the success of australiane**thical** and its goals. As such, australiane**thical** uses a designated staff advocate to facilitate communication between staff, management and the board. The staff advocate is elected by staff every two years and dedicates around 10 per cent of their working week to these duties. The employee advocate for 2008–09 was Tim Kelly, who stood down as staff advocate in July 2009 and was replaced by Stephen Hyam. Tim Kelly's commitment and contributions as the staff advocate between 2007 and 2009 was greatly appreciated by australiane**thical**'s employees, management and board.

During 2008–09 the areas of employee engagement included:

- the strategic planning day
- updates to various staff policies and procedures
- sick leave and leave loading changes
- office environment comfort
- ethics and board composition

Employee satisfaction and surveying employees

The employee satisfaction survey showed once again that overall, australiane**thical** staff continue to be a pretty satisfied group (Table 2). The response rate of 70.9 per cent is a slight drop from that of the 2008 survey which registered a response rate of 72.9 per cent. Our staff reported high satisfaction levels in a number of areas including flexibility of work hours, staff benefits and overall job satisfaction. Overall, 71 per cent of staff were satisfied with australiane**thical** as an employer (Figure 1), though less staff reported being 'very satisfied' than previously (Table 2). Other areas with lower levels of satisfaction included job security (in light of the global financial crisis), work/life balance, training and internal communication (Table 2).

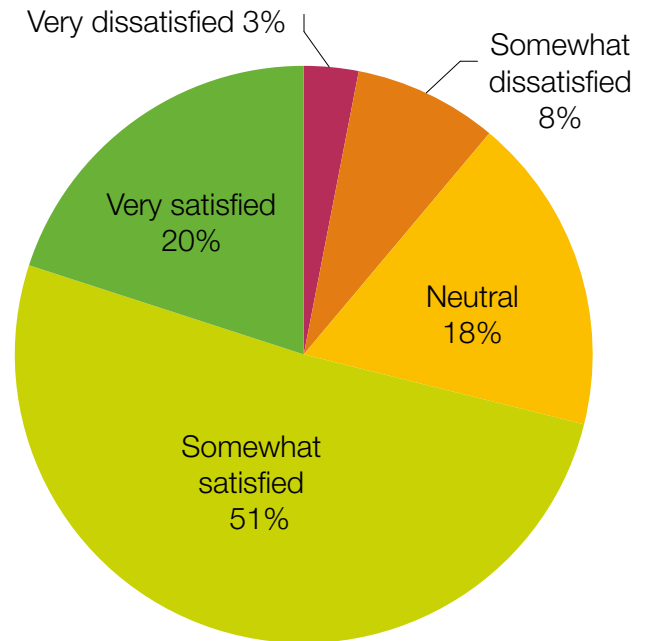


Figure 1: australiane**thical** as employer - satisfaction rating from 2009 employee survey

Table 2: Employee survey results for 2007, 2008 and 2009

Measure	Year	Employee responses (percentage of survey respondents)				
		Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
australian ethical as an employer	2007	0	10	5	52	33
	2008	2	5	14	37	42
	2009	3	8	18	51	20
Current role	2007	3	5	10	35	47
	2008	2	5	16	37	40
	2009	8	5	8	33	46

Stakeholder engagement

Measure	Year	Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Job security	2007	0	5	20	13	62
	2008	0	2	14	44	40
	2009	8	5	18	49	20
Remuneration	2007	2	18	15	40	25
	2008	5	16	16	40	23
	2009	3	24	10	29	34
Benefits	2007	0	0	15	45	40
	2008	2	2	12	43	41
	2009	0	5	24	29	42
Work/life balance	2007	0	5	3	24	68
	2008	0	2	0	16	82
	2009	0	2	13	18	67
Training	2007	8	5	26	10	51
	2008	0	5	21	45	29
	2009	2	8	31	33	26
Internal communication	2007	0	8	8	70	14
	2008	2	12	12	49	25
	2009	5	10	31	31	23

Sustainability Committee

The **australianethical** sustainability committee was established in 2002 and plays an important role in addressing sustainability issues within the company. The committee consists of members from various areas within **australianethical**, ensuring a cross section of the organisation is represented. The committee meets on a regular basis to develop and implement economic, environmental and social company policies and initiatives. During 2008–09 the sustainability committee organised a number of initiatives including:

- the company's sustainable transport days and participation in the National Ride to Work Day
- participation in the National Sustainable House Day
- presentations on environmental performance at staff morning teas
- expansion of the presence of composting bins
- implementing waste to landfill reduction targets
- maintaining the company's sustainability library
- providing support for the company's blood donation initiative

Volunteering

On top of its own commitment to various charitable and community organisations, **australianethical** encourages staff to volunteer 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. **australianethical** also supports staff engagement with the community. In the last year staff organised and supported various initiatives including Lunch for Leukaemia and Lifeline's Stress Down on 24/7, as well as fundraising for local schools and charitable organisations.

Engagement with shareholders

australianethical strives to engage with its shareholders on a number of levels. Shareholders are encouraged to write letters to the company secretary, investment committee or the board to facilitate shareholder communication.

At the AGM held on Thursday, 27 November 2008, the company responded to written questions on topics raised by stakeholders which included:

- corporate governance
- change of superannuation administrator
- role of external research providers
- **australianethical**'s headquarters

Engagement with enquirers, trust unitholders and superannuation members

australianethical strongly values the views, enquiries and opinions of all of its stakeholders and welcomes

Stakeholder engagement

any feedback. Most enquiries from unitholders and superannuation members focus on issues such as ethical competition in the marketplace, energy, health, animal testing, nuclear power, sustainable forestry, internet piracy, employee relations and education. To further encourage stakeholder engagement **australianethical** hosted 22 road shows in 2008–09. Twelve of the road shows were held in regional areas; often ignored by other fund managers. These road shows provide unitholders, superannuation members, investors and other stakeholders an opportunity to engage directly with the company. Four road show seminars were held specifically for financial advisers to learn more about ethical investment. In addition, **australianethical** staff gave 15 presentations on ethical investment at various community events around the country.

In early 2009 **australianethical** surveyed its stakeholders on the issue of ethical property investment as part of the market research for the purchase of the 64 Allara Street property.

australianethical also directly engages with investors through its biannual newsletter *Aim High*. The newsletter includes articles of interest on sustainability, investor and staff profiles, and discussions of fund performance. In addition to this, **australianethical's** Chief Investment Officer publishes regular market commentaries on the **australianethical** website.

Looking forward, **australianethical** believes that direct engagement with companies is integral to improving environmental, social and governance (ESG) performance and achieving a sustainable future. With this in mind, **australianethical** plans on increasing its engagement activities in 2009–10 through the launch of the Climate Advocacy Fund.

Engagement with broader stakeholders

australianethical recognises its connection with the broader community, environment and future generations, and as such, endeavours to engage with them in the following ways:

- ensuring all investment decisions are consistent with the **australianethical** Charter
- donating 10 per cent of the company's profit through the **australianethical** community grants program
- providing tours of the company's six green star rated headquarters to demonstrate the concept of applied green building and workplace sustainability
- providing paid leave to all employees to volunteer for charitable and community organisations

Accessibility

australianethical believes that we have an obligation to provide information about our financial services in a clear, user-friendly way. We have developed our new website in a manner that maximises accessibility for disadvantaged people. The website meets the Web Content Accessibility Guidelines 2.0 (World Wide Web Consortium). This standard

is used by government agency websites to ensure they comply with the Disability Discrimination Act 1992. Useability advice was provided by a Vision Australia representative.

australianethical attempts to present our investment product information as clearly as possible with as little legal small print as possible, adhering to the principle of fair design.

Our *Aim High* newsletter (two editions per year) contains informative investment information and aims to keep our managed fund and super members up to date with investment issues.

Our people

In over twenty years of operation our work culture has been shaped through the values set out in the **australianethical** Charter. This section reports on how **australianethical** advocates a stimulating work environment and our continuing strong performance in this area.



Mark Diwaker - Group Accountant
Zorica Durcinoska - Legal / Compliance Officer

australianethical workforce

australianethical had 53 employees at 30 June 2009, working in a range of areas including investment, trust administration, superannuation, marketing, accounting and information technology. Despite turbulent times, total staff numbers remained relatively stable during 2008–09 (53 at 30 June 2009 compared to 55 at 30 June 2008; Figure 2). The number of full time equivalent (FTE) employees at 30 June 2009 was 47.4, down from 49.6 at 30 June 2008 (Figure 2). At year end, 71 per cent of our employees worked full time, the remaining 29 per cent being part-time (Figure 3). Table 3 provides more detail on the composition of the **australianethical** workforce by status and also shows changes in staff numbers over the last three years.



Justin Drury - Business Analyst
Robert Sharf - Investment Services Manager
Krystle Tee - Marketing Coordinator



Helen Cannon - Assistant Trust Accountant
Gillian Harris-Mayes - Human Resources Manager
Bevan Hussey - Network Operations Officer



Judy Chaffey - Executive Assistant
Alan Bontjer - Network Administrator

Our people

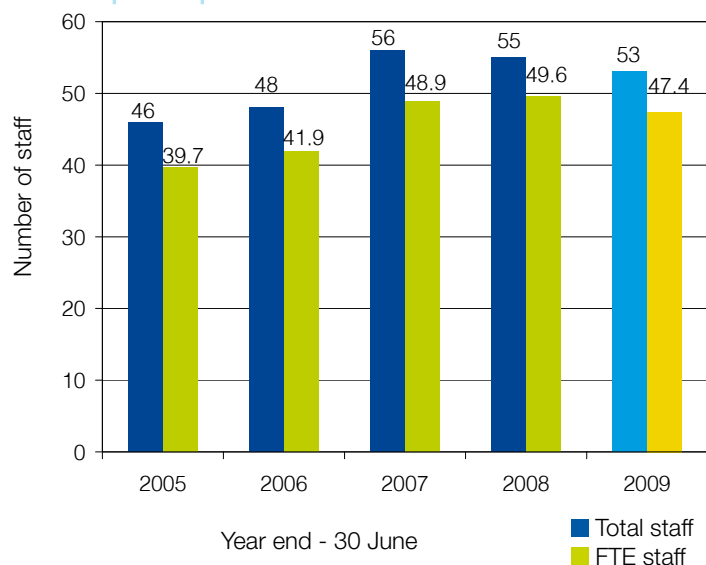


Figure 2: australi**anethical** workforce - trend by total staff and FTE staff

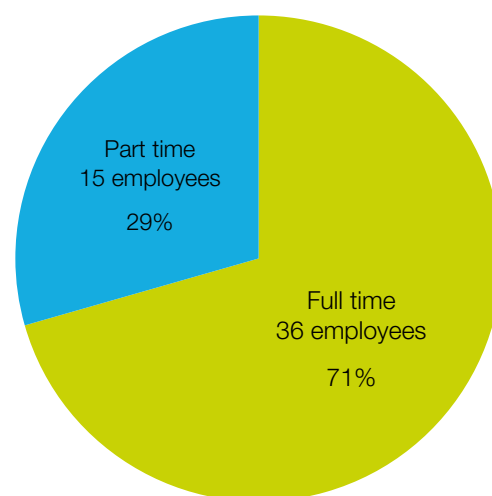


Figure 3: australi**anethical** employees by employment type as at 30 June 2009

Table 3: australi**anethical** workforce by status and net employment creation

Our workforce	Financial year		
	2006-07	2007-08	2008-09
Status			
Employees – total number (including casuals) ¹	56	55	53
Employees – FTE ²	48.9	49.6	47.4
Change in staff numbers			
Net change in staff numbers for year	8	-1	-2
Change in staff numbers for year	16.7%	-1.8%	-3.6%
Net change in FTE staff for year	7.0	0.7	-2.2
Change in FTE staff for year	16.7%	1.3%	-4.4%

¹ australi**anethical** did not employ ongoing contractors or supervised workers during fiscal 2007, 2008 and 2009. ² Full-time equivalent.

The majority of employees (44 of 53) are based at our head office in Canberra, Australia (Table 4). The office is located close to main bus routes and has good parking and cycling facilities. Our nine offsite staff either work from australi**anethical**'s Sydney office, or are based in Melbourne, Brisbane and coastal New South Wales (Table 4).

australi**anethical** promotes job stability and enhancing corporate knowledge through long-term employment. As at 30 June 2009 the majority of our staff were employed on a permanent basis, with only two staff members (1.6 FTE) on fixed term contracts (Table 4).

Table 4: australi**anethical** workforce by employment type, employment contract and location

Our workforce	Financial year		
	2006-07	2007-08	2008-09
Permanent Staff by employment type			
Full-time	36	39	36
Part-time ¹ – number of staff	18	16	15
Part-time – FTE	10.9	10.0	10.2

Our people

Employment contract	2006-07	2007-08	2008-09
Indefinite or permanent – number of staff	54	54	51
Indefinite or permanent – FTE	46.9	49.0	45.8
Fixed term or temporary – number of staff	2	1	2
Fixed term or temporary – FTE	2	0.6	1.6
Employment location			
Canberra office – number of staff	49	47	44
Canberra office – FTE	42.4	42.2	39.0
Other – number of staff	7	8	9
Other – FTE	6.5	7.4	8.4

¹ Including casual employees of Australian Ethical.

Equal opportunities

In line with our Charter, Australian Ethical provides equal opportunities and opposes discriminatory activities. This commitment is reinforced in Australian Ethical's staff policy which 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

During the year there was much public discussion surrounding the poor representation of women on Australian boards. Of all directors on S&P/ASX 200 company boards, only 8.3 per cent were women (EOWA Census 2008).

The diversified financials sector had a slightly higher representation, with 12.5 per cent of directors being female (EOWA Census 2008). Only 11.5 per cent of the S&P/ASX 200 companies had two or more women on their board of directors and only six per cent of S&P/ASX 200 companies had women representing more than 25% of directors on their boards (EOWA 2008 Census). Despite the under representation of women on boards across the country, Australian Ethical continues to outperform when it comes to gender representation in its governance bodies. For many years Australian Ethical has had a strong female representation on its board and the board of its subsidiary, Australian Ethical Superannuation Pty Ltd. As at 30 June 2009 female directors represented 43 per cent of Australian Ethical's board and 50 per cent of Australian Ethical Superannuation's board (Table 5).

Table 5: Gender composition of corporate governance bodies and by employee categories

Category	Balance date					
	30 June 2008			30 June 2009		
	Total	% Male	% Female	Total	% Male	% Female
Australian Ethical board	6	33	67	7	57	43
AES board ¹	4	50	50	4	50	50
Management	12	75	25	12	83	17
Professional	14	86	14	15	87	13
Support	29	41	59	26	46	54
Total	55	60	40	53	66	34

¹ Australian Ethical Superannuation Pty Ltd (AES) board.

Our people

Over the past year there has been a slight decline in the proportion of females at **australianethical** (Table 5; Figure 4). Female employees represented 34 per cent of **australianethical**'s total workforce as at 30 June 2009 (Figure 4), a decrease from 40 per cent the year before (Table 5). The largest representation of female employees continues to be in support roles, where 54 per cent of employees were female as at 30 June 2009.

Professionals continue to have the lowest representation of females with only 13 per cent. The proportion of females in management fell from 25 per cent to 17 per cent in 2009 after a retiring female manager was succeeded by a male colleague. This still compares favourably to peers in the S&P/ASX 200 diversified financial sector, where only 11 per cent of executive managers are women (EOWA Census 2008).

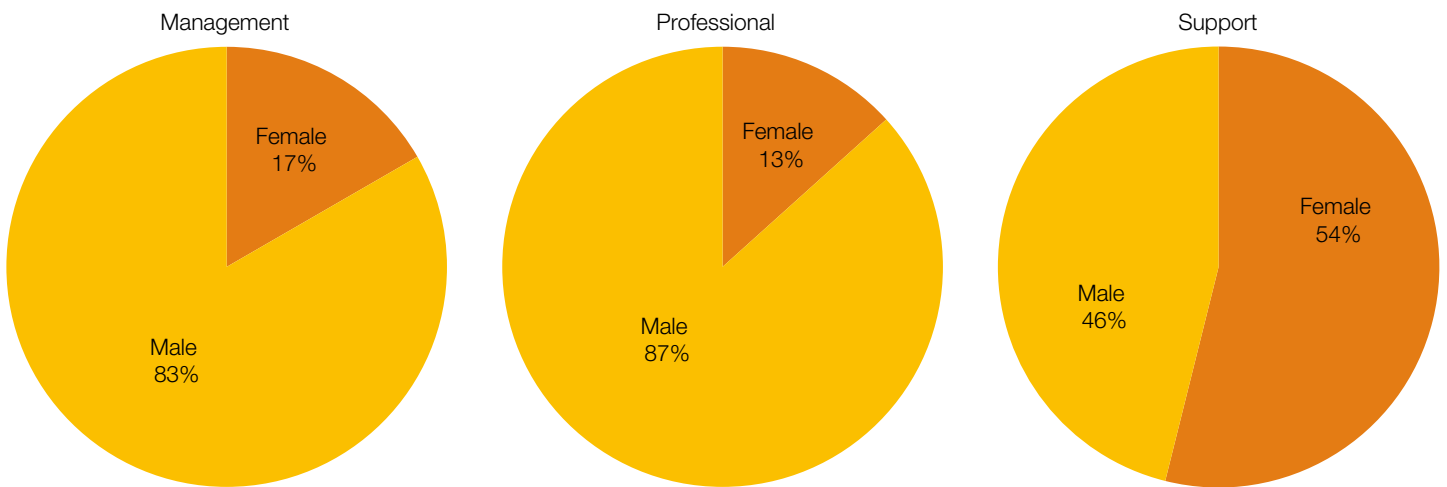


Figure 4: Gender composition by employee category as at 30 June 2009

Female to male salary ratio

Equal opportunity is not only reflected in the number of female employees. Equal pay for equal work is a meaningful indicator to assess gender equality in the workplace. Market rates for female employees continue to be lower when compared to their male peers and it is important for **australianethical** to monitor this ratio in light of its commitment of equal pay for equal work.

To measure pay equality, **australianethical** calculates the ratio of female to male salaries for basic salary and packaged salary. Basic salary represents hourly rates excluding additional benefits, whereas packaged salary includes superannuation, profit sharing and options schemes. Overall, **australianethical** provides good pay equality across its employment categories: between 87 per cent and 112 per cent across all employee categories for base salary, and 89 per cent and 107 per cent for packaged salary (Figures 5 and 6). The largest pay-gap exists for support staff, where females on average earn 87 per cent of their male counterparts in base salary and 89 per cent in packaged salary. At the opposite end of the spectrum is management, where females on average earn 107% of their male counterparts in base salary and 112% in packaged salary (Figures 5 and 6). The differences in male to

female salary ratios within each category represent the diverse roles and responsibilities within the company and are not related to gender.

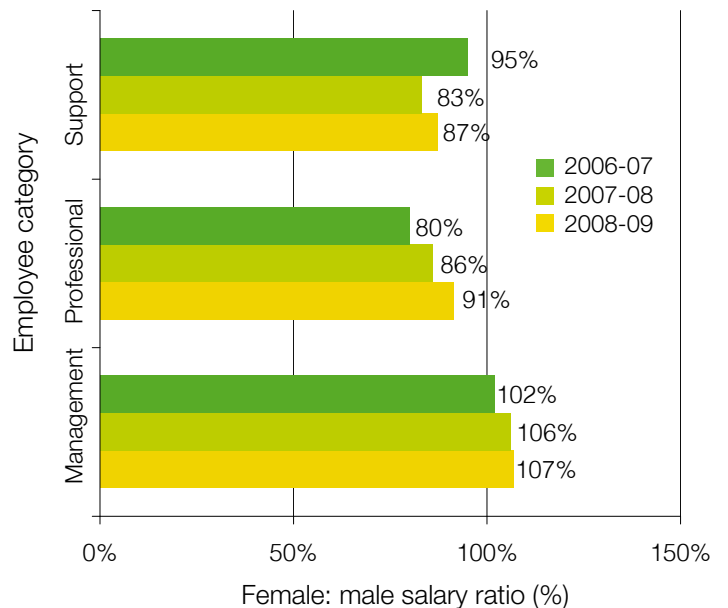


Figure 5: Ratio of female to male basic salaries per hierarchy level

Our people

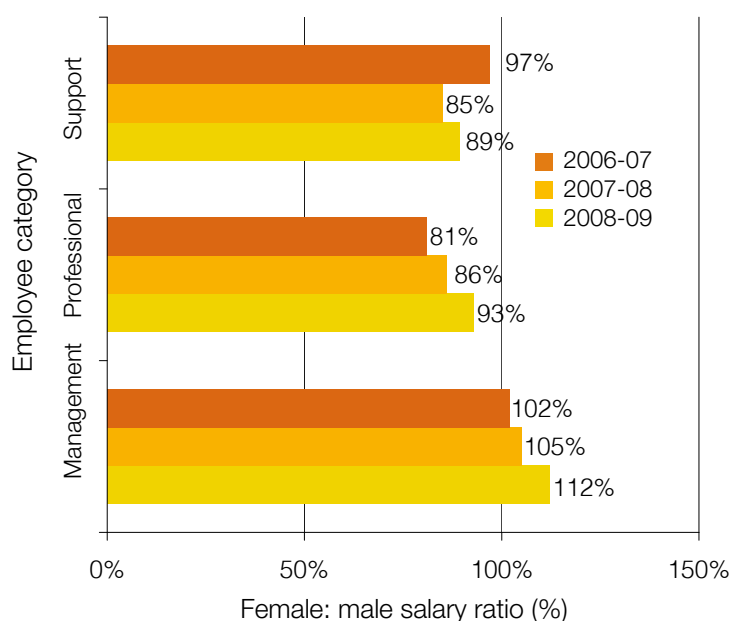


Figure 6: Ratio of female to salary packages per hierarchy level

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

australian**ethical**'s operations are typically office-based and do not involve operations with a high human rights risk exposure. We have not identified any operations 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. austral**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.

Non-discrimination and indigenous rights

Our main office and majority of staff are located within the Canberra region. austral**ethical** recognises the Ngunnawal people as the traditional custodians of the Canberra area.

No incidents of discrimination on the grounds of race, colour, sex, religion, political opinion, national extraction or social origin were reported in 2008–09. austral**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.

Staff turnover

Providing a workplace with fulfilling roles, work/life balance and alignment with employee's personal lives is key to attracting and retaining staff. Staff turnover figures provide one measure of an organisation's success in retaining staff. Although austral**ethical** is a relatively small organisation and turnover figures tend to vary more than at larger companies, staff turnover increased only slightly to 14 per cent in 2008–09, up from 11.3 per cent the previous year (Table 6). During 2008–09 seven full time employees left the company, compared to four full time and two part-time employees during 2007–08. The departure of more full time employees in 2008–09 is highlighted in the FTE staff turnover figures which rose from 10.7 per cent in 2007–08 to 15.4 per cent in 2008–09 (Table 6; Figure 7).

Monitoring staff turnover by gender, age and location can assist in identifying inequalities or incompatibility in a workplace. Analysis of austral**ethical**'s 2009 turnover figures indicates little difference in the turnover of male and female employees (Table 6). Five of the seven staff departing were under 30; however, this is not unusual given young employees' mobility at this stage of life. All but one of the departing employees were based in our main office in Canberra, not surprising given that 87 per cent of employees are based there.

Table 6: Staff turnover by employee type, gender, age group and location

Staff turnover ¹	Financial year		
	2006–07	2007–08	2008–09
Turnover by employment type			
Full-time employees departing	7	4	7
Part-time employees departing	3	2	0
Part-time employees departing – FTE	1.5	1.2	0.0
Employees departing (total) – FTE	8.5	5.2	7
Total staff at 30 June	51	53	50
Total FTE staff at 30 June	46.1	48.6	45.4
Staff turnover (% of total staff)	19.6%	11.3%	14.0%
Staff turnover (% of FTE staff)	18.5%	10.7%	15.4%

Our people

Turnover by gender	2006-07	2007-08	2008-09
Staff departing – female	6	2	4
Female staff turnover (% of total staff)	11.8%	3.8%	8.0%
Staff departing – male	4	4	3
Male staff turnover (% of total staff)	7.8%	7.5%	6.0%
Turnover by age group			
Staff departing <30	5	1	5
<30 Age group turnover (% of total staff)	9.8%	1.9%	10.0%
Staff departing 30-50	3	2	1
30-50 Age group turnover (% of total staff)	5.9%	3.8%	2.0%
Staff departing >50	2	3	1
>50 Age group turnover (% of total staff)	3.9%	5.7%	2.0%
Turnover by location			
Canberra office	10	6	6
Other	0	0	1

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

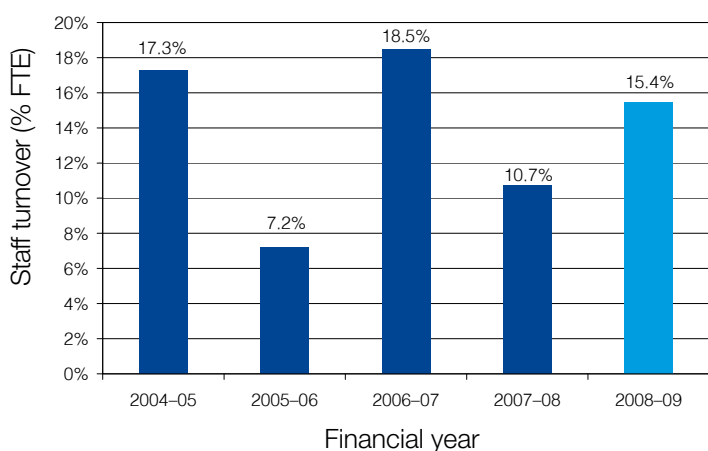


Figure 7: Staff turnover (% FTE staff)

Severance pay and job placement services

Changes in business circumstances or a restructure of the organisation may result in positions and duties becoming redundant. **australianethical** is committed to fair treatment of employees working in a position becoming redundant; after all it is the position that is redundant, not the employee. In case of redundancy **australianethical** has clear procedures and guidelines to help the employee transition to a new role as smoothly as possible. Employees are informed as soon as it becomes clear a position is redundant. All options are explored to redeploy the employee in a similar role. If an arrangement satisfactory to both the employee and the company cannot be found, the employee will receive redundancy pay depending on their individual circumstances. Arrangements will be based on details in the individual employment contracts or legislation, whichever is of greater

benefit to the employee. For employees with less than twelve months service, **australianethical** will in general consider paying four weeks salary. All redundancy pay is additional to accrued leave payments. For part-time employees entitlements are calculated on a pro-rata basis. Employees, who leave the company as a result of their position becoming redundant, may, at the board's discretion retain the right to exercise any options falling due that have been issued to them under the employee share option scheme.

Training and education

Training and education of **australianethical's** workforce takes a number of forms including performance appraisals, external training courses, support for additional studies and a personal development program. Regular morning teas also provide a forum for informing employees about environmental and social issues surrounding our activities. Ongoing training and professional development increases employee skills and job satisfaction. Training and education is also important in attracting and retaining talented personnel.

Performance appraisal

To assist in planning training requirements and mapping out career plans **australianethical** conducts annual performance reviews for all employees. The reviews provide feedback to staff, and are an opportunity to set priorities for training and career development over the coming twelve months. The appraisals are conducted in a positive and constructive manner and provide an opportunity for personal growth. New employees have probation reviews after three and six months of employment. All appraisals are conducted as 360 degree evaluations which include input from colleagues, team members and supervising staff.

Our people

Training and development

Formalised training of our staff includes structured training provided by **australianethical** and private study pursued externally. In 2008–09 **australianethical** employees attended a total of 1381 hours of training, a decrease from 2336 hours in 2007–08. Average hours per employee also reduced from 37 hours per employee in 2007–08 to 23 hours in 2008–09 (Figure 8). The large drop in training since 2006–07 is a result of a decrease in private study as a number of employees finish degrees and no longer required study leave or financial support for their degrees. Hours of training decreased across all employee categories (Figure 8).

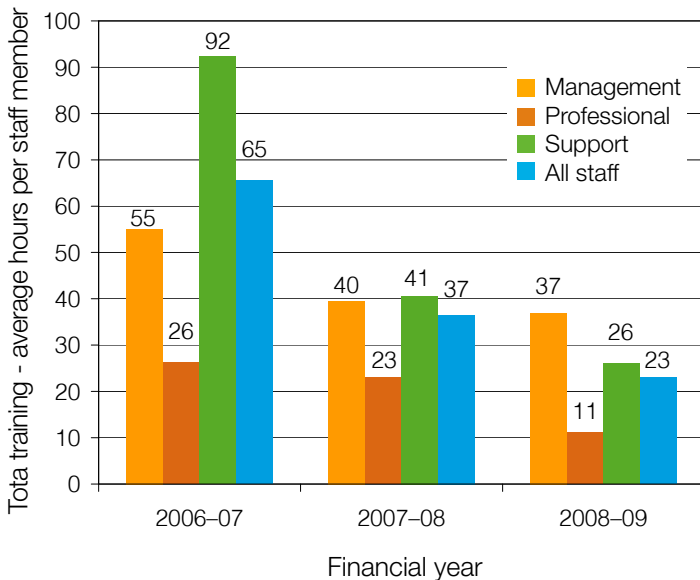


Figure 8: Total average hours of training and study undertaken by staff

Structured training refers to training that **australianethical** has paid for as work time including paid study leave. Any training employees are required to undertake during working hours is fully paid and after hours training entitles the employee to time off in lieu. On average staff undertook 18 hours of structured training during 2008–09, down from 26 hours in 2007–08 (Figure 9). Structured training undertaken by professional staff decreased from 23 hours to 9 hours between 2007–08 and 2008–09, while training undertaken by support staff decreased from 24 hours to 18 hours (Figure 9). Structured training for management remained relatively stable in 2008–09 at 36 hours (compared to 37 hours in 2007–08).

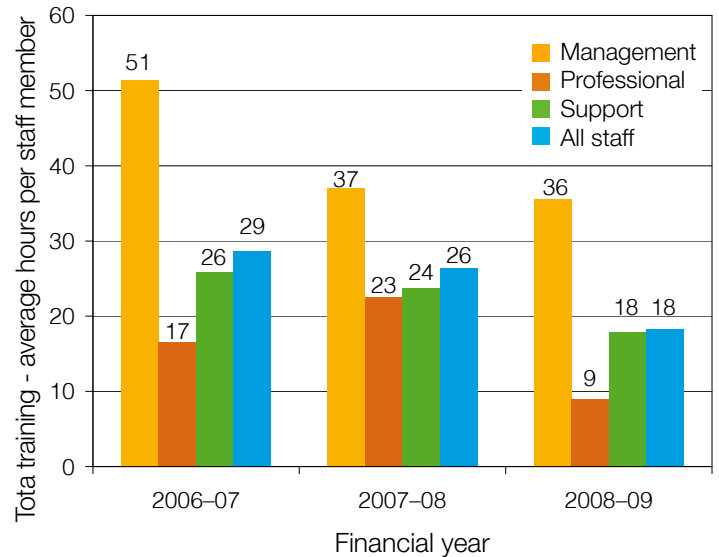


Figure 9: Average hours of structured training undertaken by staff

Figure 10 shows that during 2009 an average of five hours of external private study was undertaken by employees. The trend continued to drop from a high in 2007 when employees on average attended 37 hours of study (10 hours in 2008; Figure 10). Study undertaken includes structured education or study pursued externally by staff for which **australianethical** provided financial support. This is the continued trend of staff completing external study, including tertiary degrees and diplomas. The trend is visible across all employee categories, with only professionals increasing from zero hours in 2008 to two hours on average in 2009. Employees who are enrolled in private external study or professional development receive financial support and paid study leave. **australianethical's** reimbursement system refunds 100 per cent of course fees for all approved courses, up to \$2000 per year per employee with the completion of the course. Paid study leave is available for three hours per week to attend or travel to classes or to complete course work for approved programs. An additional two full days per year of paid study leave may also be taken for exam preparation or to finalise course requirements.

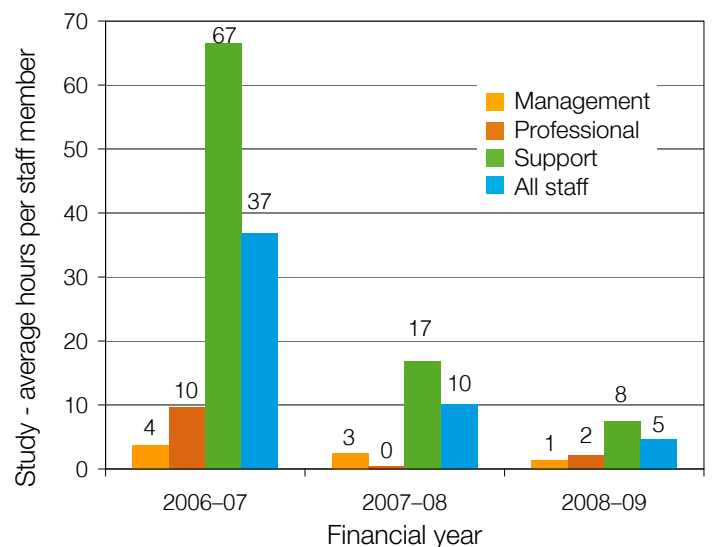


Figure 10: Average hours of study undertaken by staff

Our people

In total **australianethical** spent \$143,973 on training and conferences in 2008–09. This is slightly less than in the previous year when the company spent \$151,102. However, per employee spending was relatively stable with an average of \$2769 spent per employee in 2008–09 compared to \$2798 in 2007–08.

Skills management and lifelong learning programs

australianethical has a longstanding commitment to supporting a healthy work-life balance. Our personal development program evolved out of a lunch-time yoga group and developed into a program supporting employee health and wellbeing outside of work. The program supports employees participating in a diverse range of activities from indoor cricket and gym membership to dance and music classes. The program entitles all permanent employees to a \$95 reimbursement twice a year (pro-rata for part-time staff) to cover such activities.

Employee benefits

Besides **australianethical**'s personal development program, the company offers a number of benefits to its employees. These are listed in the box to the right.

All benefits that are offered to permanent full time employees are also available to permanent part-time employees on a pro-rata basis. Temporary employees have access to all benefits relating to leave accrual in a similar manner to permanent employees. They receive job related training as required but access to study leave and reimbursement of study costs is only provided on a case by case basis depending on how long they stay with the company and the relevance of the study to **australianethical**. Casual employees do not have access to leave related benefits other than long service leave accrual. They receive job related training as required, while study is facilitated through flexible working patterns. However, access to study leave and reimbursement of study costs is not provided to casual employees.

australianethical provides a free third-party 24/7 counselling service. All employees and their immediate families can use this strictly confidential service, which is not restricted to work-related issues. IPS Worldwide is the current provider of this service.

An additional grievance channel is the staff advocate, elected by employees. The staff advocate regularly attends board meetings, providing non-management staff a direct channel to raise matters with the directors of the company. The status of **australianethical**'s employees is reported to shareholders at the annual general meeting.

Bonus and employee share ownership plans

- an annual bonus based on the profits of the company is paid to all staff. All staff receive an equal proportion of the bonus pool based on full-time equivalent (FTE) hours. Bonus amount is set by the board.
- the company has an employee share incentive scheme
- salary sacrificing additional superannuation contributions

Recognition of family and personal responsibilities - flexible working arrangements

- full-time staff have flexibility to choose a working pattern which fits with their personal needs subject to business requirements
- 29% of our staff work part-time
- potential to work off-site subject to business requirements
- the choice of being paid monthly or fortnightly
- a subsidised personal development program
- free access for staff and their families to a counselling service
- allowing sick leave to be used to care for sick relatives

Leave provisions¹

annual leave – 20 working days per 12 months of continuous service plus a bonus of three days leave on the normal working days between Christmas and new year.

- sick leave/carers leave – 15 working days on full pay, per 12 months of continuous service
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service
- paternity leave
- up to three days paid compassionate leave as often as required
- long service leave – 25 working days after completion of five years of service
- up to three hours paid study leave per week, plus two days paid study leave per year
- one day of paid volunteer work each year (or blocks of time equivalent to one day) with approved organisations

¹All leave provisions are calculated pro rata for part-time staff.

Our people

Healthy workplace

A register for all workplace related injuries is maintained to track injuries at the Canberra office and off-site. During 2008–09, seven work related injuries were recorded and no occupational diseases. Of these three staff members required additional medical treatment. There were no lost days arising from the work related injuries. Following the practice of previous years, **australianethical** offered flu vaccinations to all staff - 17 staff accepted the offer of this service this year. If employees have any concerns in relation to health and safety they are encouraged to raise these concerns at any time with the Human Resources Manager, their Section Manager or the Staff Advocate.

australianethical encourages employees to ride to work. Quarterly alternative transport days encourage staff to consider different ways to commute to work, such as walking, riding their bike or catching the bus. **australianethical** has also been a participant in the National Ride to Work Day, an annual event in the beginning of spring promoting the environmental and health benefits of bike riding. Facilities at our Canberra office make riding to work an attractive alternative. These include a lockable bike shed, showers, personal lockers, a tyre repair kit and bike pump.

The average number of days taken in sick leave slightly decreased in 2008–09 to 6.2 days per staff member (6.9 days per FTE staff), down from 6.9 days per staff (7.6 days per FTE staff; Figures 11 and 12). Being a relatively small organisation, average sick leave days may exhibit large fluctuations year to year. During 2008–09 a number of staff members took significant time off to recover from operations. These incidents had a material impact on the number of sick leave days taken during the year.

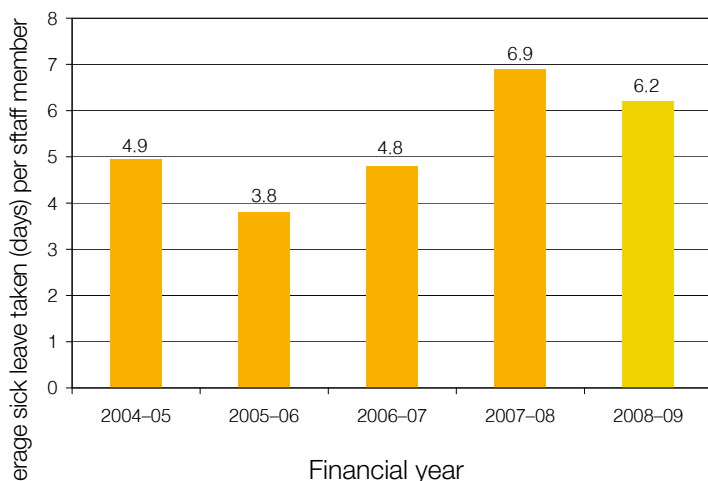


Figure 11: Sick leave taken (days) per staff member

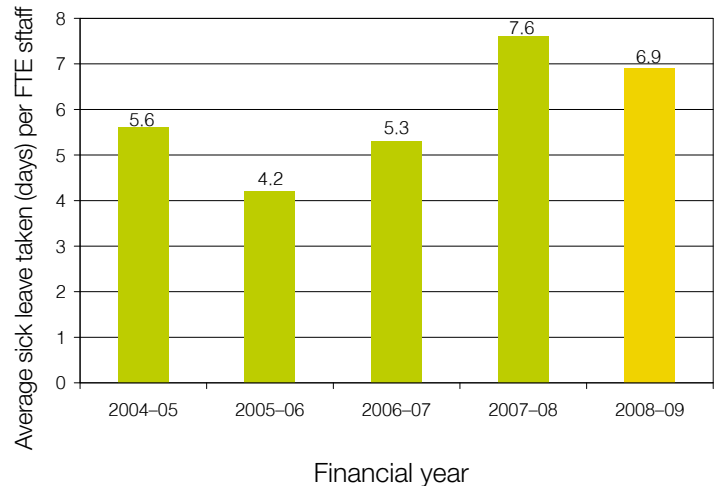


Figure 12: Sick leave taken (days) per FTE staff member

During busy periods employees tend to take less leave. The accumulation of excessive amounts of leave may indicate that employees are overworked and stressed and in need of a holiday. Holidays provide an important mechanism for stress relief and are essential to a healthy lifestyle.

australianethical employees are entitled to twenty days of leave during twelve months of continuous service. Leave is accrued pro rata per working day. As at 30 June 2009 **australianethical** employees on average accrued 18.5 days of leave which is not excessive relative to the annual entitlement. Accrued leave decreased slightly to 2008, when employees on average accumulated 18.9 days (Figure 13). **australianethical** has been working with employees with high leave balances (in excess of six weeks FTE annual leave) to take some leave and ensure they achieve a good work/life balance.

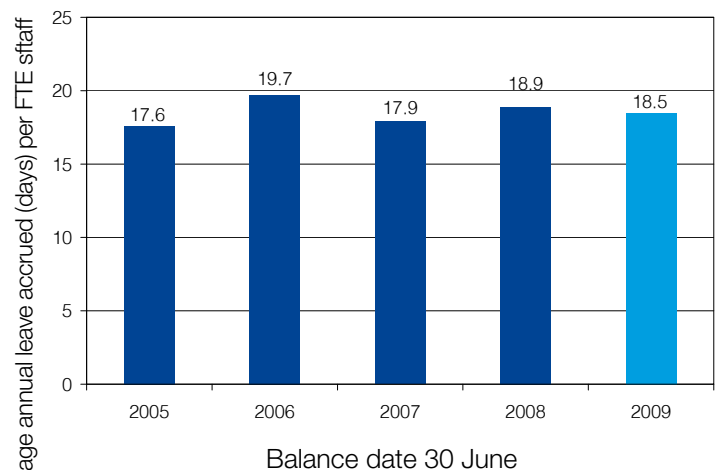


Figure 13: Average annual leave accrued (days) per FTE staff member

Society

Community

Despite difficult financial times, **australianethical** continued to honour its commitment to corporate philanthropy. Indeed, **australianethical**'s constitution mandates that 10 per cent of profit (after notional tax before staff bonus) is donated for charitable, benevolent and conservation purposes as part of its contribution to a positive and sustainable society. In 2009, **australianethical** made available \$140,868 in grants to 25 organisations involved in a wide range of environmental, charitable and community activities. This represents 7.17 per cent of pre-tax profit. Over the last decade **australianethical** has donated nearly \$1 million back into the community.

The grants consist of two components – two major project grants and a number of smaller grants. The large major project grants are typically made to one social and one conservation project that have a lasting tangible impact. The major project grants for 2009 were awarded to Co-operation in Development Organisation and Documentary Australia Foundation.

Co-operation in Development (CO-ID)

CO-ID builds schools to provide free basic education to the poorest of children in Bangladesh. The successful CO-ID primary school in the 5 Doors area, one of the poorest areas of Bangladesh, is under threat following the partial collapse of the levy. CO-ID will use **australianethical**'s grant of \$45,000 to rebuild a new combined primary and secondary school with a more elevated protective mud wall in the 5 Doors area of Bhola Island, this will avoid the collapse which allowed flood waters to reach the school again. The grant will also support CO-ID to construct a new style of school, which will provide the base for expanded education over the next twenty years. This will enable CO-ID to provide free education and training to more students, which will also cover their stationery needs as well as other necessities, including evening education using solar lighting for senior students aged nine and over who have left school to enter the workforce.

Documentary Australia Foundation

australianethical wishes to promote better public understanding of the link between corporate actions and the state of the natural environment. To this end, **australianethical** has donated \$40,000 to Documentary Australia Foundation, a charitable organisation committed to encouraging and enabling partnerships between philanthropic organisations, charities and documentary filmmakers.

australianethical, in association with Documentary Australia Foundation, has invited film makers to submit a mini-documentary piece on the theme of 'corporate responsibility and the environment'. The winning documentary piece will be awarded \$12,500 in prize money.

The theme is based on promoting a better public understanding of the link between corporate actions and the state of the natural environment. Documentary entries are to:

- explore things like specific local or Australian environmental issues or broader, world-wide environmental issues
- aim to enhance awareness of the connection between corporate decisions and the state of the natural environment
- not focus solely on government policy issues, but can deal with the link between corporate influence and government policy

Further details can be found on the **australianethical** website.

In addition to providing two major grants in 2009, **australianethical** also recognises the need to support unpaid work that is often unrecognised in the wider society. The **australianethical** 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. In 2009 **australianethical** provided financial support to smaller charitable and volunteer organisations, such as the ACT Eden Monaro Cancer Support Group, ACT Eden Monaro Cancer Support Group, Australian Marine Conservation Society, ACT Frogwatch, Alzheimer's Australia NSW, Australian Red Cross, Barefoot Economy and Pedal Power ACT.

Overall, 45 per cent of the 2009 grants went to organisations with a conservation focus, while 55 per cent went to organisations with a social focus. A full list of organisations awarded grants in 2009 under **australianethical**'s community grants program can be found in Appendix A of this report (see Appendix B for grants awarded in 2008).

Corruption

Fraud and corruption is an ever present risk to companies which operate in the financial sector, and the methods in which this may occur are constantly evolving as a response to more sophisticated fraud controls. Indeed, fraud and corruption pose a significant risk of monetary and reputational loss and **australianethical** endeavours to analyse, minimise and manage these risks through a variety of company policies, systems and ongoing compliance and risk management procedures which encompass all of **australianethical**'s operations and business units.

An important aspect of internal fraud control is the **australianethical** code of conduct, which 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.'

The **australianethical** code of conduct explicitly addresses other areas of corruption relevant to the financial sector.

Society

These include:

- conflicts of interest
- disclosure of confidential information
- insider trading
- fair competition

The specific instructions on insider trading for all **australianethical** employees 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.'

It is essential for all staff to be comprehensively trained and made aware of these policies, and as such, all employees of **australianethical** 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 or incidents of corruption in 2008–09.

Public policy

From time to time **australianethical** will lobby local and state governments on issues relating to ethical investment. In 2008–09 **australianethical** made submissions to the Senate Economics Committees concerning the proposed Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target legislation. These submissions concerned the treatment of waste methane power generation assets under the proposed legislation. **australianethical** also engaged with relevant members of Parliament and Senators on the same issues.

australianethical occasionally provides comments to the media on the nature of ethical investment and its related issues. In 2008–09 representatives from **australianethical** provided comments for various television, radio and print media including the Financial Standard, Finance Markets, The Australian, SuperReview, the Sydney Morning Herald, Ethical Investor, Eco Investor, Money Magazine, the Sunday Telegraph, the Canberra Times, the Australian Financial Review, Medical Observer Magazine, B Magazine, Lateline, Sky News, Smart Investor, ABC Online, 2CH Radio, the Illawarra Mercury and various ABC radio stations.

Political donations

It is **australianethical**'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.

australianethical's code of conduct explicitly prohibits unauthorised political donations and states that only the board may make political donations on behalf of the company. For the sake of clarity, **australianethical** made no political donations during the 2008–09 financial year.

Anti-competitive behaviour

australianethical is bound by its constitution, the Charter and its code of conduct to maintain strict ethical and law abiding standards. While **australianethical** endeavours to vigorously compete among its peers to achieve its goals, it strives to do this in a fair, just and legal manner. There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices during the 2008–09 financial year.

Compliance

There were three compliance breaches in 2008–09 that were reported to regulators. One was reported to the Australia Securities and Investments Commission (ASIC) and two were reported to the Australian Prudential and Regulatory Authority (APRA).

The breach reported to ASIC involved a failure to take appropriate action in respect of Banco Santander SA rights which resulted in a scheme property loss of \$77,000. This amount was made good by **australianethical**. ASIC noted the actions to remedy the breach and did not make any further inquiries.

One breach reported to APRA involved the failure to produce superannuation exit statements. APRA requested more information and in February 2009 indicated that they had no further queries. The other breach report related to the failure to meet portability requirements due to a transition of superannuation administrator in early 2008. This problem was rectified in late 2008.

Product responsibility

Asset management policy

australian**ethical** pursues a unique combination of financial and ethical objectives when selecting investments. These 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.

One way we achieve these objectives is by ensuring that investments align with the australiane**ethical** Charter. Each investment is subject to regular monitoring and reviews to ensure ongoing compliance. The use of the australiane**ethical** Charter makes investment methodology unique in the ethical investment market.

The application of the australiane**ethical** Charter defines the universe of investments for the trusts. As at 30 June 2009 this universe covered a broad spectrum of sectors and countries (Tables 7 and 8).

Table 7: Percentage of investments by sector as at 30 June 2009¹

Sector	Balanced Trust	Smaller Companies Trust	Larger Companies Share Trust	Wholesale International Equities Trust ²
Corporate – Unlisted	10.6	0.0	0.0	0.0
Managed Funds	5.5	0.0	0.0	0.0
Energy	4.8	7.8	6.1	2.1
Materials	0.0	0.0	1.1	2.1
Industrials	6.1	8.1	14.8	22.1
Consumer discretionary	6.1	5.6	6.4	8.7
Consumer staples	0.0	0.0	1.0	3.7
Health care	24.1	26.2	23.2	15.3
Financials	21.0	10.8	25.8	15.6
Information Technology	3.1	18.1	7.7	8.9
Utilities	12.2	23.4	11.3	19.1
Property trusts	6.5	0.0	2.6	2.4

¹ Data not available for the Income Trust. ² As the World Trust invests in units in the Wholesale International Equities Trust, the percentage of investments by sector as at 30 June 2009 were the same.

Table 8: Percentage of investments by country as at 30 June 2009

Country	Balanced Trust	Smaller Companies Trust	Income Trust	Larger Companies Share Trust	Wholesale International Equities Trust ¹
Australia	100	82.53	100	66.47	6.94
Denmark	0	1.88	0	2.08	2.68
France	0	0	0	0.55	1.93
Germany	0	1.45	0	1.44	5.40
Hong Kong	0	0	0	1.99	4.89
Italy	0	1.69	0	0	2.83
Japan	0	2.20	0	3.50	9.58
Netherlands	0	2.03	0	0	1.98
New Zealand	0	0	0	0.50	6.16
Norway	0	1.34	0	0.95	2.50

Product responsibility

Country	Balanced Trust	Smaller Companies Trust	Income Trust	Larger Companies Share Trust	Wholesale International Equities Trust ¹
Singapore	0	0	0	1.49	4.60
Sweden	0	0	0	0	1.38
Switzerland	0	0	0	0	2.21
Spain	0	0	0	4.51	8.62
United Kingdom	0	1.18	0	2.35	6.58
United States	0	5.70	0	14.17	31.72

¹ As the World Trust invests in units in the Wholesale International Equities Trust, the percentage of investments by country as at 30 June 2009 were the same.

Debate is an integral part of the **australianethical** decision making process – for this reason input is sought from stakeholders. While the company reserves the right to exercise judgment regarding investment selection, comments about the ethical profiles of trust investments are reported regularly to the **australianethical** investment committee. These profiles are prepared by CAER – Corporate Analysis Enhanced Responsibility, **australianethical**'s research provider.

In October 2005 **australianethical** became one of the first fund managers to receive certification under the Responsible Investment Association Australasia (RIAA) certification program. This included verification of **australianethical** investment selection processes through an independent auditing process managed by the association. Further information can be found at www.responsibleinvestment.org.

Ethical analysis

australianethical is known as a specialist in the field of deep green investment. Ethical investors developed the concept of applying environmental, social and governance factors (ESG) factors to their investments. **australianethical** was one of the pioneers of this approach.

Researchers from CAER, in conjunction with **australianethical** analysts, investigate potential investee enterprises to assess the ethical dimension of considered investments. This work is supervised by the investment committee through the chief investment officer and combines financial and ethical analysis to determine the investment selection priorities. By utilising the

services of CAER and the work of **australianethical** analysts, the investment committee keeps abreast of major new scientific initiatives, outcomes and developments. Attendance at conferences and seminars covering environmental and social issues also assist researchers and staff 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 **australianethical** Charter. The Charter provides guidance in setting out types of activities to be supported, as well as types of activities to be avoided. By utilising the Charter, **australianethical** applies both a positive and a negative screen to their investments. There are certain types of companies **australianethical** will not invest in (for example, companies operating in the tobacco, uranium or gambling industries). Conversely, **australianethical** actively seeks out companies that are involved in positive activities (such as the production of renewable energy). This approach distinguishes **australianethical** from most other ethical fund managers.

When determining the ethical merits of a company, **australianethical** considers the core business activity of the company in question. Investment becomes a possibility provided the **australianethical** activity of the company does not directly contravene any principles the Charter requires us to avoid (e.g. companies with human rights concerns; Table 9). Investment is more likely if the core activity of the company meets one of the positive elements of the Charter.

Table 9: Tenets of the **australianethical** Charter which directly relate to human rights¹

The Trusts shall seek out investments which provide for and support	The Trusts shall avoid any investment which is considered to unnecessarily
(a) the development of workers' participation in the ownership and control of their work organisations and places	(ix) exploit people through the payment of low wages or the provision of poor working conditions
(h) activities which contribute to human happiness, dignity and education	(x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices
	(xi) contribute to the inhibition of human rights generally

¹ These tenets also apply to **australianethical**'s own operations.

Product responsibility

Having made a decision on the ethical merits of a company's core activities, it is necessary to determine whether the behaviour of the company in carrying out its core activities is consistent with the Charter. For example, **australianethical** is more likely to invest in companies with positive workplace relations records or market leading sustainability initiatives. This in-depth ethical research is generally carried out by CAER and is gathered from a range of publicly available sources such as company publications, media, government information and material from non-government organisations.

Once an investment is deemed acceptable according to the Charter **australianethical's** analysts undertake a thorough financial analysis. **australianethical's** monitoring of investments is extremely rigorous. Once an investment 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 investor 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 its quarterly meeting process.

If, for example, an investee company diversifies into an excluded industry or engages in unacceptable practices, a review will be performed by CAER 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 possible.

In developing the engagement process for a particular investment, **australianethical** and CAER work together to formulate the best approach suited to the issue or the particular situation and clear documentation of the engagement process is maintained by **australianethical** and CAER. During the 2008–09 financial year **australianethical** and CAER engaged with 16 companies in which **australianethical** held an interest. This represented 13 per cent of the total 128 investee entities held at the end of the 2009 financial year. Issues of which **australianethical** engaged companies included animal testing, uranium mining, participation in the carbon disclosure project, and the environmental impact of new operations. **australianethical** and CAER also engaged an additional 13 companies on a range of environmental and social issues in which **australianethical** did not hold an interest.

australianethical aims to be as transparent as possible about the results of the investment process. For further information in relation to this process, product disclosure statements include details of companies invested in and a regularly updated list of investments also appears on the company website www.australianethical.com.au.

Advocacy and company engagement continues to play an important role for **australianethical**. With the launch of the

Climate Advocacy Fund this aspect of socially responsible investment will become even more of a tool to create change in financial markets through influencing corporate behaviour.



Proxy voting policy

australianethical's policy is 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 13.00 – Proxy Voting). **australianethical's** aim is to vote all proxies for Australian and international investee companies.

Decisions on how to vote proxies will be made on a company-by-company and resolution-by-resolution basis with regard to the following factors:

- the preservation and increase of the value of the investment in the best interests of members in the managed investment schemes
- improving and upholding the governance of investee companies
- the performance of the investee company
- the application of the **australianethical** Charter to the resolution under consideration

For the period 1 July 2008 to 30 June 2009 a total of 720 resolutions were voted on across the Balanced Trust, Smaller Companies Trust, Larger Companies Share Trust and International Equities Trust (no shares are held by the Income Trust, which means this precludes the trust from the proxy voting process). It should be noted that:

- holdings in some companies were sold prior to an annual general meeting being held
- annual general meetings were held prior to the company having holdings in some companies
- details for some meetings were not received
- some resolutions were voted on at extraordinary or special general meetings for specific issues

All voting for domestic and international stocks was done

Product responsibility

online through Votex, a service provided by our custodian National Custodian Services. Voting for unlisted companies was actioned through the custodian. Of the 720 resolutions voted on across the four Trusts, 13 were voted “Against” and the company “Abstained” from voting on 11.

The negative votes related to:

- appointment of directors
- re-election of directors
- remuneration issues (director fees and the issue of options or shares to directors and CEO’s)
- an anti take-over provision which was not in **australianethical** interests

The resolutions which were abstained from voting on related to:

- insufficient information being provided
- possible anti take-over provisions
- authorising political donations
- being unable to access an English explanation of source documents e.g. explanatory memorandums

Product disclosure statements

Under the Corporations Act 2001 a retail client (i.e. a potential investor) 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. It is **australianethical**’s policy to complete and distribute a product disclosure statement as required by law and in accordance with company compliance procedures. Product disclosure statements are made freely available both in print and electronic form upon request and on the **australianethical** website.

Company procedure includes the review of product disclosure statements by appropriate sections within **australianethical**; this is then completed through verification and sign-off by the section head. Product disclosure statements are reviewed by **australianethical**’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 **australianethical** 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 **australianethical** as well, as it is enshrined in the company constitution. Hence the same standard applies to the company’s internal operations as the Charter requires of investee companies. In short 100 per cent of the company’s products and services are subject to these information requirements.

In 2008–09 there were no incidents of non-compliance with regulations and voluntary codes concerning products and service labelling, including publication of product disclosure statements.

Customer satisfaction

australianethical values its customers and their experiences when interacting with customer service representatives, and as such, **australianethical** regularly monitors customer satisfaction and complaints to ascertain specific areas of operational concern and potential improvement.

During 2008–09 **australianethical** recorded 61 customer complaints and general expressions of dissatisfaction – most of which were considered minor in nature. This is a significant decrease from the 76 complaints received in 2007–08, despite the tough prevailing economic conditions. This improvement can be seen as a positive reflection of **australianethical**’s overall commitment to customer service, strength and performance in these challenging economic times.

Marketing communications

Marketing activities are carried out within the broader context of the **australianethical** business plan and the overall strategy of the marketing section. These activities are governed by the marketing section procedures manual and the **australianethical** constitution. Laws, standards, and voluntary codes that have particular relevance to **australianethical**’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

australianethical takes its responsibility to maintain the privacy of its customer’s details and information extremely seriously, and is pleased to confirm that there were no complaints from customers regarding breaches of privacy or losses of data during the 2008–09 financial year.

Environment

australian**ethical** seeks to ameliorate wasteful or polluting practices in its own operations as well as its investments. Environmental impacts of office-based businesses include consumption of paper and stationery, energy and water use, transport, waste and greenhouse gas emissions. The section below details our own environmental performance for the year ending 30 June 2009.

Reducing resource consumption

australian**ethical** is committed to reducing its own resource consumption; a commitment supported by the company's purchasing policy:

- australiana**ethical** will consider ethical issues in deciding what to buy
- australiana**ethical** will follow the 4 R's – reduce, reuse, recycle and refuse – in considering whether to make purchases
- in general, australiana**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
- australiana**ethical** will consider alternatives to travel, especially air travel before business travel is undertaken (e.g. phone conferences)

Materials

Paper

Communicating with current and potential investors is an essential part of a fund managers' business. Paper currently plays an important role in facilitating this communication. A key challenge for the company is reducing paper usage while communicating with a greater number of investors and superannuation members.

During 2008–09 australiana**ethical** used approximately 1.107 million A4 sheets of 100 per cent recycled paper (equivalent to 89 trees of non-recycled paper; Table 10). Newsletters represented 31 per cent (344,967 A4 sheets) of the paper used; office printing and photocopying paper, 23 per cent (254,331 A4 sheets); leaflets, 13 per cent (146,775 A4 sheets); and managed investment and superannuation product disclosure statements (PDS), 13 per cent (145,496 A4 sheets; Table 10).

Paper use in 2008–09 decreased by 266,782 A4 sheets or 19 per cent over the previous year. The largest decreases occurred in leaflets (down 124,955 A4 sheets), managed investments PDS' (down 108,703 A4 sheets) and superannuation PDS' (down 85,301 A4 sheets). The reduction in paper use, particularly the PDS' is largely a result of reduced investor interest during the global financial crisis.

Printer and photocopier paper usage per average full-time equivalent staff member (Canberra office) increased by 17 per cent in 2008–09 to 6 419 A4 sheets (or approximately 13 reams; Figure 14). While this compares favourably with

Eco-efficient practices

australian**ethical** has implemented a number of eco-efficient practices throughout its business operations including:

- 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, product disclosure statements and annual reports on 100 per cent recycled, calcium carbonate coated chlorine-free paper using vegetable-based inks
- use of paper pens for outreach made using 100 per cent recycled paper tubes
- electronic copies of the product disclosure statements available on the australiana**ethical** website (www.australianethical.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)
- donating old computers to Charity Computers and staff for reuse

Environment

Table 10: Paper usage¹

Paper usage	Financial year		
	2006-07	2007-08	2008-09
A4 sheets			
Managed investments PDS	137,250	155,100	46,397
Superannuation PDS	230,489	184,400	99,099
Newsletters	316,000	319,257	344,967
Leaflets	43,033	271,730	146,775
Annual report to shareholders	14,280	1,540	3,600
Trust annual report	96,600	16,000	57,567
Printer and photocopier paper	192,033	242,132	254,331
Letterhead paper	30,000	51,000	49,250
Compliment slips (A4 equivalent)	900	900	900
Super fund statements (mail house)	69,264	57,460	49,656
Super annual report	31,500	57,073	35,598
Other	62,819	17,313	18,984
Total A4 sheets	1,224,168	1,373,905	1,107,124

¹ Paper usage data excludes envelopes.

the 20 reams per FTE found in a benchmarking study of 34 organisations by the Commissioner for Environmental Sustainability (2007), the increase is disappointing. **australianethical** is determined to reduce its printer and photocopier paper use and has set a 10 per cent reduction target for 2009-10. Staff education is a key part of the reduction strategy.

Technology is helping **australianethical** to restrict its paper usage by reducing the need for information to be sent on paper. For example, potential investors can access our product disclosure statements via the **australianethical** website and much of the information previously mailed to investors is now sent by e-mail. As technology improves, **australianethical** aims to provide more information to its stakeholders by electronic means, restricting and reducing paper use.

Stationery

australianethical's stationery use as represented by total dollar costs, decreased by \$606 or 11 per cent in 2008-09. The cost per average full-time equivalent staff member

Table 11: Stationery use

Stationery costs	Financial year		
	2006-07	2007-08	2008-09
Total cost	\$5,006	\$5,620	\$5,014
Cost/average FTE staff ¹	\$126	\$127	\$127

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

remained unchanged at \$127 (Table 11) and underscores the company's commitment to its 4 R's Policy – reduce, reuse, recycle and refuse.

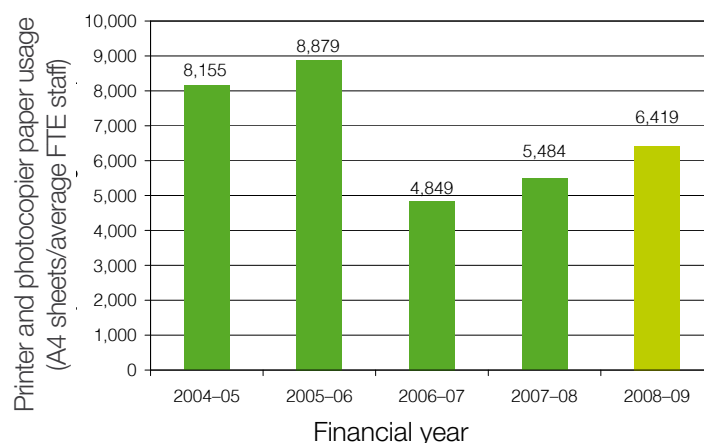


Figure 14: Printer and photocopier paper usage per average full-time equivalent staff member

Environment

Energy

According to the United Nations Environment Programme - Sustainable Buildings and Construction Initiative buildings are responsible for around 40% of total greenhouse gas emissions. (UNEP-SBCI, 2009) This estimate considers a building's lifespan, including its construction, operation, maintenance, fit-out and also its demolition. The built environment is thus an area which presents opportunities for carbon abatement.

The 2008–09 year was **australianethical's** second full financial year in the six green star Trevor Pearcey House.

Trevor Pearcey House switched from LPG to natural gas in mid July 2008.

During 2008–09 **australianethical** used 367,745 MJ or 403 MJ/sqm of energy (74,393 kWh of electricity and 99,929 MJ of gas). On a per square metre basis, this represents a 6 per cent increase on our 2007–08 energy use (our first full year in Trevor Pearcey House), but a 44 per cent decrease on our 2006–07 energy use (8 months in the Downer offices and 4 months in Trevor Pearcey House) (Table 12; Figure 15).

Table 12: Energy use

Energy use	Financial year		
	2006–07	2007–08	2008–09
Energy MJ ¹	505,271	346,247	367,745
Energy MJ/sqm	725	380	403
Electricity kWh	76,248	69,150	74,393
Electricity kWh/sqm	107	76	82
Gas MJ	230,779	97,306	99,929
Gas MJ/sqm	339	107	110
GHG emissions (tonnes CO ₂ e)	93.46	79.65	86.37
GHG emissions (tonnes CO ₂ e/sqm)	0.133	0.087	0.095

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

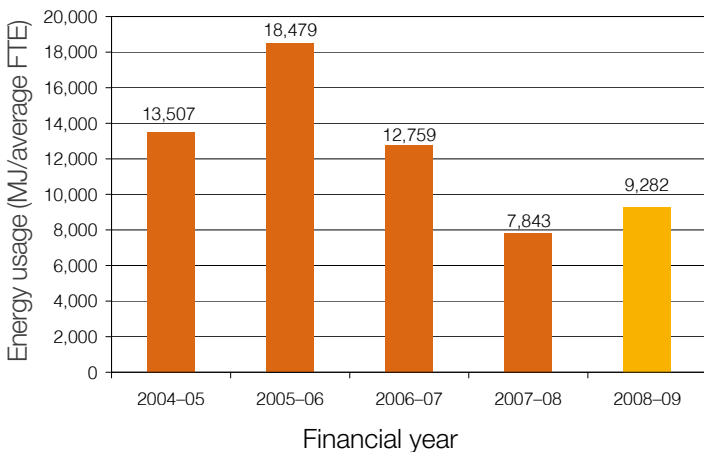


Figure 15: Energy usage (mega joules per square metre)

Electricity use per square metre increased by eight per cent over the year, from 76 kWh/sqm in 2007–08 to 82 kWh/sqm in 2008–09 (Table 12; Figure 16). Gas use per square metre also increased over the period, rising three per cent from 107 MJ/sqm in 2007–08 to 110 MJ/sqm in 2008–09 (Table 12; Figure 17).

In order to negate the greenhouse gas emissions related to our energy use, **australianethical** purchased 100 per cent

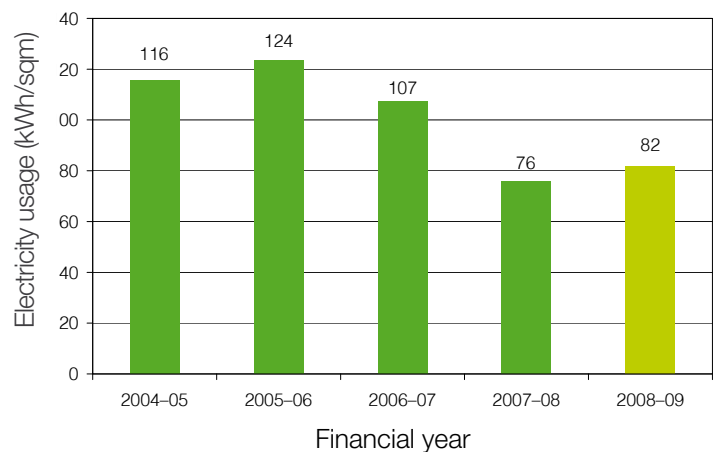


Figure 16: Electricity usage (kilowatt-hours per square metre)

accredited Green Power from ActewAGL along with carbon credits from Climate Friendly (www.climatefriendly.com). By doing this, we saved and offset 86.37 tonnes of CO₂e (or 0.095 tonnes CO₂e/sqm) that our energy use at Trevor Pearcey House would have generated (Table 12; Figure 18). The per square metre figure of 0.095 tonnes CO₂e/sqm is 70 per cent lower than the greenhouse gas emissions from an average Canberra office building.

Environment

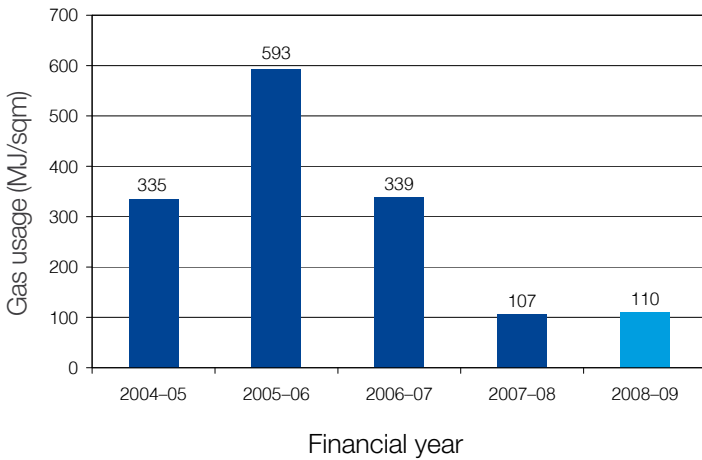


Figure 17: Gas usage (mega joules per square metre)

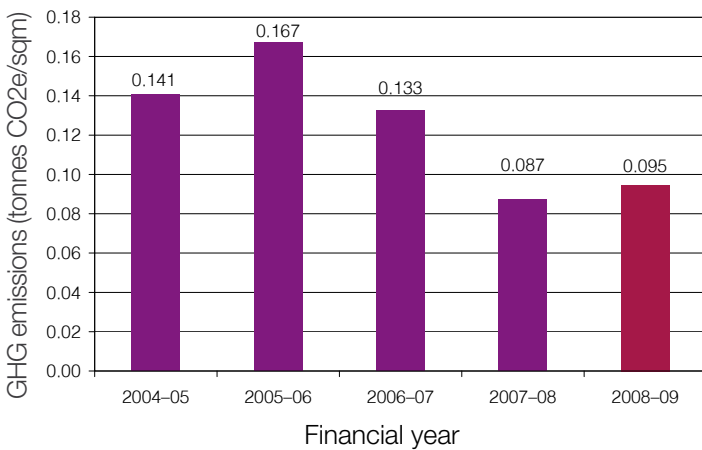


Figure 18: Greenhouse gas emissions (tonnes CO₂e/sqm)

Of equal interest is the fact that the refurbishment was undertaken using a conventional budget, while using accepted, conventional and low-technology design principles. These included:

- passive cooling and ventilation combined with a wider thermal comfort band reducing demand on mechanical systems
- double glazed windows
- 'reverse brick veneer' external walls - 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
- timer and occupancy controlled lighting
- 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.

Further information on the Trevor Pearcey House refurbishment can be found on [australianethical's](#) website.



Water

Water scarcity is a key issue facing Australia today. During 2008-09 [australianethical](#) used 81 kL of mains water. This represents just 0.09kL/sqm which is 88 per cent less than the median Canberra office water consumption benchmark of 0.72 kL/sqm¹. On a per metre basis, [australianethical's](#) 2008-09 water use was 18 per cent lower than in 2007-08 and 72 per cent lower than in 2006-07 (eight months of which were at the Downer offices) (Table 13; Figure 19).

Table 13: Water use

Water used	Financial year		
	2006-07	2007-08	2008-09
kL/sqm	0.32	0.11	0.09
Total kL	213	99	81

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)

Environment

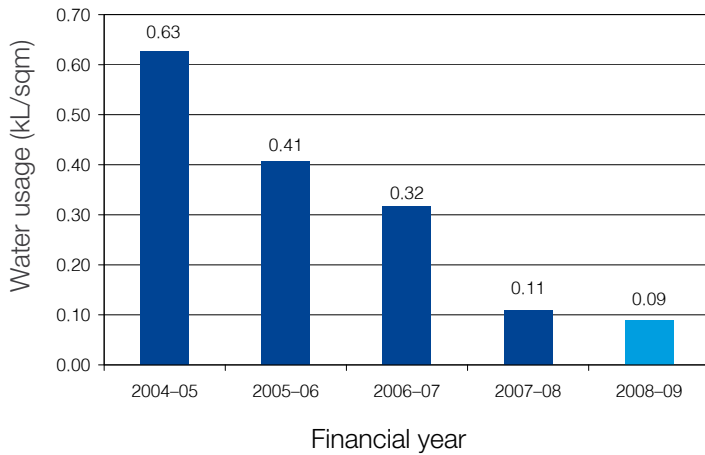


Figure 19: Water usage (kilolitres per square metre)

The continued reduction in water usage is an excellent result and reinforces the benefits of incorporating water efficiency features into the Trevor Pearcey House refurbishment.

Transport

During 2008-09, 46 per cent of employees commuted to work by car on their own which is relatively consistent with the results from 2007-08 (Figure 20), but significantly lower than the overall average for the ACT, where approximately 83 per cent of people drive to work (ACT Sustainable Transport Plan, 2007). In 2008-09, 16 per cent of employees carpooled which is a significant increase compared to 2007-08, when approximately 8 per cent of employees carpooled to work.

australian**ethical** is keenly aware that the use of motor vehicles in the daily commute to and from work contributes to climate change. To encourage the use of alternative modes of transport with a smaller environmental footprint, **australianethical** promotes the use of bicycles by providing free secure bike storage facilities and shower amenities. Additionally, the head office is located on a major bus route, which makes the use of public transport more convenient.

During 2008-09 use of public transport (buses and trains) remained relatively unchanged; however, there have been decreases in the proportion of employees walking or riding to work which can largely be attributed to changes in the company's workforce. A full breakdown of **australianethical**'s employee's modes of transport for 2008-09 is shown in Figure 20.

Airflights are the largest source of emissions at **australianethical**. In 2008-09 **australianethical** staff made 474 flights and 698 taxi cab trips (2007-08: 421 flights and 572 taxi cab trips). The total CO₂e emissions from air travel was 102.99 tonnes of CO₂e for 2008-09 compared to 88.6 tonnes of CO₂e for 2007-08. Greenhouse gas emissions per average FTE also increased, from 1.73 tonnes of CO₂e in 2007-08 to 2.16 tonnes in 2008-09 (Figure 21). **australianethical** offset all emissions from flights and cab trips using Climate Friendly (www.climatefriendly.com).

To encourage and promote the use of alternative forms

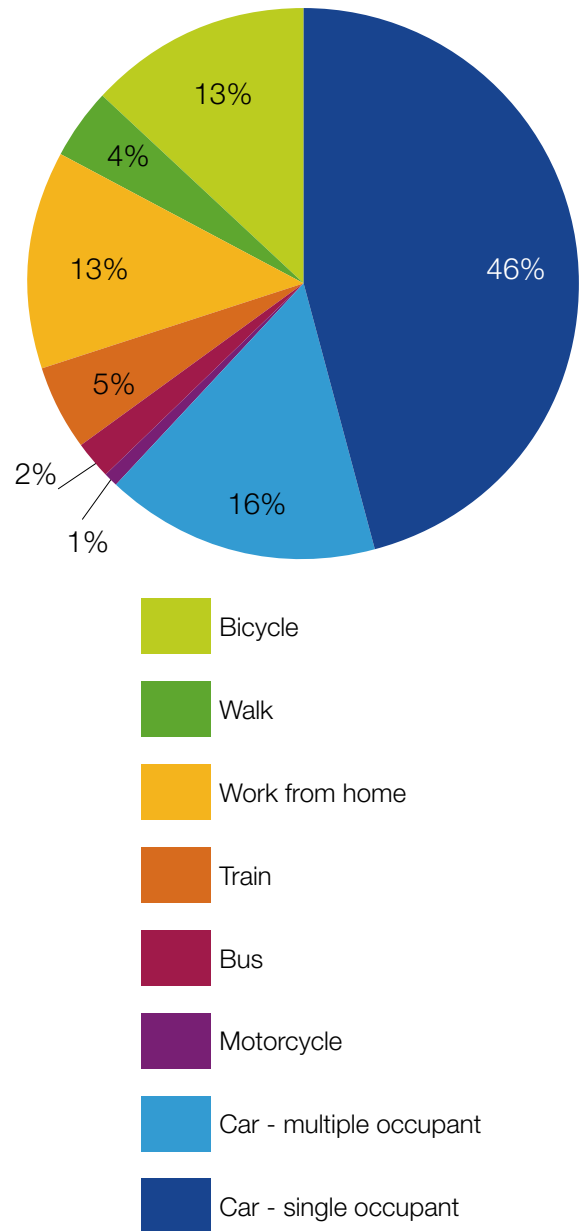


Figure 20: Primary transport used by **australianethical** staff to commute to work during 2008-09

of transport as a way of reducing the environmental impact of commuting, **australianethical** hosts regular alternative transport days, which include a free breakfast for employees who made use of an alternative mode of transport to get to work, such as walking, riding or public transport. **australianethical** makes available corporate bus tickets to employees who need to travel during work hours for work purposes within Canberra. Additionally, **australianethical** endeavours to use teleconferences where possible to replace face-to-face meetings that may require travel. Where business travel cannot be avoided, **australianethical** encourages employees to choose the most sustainable travel option.

Environment

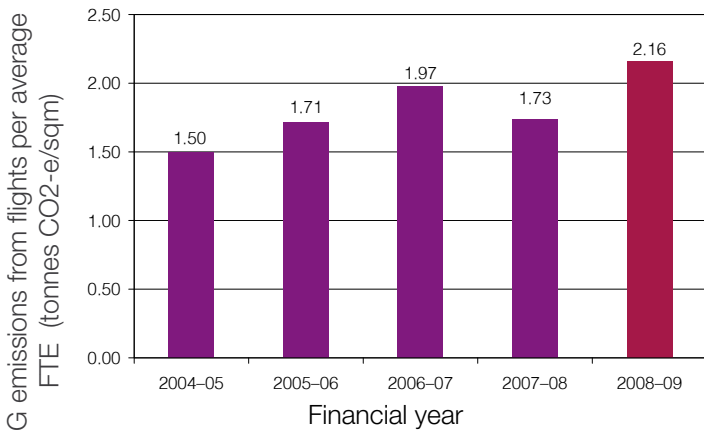


Figure 21: Greenhouse gas emissions from flights (tonnes CO₂e) per average FTE staff

The categories of waste recording the largest decreases in 2008-09 were paper recycled (down by 626 kg), and food organics recycled (down by 195 kg; Tables 14 and 15). Given there was little or no change in the amount of paper and food organics waste sent to landfill, the decrease represents a net reduction in waste being generated from these sources.

Waste to landfill per average FTE staff increased by 2.1 kg in 2008-09 to 16.7 kg (Figure 22); while waste to landfill fell slightly, it did not fall in line with a reduction in average FTE staff in the Canberra office.

Emissions, effluent and waste

Waste

According to the United Nations Environment Programme – Sustainable Buildings and Climate Initiative the built environment is responsible for approximately 30-40% of solid waste generation (UNEP-SBCI, 2009). It is estimated that **australianethical** produced 3,815 kg of waste in 2008-09, compared to the 4,727 kg of waste generated during 2007-08, a decrease of 19 per cent (Tables 14 and 15). Approximately 3,154 kg (83 per cent) of waste was recycled, while 661 kg (17 per cent) went to landfill. The majority of waste was paper, making up approximately 64 per cent of total waste.

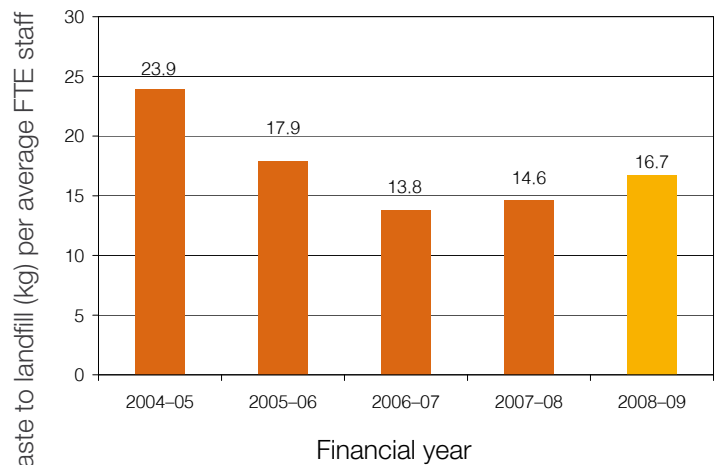


Figure 22: Waste to landfill (kg) per average FTE staff

Table 14: Waste for the year to 30 June 2009

Waste type	Weekly waste (kg)	2008-09 waste (kg)	% of waste sub-total	% of total waste
Waste to landfill				
Paper	0.3	13	2	0
Cardboard	0.2	12	2	0
Recyclable containers ¹	0.7	38	6	1
Food organics	3.0	156	23	4
General waste ²	8.5	442	67	12
Sub-total	12.7	661	100	17
Waste recycled				
Paper	47.0	2443	77	64
Cardboard	1.8	93	3	3
Recyclable containers ¹	2.1	111	4	3
Food organics	9.8	507	16	13
Sub-total	60.7	3154	100	83
Waste generation total³	73.4	3815		100

¹ Includes glass, plastic and aluminium. ² Includes plastic wrappers/bags, tissues, paper hand towel etc. ³ **australianethical**'s Canberra offices only.

Environment

Table 15: Waste for the year to 30 June 2008

Waste type	Weekly waste (kg)	2008–09 waste (kg)	% of waste sub-total	% of total waste
Waste to landfill				
Paper	0.2	9	1	0
Cardboard	0.2	11	2	0
Recyclable containers ¹	1.0	52	8	1
Food organics	3.0	156	24	3
General waste ²	8.0	415	65	9
Sub-total	12.4	643	100	13
Waste recycled				
Paper	59.0	3069	75	65
Cardboard	2.8	144	4	3
Recyclable containers ¹	3.3	169	4	4
Food organics	13.5	702	17	15
Sub-total	78.6	4084	100	87
Waste generation total³	91.0	4727		100

¹ Includes glass, plastic and aluminium. ² Includes plastic wrappers/bags, tissues, paper hand towel etc. ³ australianeethical's Canberra offices only.

Greenhouse gas emissions

Australians are now considered to be the world's worst greenhouse gas polluters, emitting 20.58 tonnes of carbon dioxide per person (American's emit 19.78 tonnes; Maplecroft 2009). australianeethical is committed to combating climate change not only through our investments, but also within our own operations. During 2008–09 australianeethical saved the equivalent of 86.40 tonnes of carbon dioxide from entering the atmosphere and offset a further 113.50 tonnes (Table 16). australianeethical saved 79.60 tonnes of carbon dioxide by purchasing 74,393 kWh of 100 per cent accredited Green Power electricity from

ActewAGL under the GreenChoice program. The company also saved a further 6.80 tonnes of carbon dioxide by recycling 83 per cent (3.154 tonnes) of waste. The company offset 113.50 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of Voluntary Carbon Standard carbon credits from Climate Friendly (www.climatefriendly.com; www.v-c-s.org).

Prior to being off-set, australianeethical's 2008–09 greenhouse gas emissions were 16 per cent higher than in 2007–08 (Tables 16 and 17). The increase in emissions was largely a result of an increase in the number of air flights, from 421 in 2007–08 to 474 in 2008–09.

Table 16: Greenhouse gas (GHG) emissions for the year to 30 June 2009¹

GHG emissions (t CO ₂ e)	Saved	Generated	Offset
Scope 1 emissions			
Gas	0.00	6.77	6.77
Scope 2 emissions			
Electricity	79.60	0.00	0.00
Scope 3 emissions			
Waste recycled	6.8	0.00	0.00
Waste to landfill	0.00	0.64	0.64
Air flights	0.00	102.99	102.99
Taxi cabs	0.00	3.10	3.10
Total	86.40	113.50	113.50

¹ Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors - June 2009. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator (www.climatefriendly.com). Scope 1 emissions are considered direct emissions; Scope 2 and 3 emissions are considered indirect. Indirect emissions from courier services have not been calculated.

Environment

Table 17: Greenhouse gas (GHG) emissions for the year to 30 June 2008¹

GHG emissions (t CO ₂ e)	Saved	Generated	Offset
Scope 1 emissions			
Gas	0.00	6.35	6.35
Scope 2 emissions			
Electricity	73.30	0.00	0.00
Scope 3 emissions			
Waste recycled	8.67	0.00	0.00
Waste to landfill	0.00	0.56	0.56
Air flights	0.00	88.60	88.60
Taxi cabs	0.00	2.60	2.60
Total	81.97	98.11	98.11

¹ Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors - January 2008. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator (www.climatefriendly.com). Scope 1 emissions are considered direct emissions; Scope 2 and 3 emissions are considered indirect. Indirect emissions from courier services have not been calculated.

Compliance

australian**ethical** was not subject to any significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations in 2008–09.

Environmental protection expenditure

During 2008–09 au**stralianethical** spent a total of \$7090 on the protection of the environment. This figure includes costs for:

- off-setting greenhouse gas emissions through Climate Friendly
- paying a premium for Green Power generated from renewable energy sources
- plants and garden supplies for the company office.

Products and services

The environmental impact of au**stralianethical**'s products, being financial services, primarily lies with the impact of the companies in which au**stralianethical** holds a financial interest. These impacts, while outside the boundary of this report, are ameliorated to a certain extent by au**stralianethical**'s ethical investment approach.

Economic performance

The 2008–09 financial year was a challenging year for **australianethical** with the impact of the global financial crisis hitting financial markets across the globe. The following section outlines the company's economic performance during this period.

Economic performance

The economic performance for 2008–09 reflects a careful navigation by **australianethical** through the turmoil of the global financial markets over the last twelve to eighteen months. Inflows have reduced significantly, particularly to the non-superannuation managed funds, however the company has held outflows at a stable level and preserved investor confidence in both the **australianethical** brand and investment approach. As was prevalent throughout the financial services industry, the company experienced large fluctuations in funds under management during the year, dropping to a low of \$461 million in March 2009. This was a 28 per cent decrease from a peak of \$645 million in December 2007, however this was less than the general falls experienced by the market (the All Ordinaries index experienced a 55 per cent decrease from its peak in November 2007 to its low in March 2009). This relatively solid performance against the market reflects some of the merits of **australianethical**'s investment approach

(environmental, social, governance investment considerations) over the long term. As at 30 June 2009, funds under management had returned to \$535 million (ex. Distribution; Figure 23). This compares with the funds under management of \$562 million (ex. Distribution) as at 30 June 2008. The aggregate distribution amount for the year was \$9 million, compared to a distribution for the last financial year of \$16.8 million.

Funds under management across the investment trusts and corresponding superannuation strategies are all shown in Figures 24, 25 and 26. As the company's funds under management maintains its attraction to those responsible investors who wish to align their financial investments with the principles adhered to by **australianethical**, it means more and more money can be invested according to the values supported by the **australianethical** Charter. This in turn sees financial support channelled in areas that are aligned to these sorts of principles through the investment vehicles underpinning the investment trusts and superannuation strategies. As this financial momentum moves through the Australian business sector, **australianethical** will continue to play an important role, as well as act as a leader influencing change and advocating for change in the Australian and international business environments in which it invests.

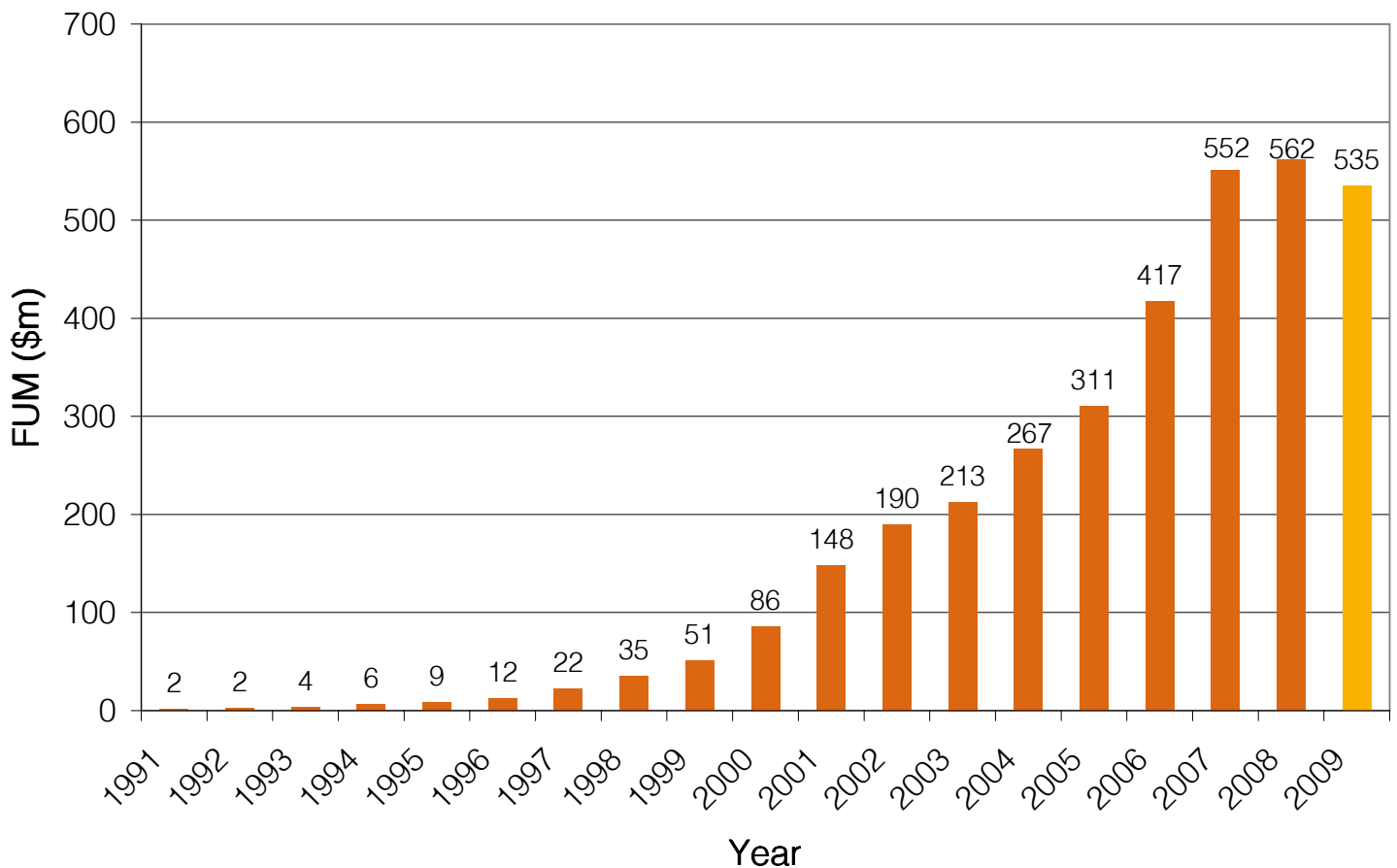


Figure 23: Growth of funds under management (years ending 30 June) – figures are net of crossholdings

Economic performance

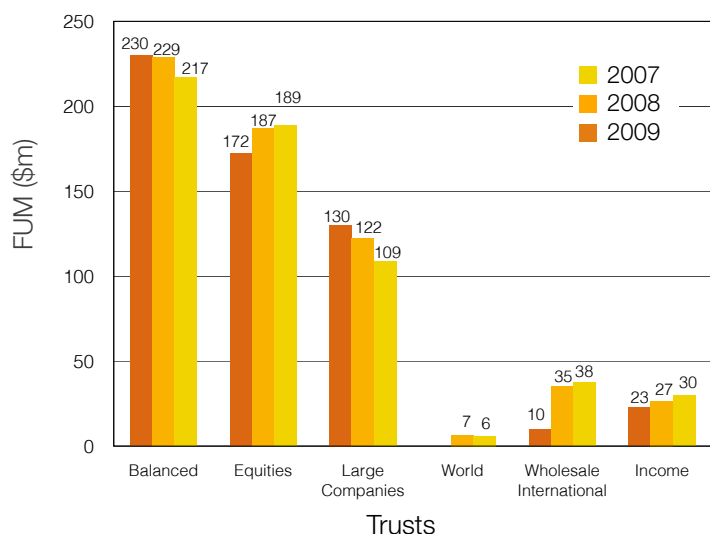


Figure 24: Unit trusts – funds under management – figures include crossholdings

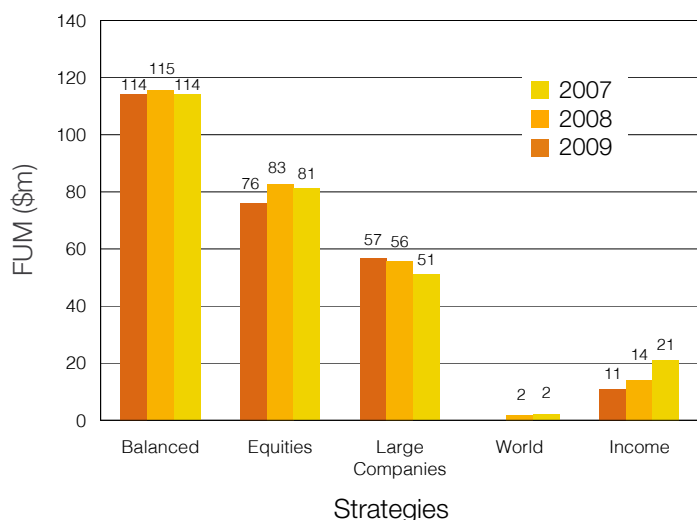


Figure 25: Superannuation accumulation and rollover strategies – funds under management

Revenue for the year ending 30 June 2009 was down 7 per cent to \$13,131,431, where as last year there was a 13 per cent increase to \$14,064,371. The company net profit after tax was down 27 per cent to \$1,202,752; the previous profit after tax was \$1,651,790. Total dividend declared in relation to the 2008–09 year was \$1.47 representing a 121 per cent payout ratio. The dividends paid to shareholders during the

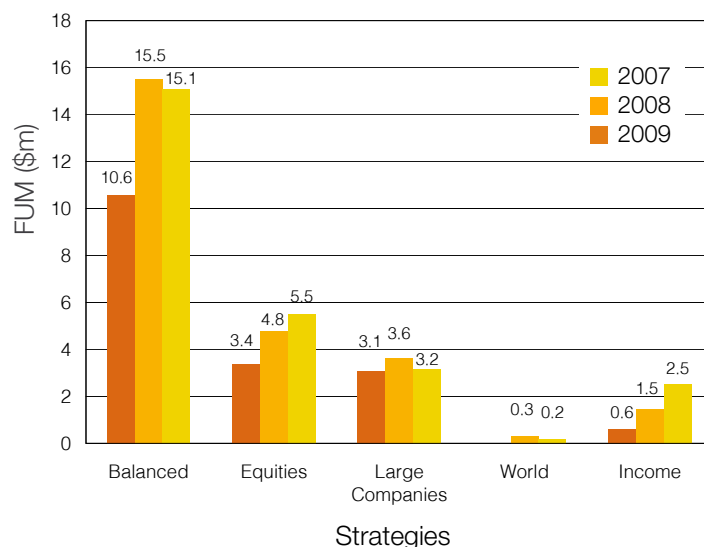


Figure 26: Superannuation pension strategies – funds under management

2008–09 year totalled \$1,330,329 (representing the payment of the final dividend for 2007–08 in October 2008 and the interim dividend for 2008–09 in March 2009).

Economic value retained increased from (\$228,036) in 2007–08 to (\$127,577) in 2008–09 (Table 18). The economic value retained by the company is the difference between the economic value generated (i.e. the profit or loss) and the economic value distributed (i.e. the dividend paid to shareholders), as defined by the G3 framework. In 2008–09 there is a negative economic value retained mainly due to the timing issue related to economic value generated and the economic value distributed by the company. The profit for the 2007–08 year was \$1,651,790 resulting in a declaration of a large final dividend related to the 2007–08 year of \$1,181,596. This final dividend was paid in October 2008 and therefore included in the economic value distributed for the 2008–09 year. The profit for the 2008–09 year was \$1,202,752 which is less than the previous year. Once the interim dividend for 2008–09 of \$148,733, paid in March 2009, is added to the final dividend for 2007–08, paid in October 2008, the economic value distributed in 2008–09 is greater than the economic value generated of \$1,202,752 (the same logic also applies to the negative economic value retained for the 2007–08 year.)

Over the year the company's net assets increased from \$8,381,490 to \$8,453,205 (Table 19).

Table 18: Economic performance indicators – financial year

Economic performance indicator	Financial year		
	2006–07	2007–08	2008–09
Direct economic value generated			
Revenues	\$12,467,148	\$14,064,371	\$13,131,431
Economic value distributed			
Operating costs	\$4,609,646	\$5,155,175	\$4,756,294

Economic performance

Economic performance indicator	2006-07	2007-08	2008-09
Employee wages and benefits ¹	\$4,754,081	\$5,972,707	\$6,105,701
Payments to capital providers (dividend)	\$836,675	\$1,879,826	\$1,330,329
Payroll tax	\$222,570	\$284,373	\$305,625
Income tax	\$836,710	\$799,435	\$620,191
Total tax (total payment to government)	\$1,059,280	\$1,083,808	\$925,816
Community investments – tithe	\$224,964	\$200,891	\$140,868
Economic value retained			
Economic value generated less economic value distributed	\$982,502	(\$228,036)	(\$127,577)

¹ Excludes payroll tax.

Table 19: Economic performance indicators – balance date

Economic performance indicator	Balance as at 30 June		
	2007	2008	2009
Total assets	\$10,052,296	\$11,152,242	\$11,054,919
Net assets	\$7,684,133	\$8,381,490	\$8,453,205

australian**ethical** community grants

As prescribed in **australianethical's** constitution, 10 per cent of profit (after notional tax before staff bonus) is donated to charitable, benevolent and conservation purposes as part of the company's contribution to a positive and sustainable society. In 2009 **australianethical** donated \$140,868 to 25 social and conservation projects in its community grants program.

The largest grant of \$45,000 went to CO-ID to build a combined primary and secondary school in one of the poorest areas of Bangladesh. Funding was also given to 24 other social and conservation community organisations working throughout Australia and overseas. Further information on the community grants scheme can be found on pages 26 and 47.

Financial implications of climate change

australianethical as a deep green fund manager, is very much aware of climate change issues in day to day operations. Climate change has risks and opportunities for all businesses regardless of their sector. **australianethical's** unique position in its niche market in the funds management industry offers investors the opportunity to contribute, solve or alleviate some of the environmental and social issues faced today. Climate change is one of these issues and it will be one of the many environmental challenges that all Australian businesses will face over the next. **australianethical** expects that awareness of environmental problems will increase and broaden the number of potential investors, as the issue of climate change is taken up by the media and the general public. This will heighten the awareness and interest that is seen in the business community and market generally, in turn this should lead investors and superannuation members to consider the benefits of

responsible investment in the longer term.

The risk of being exposed to companies largely affected by climate change related regulatory changes, such as carbon trading, is considered to be low, given **australianethical's** investment approach and screening process. The company, due to the way it uses its Charter to select and screen its potential investments, has minimal exposure to carbon intensive industries within its investment portfolio. **australianethical** considers itself to be well positioned for a market place that could eventually see an effective price put on carbon.

australianethical has predominantly office based operations in Canberra and some offsite staff in Sydney, Melbourne, Brisbane and coastal New South Wales. The company does not expect any operations to be directly affected by climate change in the near future, other than the way climate change impacts make the need for responsible investment more and more pressing in the investment market place.

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.

Superannuation obligations

The retirement plans offered to all employees of the company are accumulation superannuation strategies based on the requirements outlined by government legislation. There are no defined retirement benefit plans offered to employees.

The company is fulfilling its superannuation obligations as required by Australian law. In Australia it is mandated by Superannuation Guarantee Contributions to contribute nine per cent of every salary to the accumulation superannuation strategy/ies of the employee's choice.

Economic performance

Financial assistance from the government

There are no direct financial benefits from the Australian Government to **australianethical** and no governments are represented in **australianethical**'s shareholding. However, changes in government legislation pertaining to superannuation requirements could impact favourably on the funds management industry per se. For example, legislation requiring an increase in superannuation guarantee contributions would have a positive impact on the overall investment funds flowing into the superannuation strategies offered by the company. The impact from legislative changes would obviously depend on the nature of the change and **australianethical**'s market share at the time.

Market presence

Suppliers

Tenet 'b' of the **australianethical** Charter supports the production of high quality products and tenet 'c' supports the development of locally based ventures. These principles are adhered to in the day to day purchasing and sourcing of goods.

australianethical's head office in Bruce, Canberra, Australian Capital Territory (ACT) is considered the company's location of significant operation. Being office based and a relatively small organisation with 53 employees, the company purchases a moderate amount of stationery, cleaning, staff amenities and corporate office supplies.

The company continues to adhere to the principles in the Charter in its day to day operations and consistent with this, **australianethical** sourced most of its business supplies locally, generating and supporting business in the local ACT region. The company has three main suppliers who have offices close to **australianethical**'s operations in Canberra and are the businesses of choice for these purchases.

In addition **australianethical**'s purchasing policy allows paying up to 20 per cent more for environmentally or socially exemplary goods and, where possible, these are also sourced locally. For example the company's financial and human resources management software is developed in Australia, sourced from an Australian company with local offices in the ACT. A further example is the fact that the company sources fair trade coffee from the local Fyshwick markets.

Hiring

australianethical'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 is based on merit. As a standard procedure all positions are advertised internally, on the web and in the media. In the majority of instances the Canberra market is the preferred recruitment source, but in some instances positions requiring specialist skills are advertised Australia-wide.

The Canberra employment market is accessed through the Canberra Times and local agencies that cover Canberra. In the wider market, the Australian Financial Review and, rarely, specialist recruitment agencies will be used. **australianethical** also utilises an environmental jobs network and a disability work group when recruiting new employees. Senior management positions which may require specialist skills are advertised nationally. Currently all but one of the senior management team are Canberra based and are district residents.

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 **australianethical**. All **australianethical** employees are also required to familiarise themselves with and adhere to the comprehensive **australianethical** code of conduct and Charter and internal policies and procedures – all of which are available on the company's intranet (see page 9).

Indirect economic impacts

Indirect economic impacts are of significant importance to **australianethical**. Indirect impacts play an important role in fostering socio-economic change. **australianethical**'s indirect impacts are largely characterised through raising awareness about responsible investment and related issues, such as considering climate change in investment decisions. The company board and various committees need to consider the risks and opportunities that are presented by climate change and this is done via careful consideration of the principles set out in the **australianethical** Charter in the investment process. **australianethical** undertakes public seminars and presentations on ethical investment and engages with the media highlighting links between responsible investment or on topical environmental and social issues of interest to the community and stakeholders at large. Such initiatives provide public benefit to the community through commercial, in-kind and pro bono engagement. In some cases, these seminars and presentations lead to the development of local initiatives that the company may support.

australianethical has recently increased focus on sponsorships helping engagement with empathic groups and their members or supporters. In the 2008–09 financial year **australianethical** was a major sponsor of the Australian Religious Response to Climate Change, Cruelty Free Living Festival, Walk Against Warming, the Big Canberra Bike Ride, Two Fires Festival, the Green Day Out and WA Conservation Week. **australianethical** was a supporter of Radio Adelaide's WOMAdelaide telecast, which allowed this major music event to be broadcast on a further 50 community radio stations across Australia. In addition to this the company was involved in events like the Sustainable House Day Tour and the National Ride to Work Day. **australianethical** also has its annual community grants program, which has been covered in more detail on pages 26 and 47.

Assurance

Report content

In defining the report content, **australianethical** 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 2008). 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 2008, WCED 1987).

In determining which topics and indicators were material, **australianethical** took into account a number of internal and external factors. These included **australianethical**'s vision and mission statement, the **australianethical** Charter (see page 9), the expectations and interests of stakeholders, and **australianethical**'s sustainability impacts, risks and opportunities.

australianethical 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 Financial Services Sector Supplement. 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

australianethical 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. **australianethical** also identified the environment and future generations as stakeholders.

In preparing this report, **australianethical** attempted to meet the reasonable expectations and interests of its stakeholders.

The expectations and interests of stakeholders were sought through a number of engagement processes, including surveys, feedback forms and peer review comment.

Assurance

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

australianethical's 2009 sustainability report was formally reviewed by the firm Thomas Davis and Company, Chartered Accountants. Thomas Davis and Company also audit **australianethical**'s financial report. Thomas Davis and Company visited **australianethical**'s Canberra office on 30 October 2009 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 **australianethical** and is presented on the following page.

THOMAS DAVIS & CO.

(ESTABLISHED 1894)

CHARTERED ACCOUNTANTS

Liability limited by a scheme approved
under Professional Standards Legislation

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A.N.Z. BANK BUILDING
68 PITT STREET
SYDNEY 2000

9 November 2009

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

Dear Sirs,

Independent Auditor's Review Report

The 2009 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, 2008 to 30 June, 2009. 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.

Management's Responsibility for the Report

Australian Ethical Investment Limited management is responsible for the preparation and content of the Report and has determined that the applicable criteria used are appropriate to the needs of Australian Ethical Investment Limited. This responsibility includes establishing and maintaining internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the Report based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405: *Review of Historical Financial Information Other than a Financial Report* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the applicable criteria used. No opinion is expressed as to whether the applicable criteria used are appropriate to the needs of Australian Ethical Investment Limited. ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

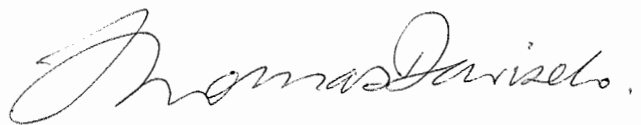
A review consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express 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.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial data presented in the 2009 Sustainability Report of Australian Ethical Investment Limited for the period 1 July, 2008 to 30 June, 2009 is not prepared, in all material respects, in accordance with the applicable criteria used.



THOMAS DAVIS & CO



P.L. WHITEMAN

PARTNER

Chartered Accountants

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Appendices

Appendix A – Organisations awarded grants under **australianethical's** community grants program – 2009

\$45,000

- Co-operation in Development Organisation

\$40,000

- An Australian Ethical initiated mini-documentary competition on the theme 'Corporate Responsibility and the Environment'

\$5000

- ACT Eden Monaro Cancer Support Group
- Australian Marine Conservation Society

\$2800

- ACT Frogwatch
- Alzheimer's Australia NSW
- Australian Red Cross
- Barefoot Economy
- Bush Heritage Australia
- Free the Bears Fund
- Pedal Power ACT
- Sydney Cochlear Implant Centre
- The Grey Man
- Wildcare Queanbeyan

\$1500

- CARE Australia
- Condobolin and Districts Landcare
- East Timor Women Australia
- Hope Street - Urban Compassion
- International Women's Development Agency
- New Internationalist Publications
- NSW Wildlife Information Rescue & Education Service
- Sea Turtle Foundation
- Spinal Cord Injuries Australia
- The Cerebral Palsy Foundation
- WaterAid Australia

Appendix B – Organisations awarded grants under **australianethical's** community grants program – 2008

\$60,000

- Bluegreen Films/Documentary Australia Foundation

\$50,000

- Medical Students' Aid Project

\$7900

- Barefoot Economy
- Engineers Without Borders

\$5000

- Australian Marine Conservation Society
- WaterAid Australia
- ACT Eden Monaro Cancer Support Group
- New Internationalist Publications
- Edmund Rice Centre for Justice and Community Education
- Pedal Power ACT

\$3000

- Fair Trade Association of Australia and New Zealand
- Animals Asia Foundation (Australia)
- Child Wise
- Rainforest Rescue
- Royal Institute for Deaf and Blind Children
- Sustainable Maleny
- The Qld. Society for Crippled Children
- Asian Women at Work
- Bush Heritage Australia
- Clean Ocean Foundation
- Romero Centre
- Trees For Life
- Broken Hill & District Hearing Resource Centre
- Kuusa Services Centre
- The Australian Conservation Foundation

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
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.	4	
1.2 Description of key impacts, risks, and opportunities.	4	
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation.	3	
2.2 Primary brands, products, and/or services.	5	
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	5	
2.4 Location of organisation's headquarters.	5	
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.	5	
2.6 Nature of ownership and legal form.	5	
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	5	
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. 	5	
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). 	5	
2.10 Awards received in the reporting period.	6	
3. REPORT PARAMETERS		
Report Profile		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	3	
3.2 Date of most recent previous report (if any).	3	
3.3 Reporting cycle (annual, biennial, etc.)	3	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
3.4 Contact point for questions regarding the report or its contents.	3	
Report Scope and Boundary		
3.5 Process for defining report content, including: Determining materiality; Prioritising topics within the report; and Identifying stakeholders the organisation expects to use the report.	44	
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	3	
3.7 State any specific limitations on the scope or boundary of the report.	3	
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.	3	
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.	3	
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).	3	
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	3	
GRI Content Index		
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. 	48–60	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
Assurance		
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).	44–46	
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
Governance		
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	
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).	10	
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.	10	
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. 	14–15	
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).	11–12	
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	11	
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.	10	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
<p>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:</p> <ul style="list-style-type: none"> • Are applied across the organisation in different regions and department/units; and • Relate to internationally agreed standards. 	9, 11	
<p>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.</p>	10	
<p>4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.</p>	10–11	
Commitments to External Initiatives		
<p>4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.</p>	13	
<p>4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.</p>	13	
<p>4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation:</p> <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. 	13	
Stakeholder Engagement		
<p>4.14 List of stakeholder groups engaged by the organisation. Examples of stakeholder groups are:</p> <ul style="list-style-type: none"> • Communities; • Civil society; • Customers; • Shareholders and providers of capital; • Suppliers; and • Employees, other workers, and their trade unions. 	14	
<p>4.15 Basis for identification and selection of stakeholders with whom to engage.</p>	14, 44	
<p>4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.</p>	14–16	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
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.	14–16	
5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS		
Economic Performance Indicators		
Disclosure on Management Approach	40–43	
Aspect: Economic Performance		
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)	41–42	
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change. (Core)	42	
EC3 Coverage of the organisation's defined benefit plan obligations. (Core)	42	
EC4 Significant financial assistance received from government. (Core)	43	
Aspect: Market Presence		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)	Not available	australian ethical has not reported this information for the 2008–09 year as comparable minimum wage data for the financial sector in Canberra was unavailable. The company is committed to reporting on this indicator in the medium term.
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)	43	
EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. (Core)	43	
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)	43	
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)	11,43	australian ethical , through its investment approach, has an indirect economic impact via the promotion of ESG factors in the wider economy. While the extent of impact is difficult to measure, the adoption of ESG factors by a growing number of mainstream institutional investors in Australia is significant and central to australiane thical 's mission.

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
Environmental Performance Indicators		
Disclosure on Management Approach	32	
Aspect: Materials		
EN1 Materials used by weight or volume. (Core)	32–33	
EN2 Percentage of materials used that are recycled input materials. (Core)	32	
EN3 Direct energy consumption by primary energy source. (Core)	34	
EN4 Indirect energy consumption by primary source. (Core)	34	
EN5 Energy saved due to conservation and efficiency improvements. (Additional)	34–35	
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)	34–35	
EN7 Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)	34–35	
Aspect: Water		
EN8 Total water withdrawal by source.	35–36	
EN9 Water sources significantly affected by withdrawal of water. (Additional)	53	Water is supplied to australianethical'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 australianethical's water use.
EN10 Percentage and total volume of water recycled and reused. (Additional)	53	During 2008–09, zero cubic metres of water were recycled/re-used (zero per cent of total water use). australianethical's office at Trevor Pearcey House does not 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)	53	australianethical's offices during 2008–09 were located in an urban environment in the Canberra suburb of Bruce which is not located in, or adjacent to, protected areas or areas of high biodiversity value.

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
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)	54	australian ethical , through its activities, products and services, seeks to preserve endangered eco-systems and biodiversity. During 2008–09 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)	54	During 2008–09 australiane thical was not directly involved in the protection or restoration of habitat.
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	54	As outlined in the australiane thical Charter, australiane thical seeks to preserve endangered eco-systems and biodiversity. In addition to selecting every investment with which we are involved in accordance with the Charter, australiane thical 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)	54	australian ethical 's offices during 2008–09 were located in an urban environment in the Canberra suburb of 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)	38–39	
EN17 Other relevant indirect greenhouse gas emissions by weight. (Core)	38–39	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	34–35, 38–39	
EN19 Emissions of ozone-depleting substances by weight. (Core)	Not material	australian ethical is an office based company. Emissions of ozone-depleting substances is considered to be a non-material issue for australiane thical . The company does not measure or report on this issue.
EN20 NO, SO, and other significant air emissions by type and weight. (Core)	Not material	australian ethical is an office based company. Emissions of NOx, SOx, and other air emissions is considered to be a non-material issue for australiane thical . The company does not measure or report on this issue.
EN21 Total water discharge by quality and destination. (Core)	54	Water discharged by australiane thical 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)	37–38	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
EN23 Total number and volume of significant spills. (Core)	55	As an office based company, australianethical does not directly handle oil or fuel; however, small amounts of cleaning products are stored on-site. There were no significant spills recorded during 2008–09.
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)	Not material	The majority of australianethical '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. The company does not measure or report on this issue.
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)	Not material	As noted above, water discharged by australianethical is limited to rainwater and domestic sewage. The limited amount of runoff from 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)	8–9, 39	
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	Not applicable	With the exception of marketing documents, australianethical does not produce a physical product that can be recycled at the end of its useful life. Enquirers receiving australianethical 's marketing documents may recycle the paper; however, it is not possible to determine 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)	39	
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)	36–37	
Aspect: Overall		
EN30 Total environmental protection expenditures and investments by type. (Additional)	39	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
Labour Practices and Decent Work Performance Indicators		
Disclosure on Management Approach	19, 21–22, 24	australian ethical is an asset manager. It does not have a policy specifically addressing threats and violence to staff, their families or community members.
Aspect: Employment		
LA1 Total workforce by employment type, employment contract, and region.	18–19	
LA2 Total number and rate of employee turnover by age group, gender, and region.	21–22	
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	24	
Aspect: Labour/Management Relations		
LA4 Percentage of employees covered by collective bargaining agreements. (Core)	56	All of australiane thical '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)	56	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 significant business restructuring.
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)	56	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)	24–25	
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)	Not material	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)	56	australian ethical does not have formal agreements with trade unions.

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
Aspect: Training and Education		
LA10 Average hours of training per year per employee by employee category. (Core)	23	
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	24	
LA12 Percentage of employees receiving regular performance and career development reviews. (Additional)	22	
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)	19	australian ethical only collects data on the gender breakdown of governance bodies and employee groups. The company is investigating reporting additional diversity indicators in the medium term.
LA14 Ratio of basic salary of men to women by employee category. (Core)	20–21	
Human Rights Performance Indicators		
Disclosure on Management Approach	21, 29	
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)	28–29	
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	Not material	As an office-based company providing financial services and products, australiane thical does not consider human rights risks in its supply chain to be material. No policy on suppliers and their exposure to human rights risks was in place during 2008–09.
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)	Not material	As an office-based company providing financial services and products, australiane thical does not consider human rights risks within its own operations to be material. The company does not measure or report on employee training or policies and procedures concerning human rights relevant to its operations.
Aspect: Non-Discrimination		
HR4 Total number of incidents of discrimination and actions taken. (Core)	21	
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)	21	

Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
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)	21	
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)	21	
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)	21	
Aspect: Indigenous Rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)	21	
Society Performance Indicators		
Disclosure on Management Approach	26–27	
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)	14–16	
Aspect: Corruption		
SO2 Percentage and total number of business units analysed for risks related to corruption. (Core)	26–27	
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core)	27	
SO4 Actions taken in response to incidents of corruption. (Core)	27	
Aspect: Public Policy		
SO5 Public policy positions and participation in public policy development and lobbying. (Core)	27	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)	27	
Aspect: Anti-Competitive Behaviour		
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional)	27	
Aspect: Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. (Core)	27	


Global reporting initiative indicators – GRI content index

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
Product Responsibility Performance Indicators		
Disclosure on Management Approach	28–30	
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)	Not applicable	Investment products and services provided by the company do not fall into the parameters of this particular indicator. However, the company does consider the health and safety impacts of investee products as outlined in the australianethical Charter.
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)	Not applicable	As with the PR1 indicator above, while certain regulations and codes with regards to health and safety impacts are considered through the australianethical 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)	31	
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)	31	
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)	31	
Aspect: Marketing Communications		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	31	
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)	31	
Aspect: Customer Privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)	31	
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)	59	There were no fines for non-compliance with laws and regulations concerning the provision and use of products and services in 2008–09.

Financial services sector supplement

PROFILE	CROSS-REFERENCE/ REASON FOR OMISSION	FURTHER EXPLANATION
Product and Service Impact Section		
Aspect: Product Portfolio		
FS1. Policies with specific environmental and social components applied to business lines.	9	
FS2. Procedures for assessing and screening environmental and social risks in business lines.	29–30	
FS3. Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	Not applicable	As per the sector supplement, this indicator does not apply to asset management as the specific asset management issues related to screening and engagement are covered in indicators FS11 and FS5.
FS4. Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	29	
FS5. Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	7, 16, 30	
FS6. Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	28–29	
FS7. Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	Not applicable	As per the sector supplement, this indicator excludes asset management since this is reported under indicator FS11.
FS8. Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	Not applicable	As per the sector supplement, this indicator excludes asset management since this is reported under indicator FS11.
Aspect: Audit		
FS9. Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	28–30	
Aspect: Active Ownership		
FS10. Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	30	
FS11. Percentage of assets subject to positive and negative environmental or social screening.	9, 28	
FS12. Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	30–31	
Aspect: Community		
FS13. Access points in low-populated or economically disadvantaged areas by type.	Not applicable	As per the sector supplement, this indicator is not relevant for asset management.
FS14. Initiatives to improve access to financial services for disadvantaged people.	16	
Aspect: Product and Service Labelling		
FS15. Policies for the fair design and sale of financial products and services.	11, 16, 30–31	
FS16. Initiatives to enhance financial literacy by type of beneficiary.	16, 30–31	

GRI Application Level

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							<input checked="" type="checkbox"/>
	Third Party Checked			Report Externally Assured		Report Externally Assured		Externally Assured
Optional	GRI Checked							

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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