

"Pioneering  
positive ethical  
investment  
since 1986"



# Sustainability Report 2012

*Year ended 30 June 2012*

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# About this report

## Report profile

This is Australian Ethical Investment Limited's (Australian Ethical) eleventh sustainability report and covers the period from 1 July 2011 to 30 June 2012. Australian Ethical has an annual reporting cycle. The previous report covered the period from 1 July 2010 to 30 June 2011.

This Sustainability Report is a statement of our commitment to the GRI process and can be downloaded from our website at [australianethical.com.au/sustainability-reports](http://australianethical.com.au/sustainability-reports)

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## Report scope and boundary

### Report boundary

This Report describes the economic, environmental and social performance of Australian Ethical Investment Ltd (ABN 47 003 188 930) and Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733) for the year to 30 June

2012. It does not extend to the activities of the investments of the trusts and super fund managed by the Australian Ethical group.

The reporting of a number of environmental indicator aspects including gas, water and waste is limited to Australian Ethical's office in Canberra. Electricity is reported for both the Canberra and Sydney offices. Apart from the reporting of electricity and its associated greenhouse gas emissions for the Sydney office, there has been no change in the report boundary since the previous reporting period.

### Report scope

There has been no change in the Report scope since the previous reporting period. A list of the GRI indicators covered can be found at: [australianethical.com.au/sustainability-reports](http://australianethical.com.au/sustainability-reports).

### 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.

### Verification

Selected information in Australian Ethical's 2012 Sustainability Report was verified by NetBalance. A verification statement is provided to the Directors of Australian Ethical and is at page 46.

# 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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# Chair and Managing Director's Statement

*2012 has seen many positive changes at Australian Ethical as we've sought to address the on-going impact on the business of the global financial crisis while also putting in place the building blocks to grow the business but ensure it is sustainable. Throughout these challenges, our commitment to the core values of the business and our Australian Ethical Charter has never wavered.*

## *Our sustainability performance*

Our Ethical Charter governs not only our investment decisions but also our business operations. One key section is that we will “seek out investments which provide for and support the amelioration of wasteful or polluting practices”. As you'll read in this Report, our commitment to reducing our own resource consumption has again seen improvements in many of the key indicators including energy efficiency, waste, transport and an ability to offset greenhouse gas emissions that we do produce. Throughout the year the size of our Sydney operation has grown, accordingly, for the first time we have included some data for both our offices in the measurements.

## *Corporate values*

Australian Ethical is unique in the financial services industry in managing funds that actively seek investment in companies with superior environmental and social credentials. For example, in December 2011, our flagship fund, the Smaller Companies Trust won Ethical Fund of the Year at the 2011 Sustainability Awards. This was in recognition of our ongoing commitment to sustainable investing and the financial performance of the fund. In addition, it was a reward for our willingness to take a stand on key ethical issues, most notably our exit during the year from Origin Energy because of its exposure to Coal Seam Gas risks.

Our philosophy remains that people should be able to save and invest in a way that looks after society and the environment and provides financial performance and security. To this end,

our investment criteria remains the highest ethical conviction in the market and we maintain our certification from the Responsible Investment Association of Australasia for all our products.

We believe that 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.

## *Staff Engagement*

Australian Ethical recently conducted its annual staff satisfaction survey with 84% of staff engaging in the survey, the highest response rate ever recorded by the company.

The results were an overall improvement on 2011 results and showed that staff were very satisfied with their current roles and opportunities to use their skills and abilities at work (both indicators were at 100%). In addition, the level of confidence in the board and management team increased over last year. The implementation of our new performance planning and development program has had a significant effect with satisfaction in the appraisal process improving by 20%.

Further details on the staff survey results are available in the 'Stakeholder Engagement' section of this Report.

## Business improvements

Throughout 2012, the focus of initiatives implemented by the company continued to be on addressing the challenges that have arisen from the impact of the ongoing global financial crisis. The key factors impacting the business are that markets continue to be down significantly from their peaks, investors continue to be nervous and regulatory change is turning the financial services industry on its head putting pressure on fees and hence revenues.

Building on the work achieved over the past few years, during the 2012 financial year we made significant improvements in our products, client service and costs in the following areas:

- Enhanced products – we improved the insurance options available to our superannuation fund members and lowered the fees on a number of our key products
- Improved service – we upgraded our portfolio administration operations, invested in improved call centre and customer management systems and recently we appointed Russell Investments to be our superannuation administrator from April 2013, which will provide a much improved and lower cost service to members
- Reduced costs – in order to be able to implement these changes and to properly position ourselves for what will be a lower fee environment in the years to come, we have had to reduce our costs with staff numbers reducing from 50 to 38 over the course of the past year.

These improvements and adjustments were absolutely necessary to ensure the long term sustainability of the company.

## Community Engagement

As part of our contribution to a positive and sustainable society, at the end of the 2012 financial year, 10% of our profit was once again donated to charitable, benevolent and conservation purposes. Australian Ethical continues to provide one of the highest levels of corporate giving in Australia based on percentage of profits and has now gifted more than \$1.3 million to communities over the last 12 years.

This year, for the first time, we invited our shareholders to vote on which organisation or project should receive grants. The voting was overwhelmingly in favour of wildlife conservation.

This year Australian Ethical donated \$53,325 to 11 organisations that work across Australia and overseas.

The major grant recipient was *Rainforest Rescue – Gunung Leuser National Park, North Sumatra* and their project to save the last viable habitat of the Sumatran Orangutan through the protection of the World Heritage listed tropical rainforests.

Additionally, we are actively involved in social and environmental movements through a number of corporate partnerships and individual memberships.

## Looking forward

The financial services industry continues to face significant regulatory changes that impact the business in a number of ways. In particular:

- Capital requirements for funds management businesses will change in November 2012 requiring greater liquidity to be held to comply with licensing requirements, and
- Two new areas of legislation, Future of Financial Advice and MySuper, are impacting fees in a number of ways. In general, the legislation has led to lower fees and a more competitive environment.

## Sustainable Growth

Over the last few months we conducted market and customer research, the result of which is a refreshed Australian Ethical brand, an enhanced insight into how we can improve our communication with clients and our potential for sustainable growth.

The key areas of insight from the research were:

- There is a huge opportunity to expand our reach into our natural market, particularly as Australian Ethical is the only truly “green” investment manager and superannuation fund in Australia
- The commitment to the Australian Ethical brand is very high relative to our mainstream and ethical competitors. However, awareness of our brand is quite low. So we need to communicate with a wider audience more effectively to ensure that more people understand who we are and what we offer
- We are known as offering ‘the best ethical option’ by our clients. This is a reputation that we will retain. However, we need to vastly improve the trust people have in our investment performance and the competitiveness, attractiveness and service levels of our products. This will mean greater communication of our investment expertise to increase the level of trust from clients so that they trust us with more of their life savings.

## *Leadership*

Australian Ethical continues to see its key role as influencing the investment landscape of Australia through our positive ethical investment philosophy. Additionally we take an expanded view that we also act as thought leader and educator – helping more investors understand the impact their money has on society and the environment.

Beyond our interaction with the market, our duty is to continue to reduce our own impact on the environment, by reducing our emissions, water and energy usage.

There is clearly still work to do to implement a number of initiatives over the next year to prepare for the new regulations and enhance our business proposition and operational efficiency. However, we believe that Australian Ethical is now better positioned to deliver on its vision, remain viable and also deliver sustainable growth. We believe the larger our client base is, the more influence we have to change the world for the better.



A handwritten signature in black ink, appearing to read 'P. Vernon', written over a horizontal line.

**Phillip Vernon**  
Managing Director



A handwritten signature in black ink, appearing to read 'André Morony', written over a horizontal line.

**André Morony**  
Chair

# Company profile

*Australian Ethical is an independent fund manager based in Australia. It was established in 1986 for the purpose of pooling investor savings and specialises in environmental and socially responsible investment. Australian Ethical originally managed a private ethical trust until 1989, when what is now the Australian Ethical Balanced Trust opened for public subscription.*

Australian Ethical became a publicly listed company on the Australian Securities Exchange in December 2002. As at 30 June 2012 there were 38 employees and \$627 million in funds under management on behalf of approximately 18,000 responsible investors.

Australian Ethical has a commitment to promoting ecologically sustainable and socially just enterprises using judicious investment throughout Australia and internationally.

We currently manage six retail unit trusts (and two wholesale investment trusts):

- Australian Ethical Balanced Trust (ARSN 089 919 255)
- Australian Ethical Smaller Companies Trust (ARSN 089 919 175)
- Australian Ethical Larger Companies Trust (ARSN 089 919 166)
- Australian Ethical Cash Trust (ARSN 089 919 120)
- Australian Ethical International Equities Trust (ARSN 124 861 338)
- Climate Advocacy Fund (ARSN 140 444 211).

Australian Ethical's wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, is the Trustee of the Australian Ethical Retail Superannuation Fund. The Australian Ethical Retail Superannuation Fund offers seven accumulation and six pension superannuation options:

- Defensive
- Conservative
- Balanced
- Smaller Companies
- Growth
- International Shares
- Climate Advocacy (accumulation strategy only).

All investments are managed 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 managed using the Australian Ethical Charter (see page 10), 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.

Under our constitution, before a dividend can be declared, 10% of annual profits must be donated to non-profit, charitable, benevolent and conservation organisations.

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## *Review of operations*

Australian Ethical's principal activity during the financial year was to manage public offer ethical managed funds (registered managed investment schemes). Australian Ethical Superannuation Pty Limited was Trustee of the Australian Ethical Retail Superannuation Fund during the financial year.

The Australian Ethical group recorded a consolidated net profit after income tax expense for the year ending 30 June 2012 of \$402,155, a 64% decrease on the result of the previous financial year; based on restated 2011 consolidated net profit. Return on equity for the year was 5.9%, down from 17.1% in 2010-11. Earnings per share decreased 64 to 40.1 cents per share and the cost to income ratio increased to 93%<sup>1</sup>. Funds under management (FUM) also fell by 2.7% from \$644 million to \$627 million over the period.

Key factors impacting the result were:

- Lower market values – The All Ordinaries Index dropped 11% over the period
- Impairment to building – A non-cash impairment charge of \$210,000 was incurred arising from a three yearly revaluation of the property at Trevor Pearcey House in Canberra
- Business restructuring – Redundancy costs of \$319,000 were incurred as the business restructured to reduce operating costs to position it for a more competitive, lower fee environment in the future
- Shareholder action – During the year a group of shareholders called a general meeting. Direct costs incurred in respect of the campaign were \$125,000 primarily in respect of legal costs incurred as a result of the numerous misleading allegations made.

At 30 June 2012 Australian Ethical's net assets were \$6,707,721. The company has no debt and is generating positive returns and cash flow.

There were no significant changes to the size, structure or ownership of Australian Ethical during the reporting period. The company's capital structure and policies remain relatively simple.

<sup>1</sup> All comparisons in this paragraph are against the restated 2011 consolidated net profit. Further information on the restatement is included in the 2012 Financial Report Note 3 and 27.



# Investing ethically

Ethical investment is also known as sustainable investment and socially responsible investment. These terms describe an investment process that, in addition to seeking a competitive financial return, incorporates environmental and social factors when selecting investments. In Australian Ethical's case, these factors are contained in the Australian Ethical Charter (p10).

For more than two decades Australian Ethical has specialised in ethical and sustainable investment and produced competitive financial returns allied with strong ethical values. Australian Ethical'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. Sustainable investment allows money to work towards achieving a sustainable society too.

While many sustainable funds only avoid certain stocks, Australian Ethical is unique in managing funds which actively seek 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.

Australian Ethical invests in approximately 150 entities through its screened managed funds. Investments cover equity (shares) in large and small enterprises as well as interest-bearing securities and property.

## *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 high risk of serious health, safety or environmental problems that in the future may lead to fines, compensation payouts and investor contempt.

Society is increasingly requiring business to account for the full environmental costs of production. This leads to an increased 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*

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

All of Australian Ethical's screened investment options adhere to the same rigorous ethical criteria.

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# The Australian Ethical Charter<sup>©</sup>

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

The Charter is included in Australian Ethical's constitution at clause 2.1.

The Company will order its affairs so as to provide for and to support:

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

The Company will also order its affairs so as to avoid activity which is considered to unnecessarily:

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

# Governance

The following section outlines Australian Ethical's governance structure and related policies, with particular emphasis on environmental, social and ethical issues. For further detail on Australian Ethical's corporate governance please refer to Australian Ethical's 2012 Annual Report and website [australianethical.com.au](http://australianethical.com.au)

## Governance structure

Australian Ethical has a board of directors responsible for overseeing the company's goals

and for developing strategic plans to achieve those goals. The 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 the CEO.

As at 30 June 2012 the board comprised five directors of which three were considered independent (Table 1).

**Table 1: Australian Ethical board of directors during 2011-12**

Name	Position	Appointed/resigned
André Morony (Chair)	Non-executive, independent	
Phillip Vernon	Managing Director	
Justine Hickey	Non-executive, independent	
Stephen Newnham	Executive director	Appointed 12 December 2011
Howard Pender	Executive director	Ceased 17 November 2011
Les Coleman	Non-executive, non-independent	Ceased 17 November 2011
Louise Herron	Non-executive, independent	Appointed 20 February 2012 Ceased 25 July 2012

Stephen Gibbs was appointed a non-executive, independent on 25 July 2012.

## Committees

To assist in its work the board has established the following committees:

- Audit, Compliance and Risk
- People, Remuneration and Nominations
- Investment.

The role and composition of each committee as at 30 June 2012 is detailed below.

### Audit, Compliance and Risk

The audit, compliance and risk committee provides a forum for 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), Les Coleman (non-independent non-executive director), Louise Herron (independent non-executive director).*

### People, Remuneration and Nominations

The People, 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 Managing Director and non-executive 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:** *André Morony (chair, independent non-executive director), Justine Hickey (independent non-executive director), Louise Herron (independent non-executive director).*

### Investment committee

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

**Membership:** *Justine Hickey (chair, independent non-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 feedback from the senior management team. A questionnaire concerning board and individual performance is completed by each director and the results collected by the Chair. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The 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. An assessment in accordance with the above process was undertaken in the relevant period.

## Economic, environmental and social policies

### Australian Ethical's vision

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

### Australian Ethical's mission

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

In addition to managing every investment according to the Charter, Australian Ethical also aims to conduct its operations in accordance with the tenets of the Charter. 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, and
- nurture staff participation in the ownership and control of Australian Ethical.

### Australian Ethical Charter

The board is required to further the aims set out in the Australian Ethical Charter as incorporated in the Australian Ethical constitution. The Charter sets out 23 ethical principles applied across the entire operations and activities of the company (see page 10).

### Values

A company's values shape its culture, define its character and act as a guide as to how we behave and make decisions. Australian Ethical is, at its core, a values driven company, our values being shaped by the Ethical Charter which guides the overall affairs of the company. The Charter however does not necessarily translate into easily digestible guides for day-to-day behaviour.

Staff participated in the determination of the company's values. The values chosen are Integrity, Respect, Ethics, Professionalism and Teamwork.

## Code of conduct

Australian Ethical'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. Australian Ethical always seeks to adhere to the code in dealings with stakeholders. The company strives to achieve conduct that is over and above best practice.

The code of conduct and the share trading policy can be found on Australian Ethical's website [australianethical.com.au](http://australianethical.com.au). Australian Ethical also has a whistleblowing support policy that 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 they are 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 by the board and audit, compliance and risk committee. Details on board responsibility and the independence of directors are documented in Australian Ethical's 2012 Annual Report (pages 25–31).

## Remuneration

### Non-executive directors:

The general meeting sets the aggregated amount of remuneration payable to directors. Fees paid to individual directors are determined by the board, within the approved aggregated amount. The Chair received the highest amount, with all other directors receiving a lesser, equal amount. Remuneration of non-executive directors is determined through market data analysis of similar businesses operating in similar industries and recommendations made by the People, Remuneration and Nominations committee. Australian Ethical has no explicit links between director remuneration and key social and environmental performance indicators. Details of the remuneration paid to directors and specified executives during the 2011–12 financial year are set out in the Director's Report within the 2012 Annual Report (pages 18–24).

### Employees

Australian Ethical aims to build and sustain its workforce with competitive remuneration and a diverse range of benefits. The aim is

to attract, retain and motivate the talent pool capable of delivering our business strategy. All employees are treated equitably in regards to remuneration. This includes using market data analysis, annual performance reviews and internal policies regarding remuneration and employee benefits to set individual remuneration. Further details on remuneration of senior managers, executive directors and group executives are set out in Australian Ethical's 2012 Annual Report (pages 18–24).

### Performance-based remuneration and company performance:

During the reporting period, the remuneration of all senior executives and eligible professional staff included an 'at risk' component linked to agreed performance criteria. There was no explicit linkage between the performance criteria set and key social and environmental performance indicators (see details in 2012 Annual Report, pages 18–24).

All permanent staff are eligible to participate in the staff bonus plan which is determined on the company's profit for the year. Australian Ethical encourages employee equity in the company through the ownership of shares and this is achieved through both short and long term incentives. Details of the employee share ownership plan and performance rights issued under the plan are set out in the Director's Report within the 2012 Annual Report (pages 17–21).

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 and to report on whether material business risks are being appropriately managed. During the relevant period, management reported on the effectiveness of the entity's management of its material business risks.

The Managing Director and risk management officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group.



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# 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 Australian Ethical'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 recognises the importance of supporting external initiatives which promote a sustainable future in ways which are relevant to Australian Ethical's goals and activities; as such Australian Ethical is a signatory to the following initiatives:

- *Carbon Disclosure Project (CDP)*  
'The Carbon Disclosure Project works to transform the way the world does business to prevent dangerous climate change and protect our natural resources.' (CDP 2012)
- *UN Principles for Responsible Investment (PRI)*  
'The PRI Initiative aims to help investors integrate the consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices across all asset classes and regions, and in so doing, help contribute to the creation of a sustainable financial system.' (PRI 2012)

## *Association memberships*

Australian Ethical also holds memberships in various associations and industry bodies related to the superannuation and the ethical investment sectors; the advancement of equal opportunities and employee satisfaction; and customer service. Australian Ethical or its subsidiary Australian Ethical Superannuation, are members of the following industry and business associations:

- *The Financial Services Council (FSC)*  
'The Financial Services Council's mission is to represent the interests of our members, our members' clients and customers, all investors and superannuation fund members, life insurance policy holders, users of financial advice and trustee services.' (FSC 2012)
- *Association of Superannuation Funds of Australia Limited (ASFA)*  
'ASFA is the peak policy, research and advocacy body for Australia's superannuation industry. It is a not-for-profit, sector-neutral, and non-party political national organisation whose aim is to advance effective retirement outcomes for members of funds through research, advocacy and the development of policy and industry best practice.' (ASFA 2012)
- *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 2012)

- *Investor Group on Climate Change Australia/New Zealand (IGCC)*

'The IGCC represents institutional investors, with total funds under management of approximately \$900 billion, and others in the investment community interested in the impact of climate change on investments..' (IGCC 2012)

- *Global Reporting Initiative (GRI)*

'The Global Reporting Initiative (GRI) is a non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.' (GRI 2012)

- *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 sustainable finance and responsible investment (SRI) in the Asia Pacific.' (ASrIA 2012)

- *Financial Ombudsman Service*

'The Financial Ombudsman Service provides accessible, fair, and independent dispute resolution for consumers and financial services providers.' (FOS 2012)

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# Stakeholder engagement

## *Stakeholder identification*

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

## *Approaches to stakeholder engagement and response to concerns*

### **Employee Engagement**

Staff are encouraged to provide feedback in relation to their job role, improvement opportunities or the company in general at any time.

Staff elect an Employee Representative every two (2) years to facilitate communication between staff, senior management and the board.

The company also engages with employees through staff meetings, team meetings and staff survey.

### **Staff Survey**

Australian Ethical conducts its staff satisfaction survey annually; this year it was conducted in October 2012 – after the end of the period to which this report relates. In 2012, 84% per cent of staff participated in the survey which is the highest participation rate ever recorded by the company.

Areas showing a very high satisfaction rating included:

- satisfaction with current roles
- opportunities to use skills and abilities
- available resources
- team effectiveness
- being proud to work at Australian Ethical
- a sense of accomplishment from work
- commitment to the Ethical Charter
- the opportunity to make suggestions for improvements at work, and
- confidence in the senior management team.

Areas with a lower satisfaction rating included workload and remuneration.

**Employee survey results for 2009, 2011 and 2012**

Measure	Year	Employee Responses (%)		
		Disagree or Strongly Disagree	Unsure	Agree or Strongly Agree
Satisfaction with current role	2009	13	8	79
	2011	3	0	97
	2012	0	0	100
Satisfaction with Communication	2009	15	31	54
	2011	17	6	77
	2012	19	8	73
Learning & Development Opportunities	2009	10	31	59
	2011	14	23	63
	2012	11	19	70
Remuneration	2009	27	10	63
	2011	25	29	46
	2012	30	18	52
Employee Benefits	2009	5	24	71
	2011	8	20	72
	2012	11	22	67
I feel personally valued at work	2009	-	-	-
	2011	9	12	79
	2012	4	19	77
I have confidence in the Board	2009	32	31	37
	2011	3	38	59
	2012	8	15	77

### *Sustainability committee*

The Australian Ethical 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 Australian Ethical, 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 2011–12 the Sustainability committee was involved in the following initiatives:

- organising the company's sustainable transport days and participation in the National Ride to Work Day
- participation in the National Sustainable House Day
- promoting sustainable transport outside of the company's sustainable transport days

- maintaining the company's sustainability library
- providing support for the company's blood donation initiatives.

In July 2012 a Sustainability committee was also formed in the Sydney office reflecting the growing number of staff in Sydney and to ensure they are engaged on sustainability issues.

### **Volunteering**

On top of Australian Ethical's commitment to charitable and community organisations, staff can 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. Australian Ethical also supports staff engagement with the community. In the last year, staff organised and supported various initiatives including RSPCA Cupcake Day and Movember.

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## *Engagement with shareholders*

Australian Ethical 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. In addition, to encourage shareholder feedback, Australian Ethical includes a question section in the annual general meeting (AGM) notice of meeting sent out to shareholders.

In 2011–12 a group of shareholders called a general meeting of the company, which was held on 21 June 2012. At that meeting they proposed the removal of the current board to be replaced with their nominees. The outcome of the general meeting was a vote firmly in favour of the current board and, by inference, the strategies being implemented by it. These strategies are necessary to properly position the company to survive and thrive in a vastly more competitive and challenging environment. It is important to respect the rights of shareholders however, shareholder activity should not be used to pursue personal agendas. More information about these issues can be found by searching the company's market announcements under the stock code AEF at: [asx.com.au](http://asx.com.au)

## *Engagement with enquirers, managed fund unit holders and superannuation members*

Australian Ethical strongly values the views, enquiries and opinions of all of its stakeholders and welcomes any feedback. We encourage and welcome direct enquiries from unit holders and superannuation members. In 2011–12, direct enquiries encompassed issues such as coal seam gas, animal welfare, our Climate Advocacy Fund, renewable energy, and community grants.

Australian Ethical engages directly with stakeholders through our quarterly e-newsletter AIM High. We also engage directly with clients via a specific print newsletter (every six months) that go to advisers, superannuation members, managed fund investors and shareholders. All our newsletters include articles of interest on investment markets, sustainability, social justice, profiles and discussions of our fund performance.

We have run various campaigns throughout the year to engage with our clients. These include product campaigns as well as our community grants application process. This year was the first year that we asked shareholders to help us choose the recipients of the grants.

## *Engagement with broader stakeholders*

Australian Ethical recognises its connection with the broader community, environment and future generations. We endeavour to engage with these stakeholders in the following ways:

- donating 10% of the company's annual profit through the Australian Ethical community grants program
- ensuring all investment decisions are consistent with the Australian Ethical Charter
- actively involving ourselves in social and environmental movements through corporate partnerships and individual memberships.
- providing paid volunteer leave to employees
- providing tours of the company's six green star rated office in Canberra to demonstrate the concept of applied green building and workplace sustainability.

## *Accessibility*

Australian Ethical believes that we have an obligation to provide information about our financial services in a clear, user-friendly way.

We attempt 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 newsletters and website (which is now one of the most important communication portals for our clients) contain informative investment information and aim to keep our managed fund investors and superannuation members up-to-date with investment, ethical and sustainability issues.

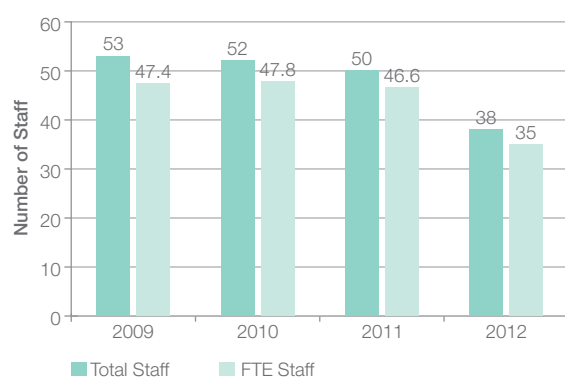


# Our people

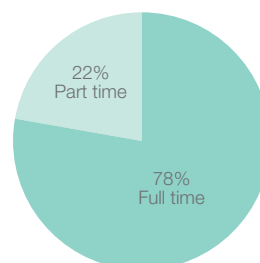
## Australian Ethical workforce

Australian Ethical employed 38 staff and four contractors as at 30 June 2012, working across the company in areas including superannuation, investment, finance, relationship management, information technology and marketing.

66% of staff are based in the Canberra office with the remaining 34% located in the Sydney office or regionally based in Brisbane.



**Figure 1: Australian Ethical workforce – trend by total staff and FTE staff**



**Figure 2: Australian Ethical permanent employees by employment type as at 30 June 2012**

**Table 3: Australian Ethical workforce by employment type, employment contract and location**

Our workforce	Financial year		
	2009–10	2010–11	2011–12
<b>Permanent staff by employment type</b>			
Full-time	39	40	31
Part-time – number of staff	10	10	7
Part-time – FTE	6.6	6.6	4.0
<b>Employment contract</b>			
Permanent – number of staff	49	50	38
Permanent – FTE	45.6	46.6	35.0
Fixed term or temporary – number of staff	3	1	0
Fixed term or temporary – FTE	2.1	1.0	0
<b>Employment location</b>			
Canberra office – number of staff	42	42	25
Canberra office – FTE	38.6	39.3	22.0
Sydney office – number of staff	5	6	12
Sydney office – FTE	5	5.5	12.0
Other – number of staff	5	2	1
Other – FTE	4.1	1.8	1.0

## Equal opportunities

**Table 4: Gender composition of corporate governance bodies and by employee categories**

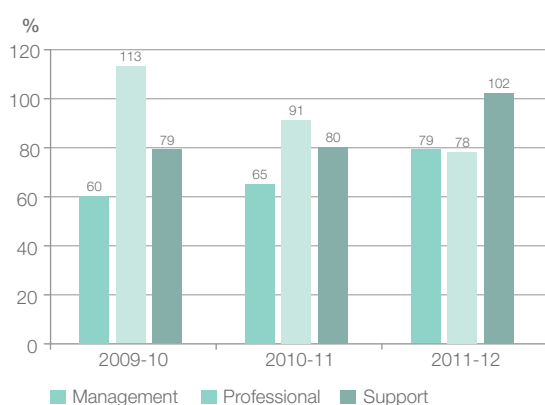
Category	Balance date					
	30 June 2011			30 June 2012		
	Total	Male	Female	Total	Male	Female
Australian Ethical board	6	83%	17%	5	80%	20%
AES board <sup>1</sup>	4	50%	50%	4	75%	25%
Management	12	84%	16%	8	87%	13%
Professional	17	76%	24%	12	92%	8%
Support	21	43%	57%	18	39%	61%
Total	50	64%	36%	38	66%	34%

<sup>1</sup> Australian Ethical Superannuation Pty Ltd (AES) board

Australian Ethical collects data on the gender breakdown of governance bodies and employee groups only.

Pay equality is a meaningful indicator to assess not only gender equality in the workplace but Australian Ethical's commitment to equal pay for equal work.

The ratio of female to male employees pay in 2011–12 varied between 78% and 102%. The largest pay gap is with professional staff where females earn 78% of their male counterpart's basic salary. The percentage rates for both management and support staff have increased markedly over the past 12 months. The differences in roles and responsibilities affect salary ratios within each category as opposed to gender.



**Figure 3: Ratio of female to male basic salaries per hierarchy level**

## Non-discrimination and indigenous rights

Australian Ethical recognises the Ngunnawal people as the traditional custodians of the Canberra area where the majority of staff are located.

## Staff turnover

Australian Ethical is committed to providing a safe work environment where employees are provided with development opportunities and encouraged to perform at their best. Regular performance reviews are conducted by all employees to ensure that Australian Ethical remunerates appropriately and rewards effort and ability. Work life balance and flexible working practices are encouraged to promote healthy lifestyles and retain valued employees.

For the period 1 July 2011 to 30 June 2012, the annual voluntary turnover rate was 26.3%.

In February 2012, eight employees were made redundant as a result of a company restructure. This new structure will allow us to remain sustainable in the long term and deliver our strategy and vision to all investors. Employees who were made redundant were provided with access to Outplacement Consultancy services and continued to receive access to the Employee Assistance Program. Redundant employees were paid their full entitlements under established employment contracts and company policy.

**Table 5: Voluntary staff turnover by employee type, gender, age group and location**

Voluntary staff turnover <sup>1</sup>	Financial year		
	2009–10	2010–11	2011–12
<b>Turnover by employment type</b>			
Full-time employees departing	7	5	9
Part-time employees departing	5	1	1
Part-time employees departing – FTE	3.3	0.6	0.8
Employees departing (total) – FTE	10.3	5.6	9.8
<b>Turnover by gender</b>			
Total staff at 30 June <sup>1</sup>	48	50	38
Total FTE staff at 30 June <sup>1</sup>	45.2	46.64	35.03
Staff turnover (% of total staff)	25.0%	12%	26.3%
Staff turnover (% of FTE staff)	22.8%	12%	27.9%
<b>Turnover by gender</b>			
Staff departing – female	5	3	3
Female staff turnover (% of total staff)	10.4%	6%	7.8%
Staff departing – male	7	3	7
Male staff turnover (% of total staff)	14.6%	6%	18.4%
<b>Turnover by age group</b>			
Staff departing <30	3	3	1
<30 Age group turnover (% of total staff)	6.25%	6%	2.6%
Staff departing 30–50	6	2	7
30–50 Age group turnover (% of total staff)	12.5%	4%	18.4%
Staff departing >50	3	1	2
>50 Age group turnover (% of total staff)	6.25%	2%	5.2%
<b>Turnover by location</b>			
Canberra office	9	5	9
Sydney and other locations	3	1	1

**Severance pay and job placement services**

Australian Ethical does not have a minimum period for notifying employees of operational change. The company does, however, comply with all contractual and legislative requirements in relation to staff entitlements in the event of a position being made redundant.

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

## Training and education

### Performance review process

All staff at Australian Ethical participate in an annual performance planning and development program.

Australian Ethical's Performance Planning and Development process assists in achieving our vision by helping employees and managers to:

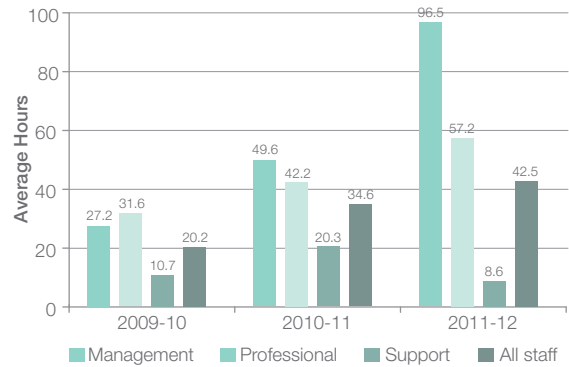
- communicate the company's priorities
- guide the alignment of goals across the business
- facilitate the achievement of meaningful objectives and the ongoing feedback needed to improve performance at all levels
- identify development needs that assist growth in current role
- attract, motivate, develop and retain talent.

The Performance Planning and Development process aligns individual performance and development with company goals and objectives. It also allows time for employees and managers to discuss current and future employment and development opportunities. Importantly, Australian Ethical is focussed on providing staff with the opportunity to develop agreed objectives and to take ownership and control in the delivery of these objectives.

On entry to the organisation and as part of the probationary period, staff participate in a structured program of review over six months.

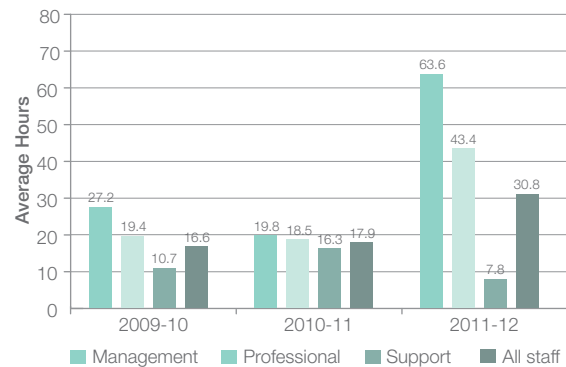
### Learning and development

Formal training of staff includes structured training provided by Australian Ethical and approved external study. In 2011–12 Australian Ethical employees undertook a total of 1613 hours of training. The average number of training hours undertaken by staff during the period increased from 35 hours per employee in 2010–11 to 43 hours per employee in 2011–12 (Figure 5). Training hours can exhibit large differences between years, particularly as employees complete their studies or undertake new studies.



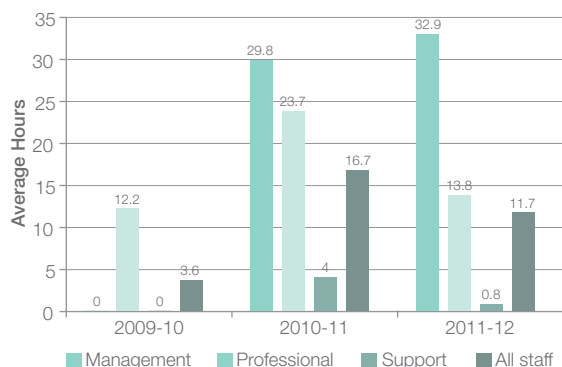
**Figure 4: Total average hours of training and study undertaken by staff**

Structured training refers to training that Australian Ethical has paid for as work time including paid study leave. On average, staff undertook 31 hours of structured training during 2011–12, an increase from 18 hours in 2010–11.



**Figure 5: Average hours of structured training undertaken by staff**

Employees who are enrolled in approved external study or professional development receive financial support and paid study leave. Australian Ethical's education policy provides up to \$2,000 per annum per employee. Paid study leave is available for up to three hours per week to attend classes or 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 6: Average hours of study undertaken by staff**

Money spent on training reduced to \$110,631 in 2011–12, from \$119,162 spent the previous year. On a per employee basis budgetary spend per employee (excluding casual staff and contractors) rose to \$2,911 in 2011–12, from \$2,383 in 2010–11. The increase in expenditure and increase in average hours of training per employee is due to more structured training plans for each employee which allows us to tailor training requirements in line with corporate strategy.

During the year, employees undertook training on policies and procedures concerning aspects of human rights that are relevant to operations amounting to 72 hours. Training covered equal employment opportunity, harassment and bullying, discrimination in the workplace and included understanding legislative frameworks, case law and company policy; 75% of staff attended.

## Employee benefits

Australian Ethical is committed to providing an attractive range of benefits to staff. Benefits are offered to permanent employees with temporary and casual employees receiving job related training in addition to statutory entitlements.

To recognise family and personal responsibilities, Australian Ethical supports flexible working arrangements. These include flexible work hours, work from home arrangements where practicable, a subsidised personal development program and free access to a 24 hour counsellor through the employee assistance program. The company is also an accredited breastfeeding friendly workplace.



In addition, staff receive 3 days leave for the Christmas closedown period and eligible staff receive six weeks paid maternity/ adoption leave in addition to statutory entitlements; 25 days long service leave after 5 years' service and study and examination leave.

## Other Staff Benefits & Activities

### Employee Assistance Program

Australian Ethical provides access for all staff and their immediate family to an external Employee Assistance Program (EAP). The EAP provides a professional, confidential and free counselling service.

### Employee Share Ownership Plan

Australian Ethical encourages employee equity in the company through the ownership of shares. This is achieved through short and long term incentive plans.

We aim to build and sustain our workforce with competitive remuneration and a diverse range of benefits. The aim is to attract, retain and motivate the talent pool capable of delivering our business strategy.

All employees participate in general share ownership arrangements. Australian Ethical's remuneration philosophy is designed to drive superior levels of performance based around business strategies, whilst aligning remuneration with the resultant value creation for shareholders.

### Employee Personal Development Program

Employees are encouraged to seek out personal development programs that suit their own particular needs and which are undertaken in their own time. Flexibility is encouraged and the activity must not be contrary to the spirit of the company's values or Charter.

Reimbursement is for activity based programs including evening classes. These may include, for example, gym membership, yoga, public speaking, dancing and art classes.

### Vegetable Garden

Staff developed a vegetable garden 18 months ago on the front balcony of our Canberra office. All staff can access the garden which provides a good range of salads, herbs and fruit. Australian Ethical continues to supply its own compost in the garden.



## Breastfeeding Friendly Workplace Accreditation

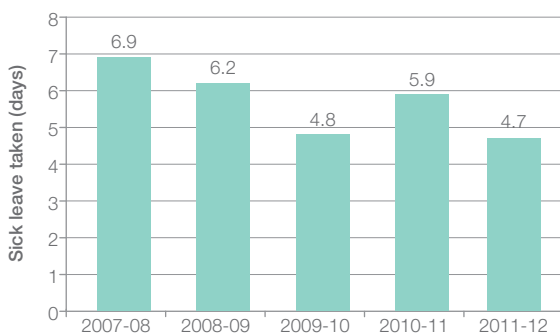
Australian Ethical is accredited in both the Sydney and Canberra offices as a Breastfeeding Friendly Workplace. Our aim is to display leadership by creating a supportive environment for breastfeeding women in the workplace through the implementation of a breastfeeding policy and the provision of adequate facilities to support those employees. We advertise our accreditation, and provide support information to any employees with new babies.

## Healthy workplace

Australian Ethical is acutely aware of its obligations when it comes to workplace health and safety.

A joint management & employee Work Health and Safety committee was established in 2012 and consists of two employee and two management representatives that meet quarterly. This committee represents 10.5% of the total workforce. Employees are encouraged to raise any work health and safety issues with their committee representative, manager or human resources.

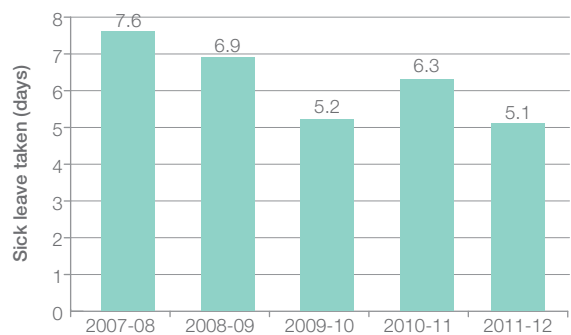
In 2011–12, 534 hours were lost due to injury. This was as a result of a journey claim where an employee was injured in an accident on their way to work. In the same period, no occupational diseases were recorded and there were no work-related fatalities. Australian Ethical again offered flu vaccinations to all staff in 2012, with 13 taking up the offer.



**Figure 7: Sick leave taken (days) per staff member**

The average number of days taken in sick leave was the lowest seen in 5 years, down to 4.7 days per staff member (5.1 days per FTE staff member). This is a decrease on last year of 1.2 days per staff member. It is important to note that being a relatively small company average sick leave days may exhibit large fluctuations year-to-year.

To maintain an active and healthy lifestyle, Australian Ethical encourages employees to ride bicycles to work. Facilities at the Canberra office make riding a bike to work an attractive option and include a secure bike shed, showers, personal lockers, a tyre repair kit and a bike pump. Alternative transport days encourage staff to consider different ways of commuting to work including walking, sharing transport, catching a bus or riding their bike. Australian Ethical also participates in the National Ride to Work Day, an annual event promoting the environmental and health benefits of bike riding each spring.



**Figure 8: Sick leave taken (days) per FTE staff member**

# Society



## Community

Australian Ethical's constitution states that before a dividend can be declared 10% of profit (after notional tax, before staff bonus) has to be donated for charitable, benevolent and conservation purposes. This is part of our contribution to a positive and sustainable society and is one of the highest levels of corporate giving in Australia based on percentage of profits.

In 2012 Australian Ethical donated \$53,325 to 11 charities as part of its community grants scheme which brings the total amount gifted to communities over the last 12 years to more than \$1.3 million. This year's grants range in size from \$4,000 to \$13,325 and included donations to charities that work across Australia and overseas. The successful organisations were chosen from 275 applicants.

## Major project grant recipient – \$13,325

### Rainforest Rescue

Rainforest Rescue provided us with a good overview of their project to save the last viable habitat of the Sumatran Orangutan through the protection of the World Heritage listed tropical rainforests of the Gunung Leuser National Park (GLNP) from deforestation and the expansion of illegal oil palm plantations. The GLNP also provides vital habitat for critically endangered species including the Sumatran Tiger, Rhinoceros and Elephant.

Outcomes of this project will be to remove 60 hectares of illegally planted oil palms within the boundaries of the National Park, and replant with 60,000 rainforest trees. This work will be done by the local farming communities living alongside the GLNP, creating employment for economically disadvantaged people. These farmers already

have an established co-operative where they will propagate and grow the trees in the nursery, and also monitor and patrol the site to prevent hunting and logging.

More information can be found on the website [rainforestrescue.org.au/ourprojects/save-arainforest-orangutan.html](http://rainforestrescue.org.au/ourprojects/save-arainforest-orangutan.html)

### *Minor grant recipients – \$4,000 each*

#### **Bonorong Wildlife Sanctuary (Tas)**

##### **Name of Project: Co-operative Eastern Quoll Breeding Programme**

- Essential breeding programme to prevent extinction of the Eastern Quoll
- Aim to reintroduce to mainland Australia
- Long term release in Tasmania to bolster numbers.

Website: [bonorong.com.au](http://bonorong.com.au)

#### **Sea Turtle Foundation (Qld)**

##### **Name of Project: Sea Turtle Field Research & Monitoring Equipment**

- Traditional Owners and community volunteers will monitor the health of sea turtles in north Queensland
- Ocean kayak and trailer (kayak has no outboard motor, which makes it safer for turtles and easier to monitor as it is quieter)
- Portable centrifuge allowing processing of blood samples in the field to check for diseases or anomalies before release of individual turtles.

Website: [seaturtlefoundation.org](http://seaturtlefoundation.org)

#### **Communities @ Work (ACT)**

##### **Name of Project: Yellow Van**

- Collects over 16 tonnes of excess food from supermarkets, event caterers and restaurants
- Distributes to charities and refuges in the Canberra region
- Supports vulnerable people in need.

Website: [commsatwork.org](http://commsatwork.org)

#### **Environment Victoria (Vic)**

##### **Name of Project: Home Planet**

- Deliver interactive sustainability training to over 100 newly arrived migrant and refugee youth
- Connect participants to our natural environment via field trips and a weekend-long camp
- Support participants to design and deliver group community environment projects
- Participants and their families significantly reduce impact on environment
- Save money by reducing energy and water consumption and waste sent to landfill
- On completion, participants receive Certificate I in Active Volunteering.

Website: [environmentvictoria.org.au](http://environmentvictoria.org.au)

#### **The Orangutan Project (Sumatra)**

##### **Name of Project: Wildlife Protection Units**

- Establish, train and maintain ranger units to secure the released Sumatran orangutan population and its habitat in Bukit Tigapuluh (BTP)
- Wildlife Protection Units (WPU) responsible for patrolling BTP ecosystem and buffer zone around National Park borders
- Home to 150 critically endangered Sumatran orangutans
- Educate local people about laws against poaching orangutans
- Collect wildlife data
- Purchase of equipment such as a safe road car, GPS units, digital cameras and cooking stoves
- WPU provide employment opportunities to local community.

Website: [orangutan.org.au](http://orangutan.org.au)

### Free the Bears (Cambodia)

#### Name of Project: Solar Power for Sun Bears

- Increase sustainable energy use at the world's biggest Sun Bear sanctuary
- User solar and wind power for audio-visual equipment in education zones and in classroom for visiting school groups
- Solar power to the orphaned bear cub nursery, ensuring clean energy for most vulnerable residents
- Share and demonstrate this information to visitors (95% Cambodians) to show how sustainable energy can be used to help power Cambodia's development.

Website: [freethebears.org.au](http://freethebears.org.au)

### Perth Advocates for the Earth (WA)

#### Name of Project: Planting for Black Cockatoos

- Rehabilitation of a section of a 40 acre property with 200 suitable plants for Black Cockatoos in the South West of WA (Boyup Brook situated on the Blackwood River)
- Provide food source for Black Cockatoos
- Rehabilitate land, potentially reduce salinity
- Encourage dialogue and positive involvement by the local community and the view that others in the area might follow suit.

Website: [perthadvocatesfortheearth.web.com](http://perthadvocatesfortheearth.web.com)

### Trees for the Evelyn and Atherton Tablelands (TREAT) (Qld)

#### Name of Project: Peterson Creek Freeman Revegetation

- Complete the restored rainforest riparian wildlife link across a pasture landscape
- Current owner purchased land for the purpose of building the link between the Crater Lakes (Lake Eacham) National Park and the start of reforestation work along Peterson Creek
- Funds will go towards planting and rehabilitating an eroded gully and small wetland
- Strategic forest link will help over 38 very restricted wildlife species, which are endemic to this area including the rare Southern Cassowary and vulnerable Lumholtz's Tree Kangaroo

- 7,500 trees planted to date by local land care groups, schools and community groups
- Landholders and volunteers will continue to monitor and maintain weed control in area.

Website: [treat.net.au](http://treat.net.au)

### Greening Australia Western Australia (WA)

#### Name of project: Transforming the Mortlock North

- Supporting local farmers and communities to protect, restore and establish riparian and terrestrial biodiversity assets in the Mortlock River North region of the WA Wheatbelt
- Landowner access to specialised equipment for managing invasive weeds, remediating problematic soils and controlling pest animals
- Physical protection of 1628 hectare of remnant vegetation, including vermin proof fencing
- Supply of native seed for re-vegetation of 1550 hectare of abandoned/low productivity farmland using local species to restore habitat connectivity
- Supply of ripper/moulder and planting equipment for preparation of waterlogged/saline and compacted soils.

Website: [greeningaustralia.com.au](http://greeningaustralia.com.au)

### Gunawirra Limited (NSW)

#### Name of project: Inner Suburbs Nutrition Project

- Help Aboriginal mothers with babies and small children develop nutritious ways of living
- Participate in learning to cook, shop for food
- Learn about diabetes and how it is affected by a diet of fast food
- Chefs and nutritionists teach and talk to mothers about food for babies and toddlers
- Provide a meal each week that mothers have cooked to take home along with fresh fruits and vegetables.

Website: [gunawirra.org.au](http://gunawirra.org.au)

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## *Corruption*

There were no recorded incidents of non-compliance with the code of conduct or incidents of corruption in 2011–12.

## *Public policy*

From time to time Australian Ethical will lobby local and state governments on issues relating to ethical investment. Australian Ethical occasionally provides comments to the media on the nature of ethical investment and its related issues. In 2011–12 representatives from Australian Ethical provided comments for various media including The Australian Financial Review, The Sydney Morning Herald, Eureka Report, The Canberra Times, Financial Standard, Investor Daily, Money Management, and ABC Radio (Sydney & National).

## *Political donations*

Australian Ethical made no political donations during the period.

## *Anti-competitive behaviour*

While Australian Ethical 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 period.

## *Compliance*

One potentially significant compliance breach was reported to Australian Prudential and Regulatory Authority in 2011-12.

# Product responsibility

## *Asset management policy – screened funds*

Australian Ethical pursues a unique combination of financial and ethical objectives when selecting investments for its screened funds. 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 Australian Ethical Charter. Each investment is subject to regular monitoring and reviews to ensure ongoing compliance. The use of the Charter makes our investment methodology unique in the ethical investment market.

The application of the Charter defines the universe of investments for the screened funds. As at 30 June 2012 this universe covered a broad spectrum of sectors and countries (Tables 6 and 7).

**Table 6: Percentage of investments by sector as at 30 June 2012<sup>1</sup>**

Sector	Balanced Trust	Smaller Companies Trust	Larger Companies Trust	International Equities Trust	Property Trust
Energy	0.37	0.25	0.58	2.32	0.00
Materials	1.19	3.90	2.09	2.08	0.00
Industrials	10.22	13.22	18.55	37.97	0.00
Consumer Discretionary	3.03	2.05	7.43	7.67	0.00
Consumer Staples	0.48	0.04	0.79	3.16	0.00
Health Care	9.22	20.68	21.59		0.00
Information Technology	6.29	14.64	9.28	26.68	0.00
Telecommunication Services	2.69	8.69	5.95		0.00
Utilities	4.55	6.27	8.87	16.43	0.00
Financials ex Prop Trusts	9.14	21.34	20.58	0.00	0.00
Listed Property Trusts	0.53	0.00	1.75	0.00	0.00
Direct Property	10.42	0.00	0.00	0.00	93.05
Unlisted Equities	0.05	0.48	0.00	0.00	0.00
Cash & Other (incl Fixed Interest)	41.84	8.43	2.55	3.69	6.95
<b>Total:</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

<sup>1</sup> Data not available for the Income Trust.



**Table 7: Percentage of investments by country as at 30 June 20121**

Country	Balanced Trust	Smaller Companies Trust	Larger Companies Trust	International Equities Trust	Property Trust
Australia	85.16	98.86	75.93	3.69	100.00
Canada	0.47	0.04	0.76	3.06	0.00
Denmark	0.57	0.04	0.93	3.71	0.00
Finland	0.15	0.01	0.25	0.99	0.00
Germany	0.85	0.06	1.37	5.50	0.00
Italy	0.00	0.00	0.00	0.00	0.00
Japan	1.57	0.12	2.55	10.19	0.00
Netherlands	0.45	0.03	0.74	2.95	0.00
New Zealand	0.53	0.04	0.86	3.46	0.00
Norway	0.47	0.04	0.75	3.02	0.00
Sweden	0.23	0.02	0.37	1.47	0.00
United Kingdom	1.35	0.10	2.20	8.79	0.00
USA	8.14	0.62	13.20	52.83	0.00
Other Asia	0.05	0.00	0.08	0.34	0.00
<b>Total:</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Debate is an integral part of the Australian Ethical 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 provided regularly to the board’s Investment committee. The profiles of trust investments are prepared by CAER – Corporate Analysis. Enhanced Responsibility.

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

### Ethical analysis

Australian Ethical analysts and researchers from CAER investigate the environmental, social and governance (ESG) dimensions of potential investments. This work is supervised by the Investment committee through the chief investment officer. Through this process 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 that contribute to a sustainable future.

The investment philosophy is based on the principles of the Australian Ethical Charter. The Charter provides guidance in setting out types of activities to be supported, as well as types of activities to be avoided. By utilising the Charter, Australian Ethical applies both a positive and a negative screen to its investments. There are certain types of companies Australian Ethical will not invest in, for example, companies operating in the tobacco, uranium or gambling industries. Conversely, Australian Ethical actively seeks out companies that are involved in positive activities such as the production of renewable energy. This approach distinguishes Australian Ethical from most other ethical fund managers.

When determining the ethical merits of a company, Australian Ethical considers the core business activity of the company in question. Investment becomes a possibility provided the activity of the company does not directly contravene any principles the Charter requires us to avoid, for example, companies with human rights concerns (Table 8). Investment is more likely if the core activity of the company meets one of the positive elements of the Charter.

**Table 8: Tenets of the Australian Ethical Charter which directly relate to human rights<sup>1</sup>**

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

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, Australian Ethical 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 public and non-public sources such as company publications, media, government information and material from non-government organisations.

After an investment passes ethical screening, Australian Ethical's analysts undertake a financial analysis. Once an investment makes it through the investment selection process set out above, it is subject to regular and ongoing monitoring. All companies within the trusts undergo a regular ethical review and are subject to continual monitoring. All investor queries regarding the ethical performance of investee companies are responded to 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, which may involve company engagement (either correspondence, telephone or face-to-face). 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, Australian Ethical formulates the approach best suited to the issue or the particular situation and documentation of the engagement process is maintained. During the 2011-12 financial year, Australian Ethical engaged with 28 companies in which Australian Ethical held

an interest. This represented 26 per cent of the total of 109 companies held at the end of the 2012 financial year. Australian Ethical engaged with the companies on a number of issues, including greenhouse gas emissions, animal welfare, industrial relations, tobacco, nuclear and military involvement. Australian Ethical also engaged with an additional 14 companies in which Australian Ethical did not hold an interest on a range of environmental and social issues.

Australian Ethical 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.

### *Proxy voting policy*

Australian Ethical'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). Australian Ethical'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 Australian Ethical Charter to the resolution under consideration.

For the period 1 July 2011 to 30 June 2012 a

<sup>1</sup> These tenets also apply to Australian Ethical's own operations including its procurement practices.

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total of 989 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 Cash Trust or Property Trust).

Of the 989 resolutions voted on 18 were voted “Against” and we “Abstained” from voting on 7.

The negative votes related to appointment or re-election of directors and remuneration issues. The resolutions we abstained from voting on included occasions where we had insufficient information or could not access an English explanation of the source documents.

### *Product disclosure statements*

In 2011–12 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*

Australian Ethical recorded 26 complaints from investors and superannuation members in 2011–12. Most of these complaints were considered minor and no complaints were considered major. These results reflect a 49% reduction in complaints registered compared to the prior year when 53 customer complaints were recorded.

### *Marketing communications*

Marketing activities are carried out within the broader context of the Australian Ethical business plan and the overall strategy of the marketing section. These activities are governed by the marketing section of the procedures manual and the Australian Ethical constitution. Laws, standards, voluntary codes, regulatory agencies and associations that have particular relevance to Australian Ethical’s marketing activities include the Corporations Act 2001; Goods and Services Tax; National Privacy Principles; Copyright; Spam Act 2003; Trade Practices Act 1974, Australian Securities and Investments Commission (ASIC); Investment and Financial Services Association Limited; Association of Superannuation Funds of Australia Limited; and the Advertising Standards Council.

### *Customer privacy*

During the 2011-2012 financial year one of our service providers emailed information relating to the investments of another person on seven occasions. Australian Ethical proactively contacted everyone involved in the 7 incidents and requested that the emails be deleted. In all cases the parties agreed to delete the information. As a result of the proactive handling of the incident none of the people involved made a formal complaint.

Australian Ethical takes its responsibility to maintain the privacy of its customers’ details and information extremely seriously. Our commitment to this principle is evidenced by the urgency with which we dealt with the incidents described above. There were no complaints from customers regarding either breaches of privacy or losses of data during the period.

# Environment

*Australian Ethical seeks to ameliorate wasteful or polluting practices in its own operations and in its investments. Environmental impacts of office-based businesses include consumption of paper and stationery, energy and water use, transport, waste and greenhouse gas emissions.*

## Reducing resource consumption

Australian Ethical is committed to reducing its resource consumption, a commitment supported by the company's purchasing policy in the following ways:

- Australian Ethical will consider ethical issues in deciding what to buy
- Australian Ethical will follow the 4 R's – reduce, reuse, recycle and refuse – in considering whether to make purchases
- in general, Australian Ethical is prepared to pay up to a 20% premium for a more sustainable product and will consider a higher premium for an exemplary product
- Australian Ethical will consider alternatives to travel, especially air travel before business travel is undertaken (e.g. phone and video conferences).
- purchasing office stationery made from recycled materials where possible
- recycling of printer toner cartridges
- printing of our newsletters, product disclosure statements and annual reports on 100% recycled, calcium carbonate coated chlorine-free paper using vegetable-based inks
- use of paper pens for outreach made using 100% recycled paper tubes
- electronic copies of the product disclosure statements available on the Australian Ethical website
- 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 (climatefriendly.com).

## 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% post-consumer recycled printer and photocopy paper (evolve-papers.com)
- paper reuse trays at desks
- paper and cardboard recycling facilities

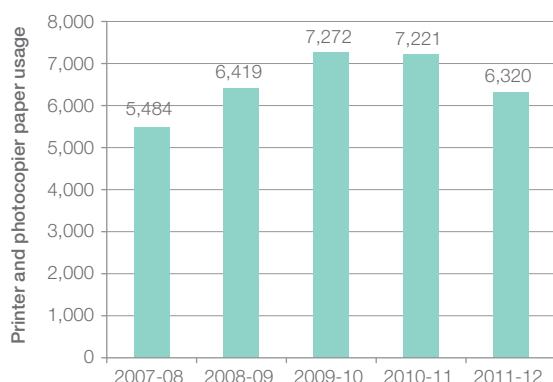
## Paper

During 2011–12, Australian Ethical used approximately 769,000 A4 sheets of 100% recycled paper, equivalent to 61 trees of non-recycled paper (Table 9). This represents a decrease of around 436,000 A4 sheets or 36% over the previous year. Product disclosure statements (PDS) represented 42% (321,266 A4 sheets) of the paper used; office printing and photocopying paper, 31% (236,350 A4 sheets); and newsletters 14.4% (110,000 A4 sheets; Table 9).

**Table 9: Paper usage<sup>1</sup>**

Paper usage	Financial year		
	2009–10	2010–11	2011–12
<b>A4 sheets</b>			
Managed investments PDS	123,963	77,494	50,180
Superannuation PDS	160,203	83,472	177,200
Climate Advocacy Fund PDS	72,222	93,886	93,886
Newsletters	264,976	346,000	110,000
Leaflets	191,400	78,000	15,000
Annual report to shareholders	3,000	0	6,800
Trust annual report	49,567	18,000	12,000
Printer and photocopier paper	281,772	301,980	236,350
Letterhead paper	14,563	18,438	750
Compliment slips (A4 equivalent)	1,292	333	336
Super fund statements (mail house)	90,883	85,271	38,022
Super annual report	38,253	42,000	10,000
Other	24,622	50,472	18,398
<b>Total A4 sheets</b>	<b>1,316,716</b>	<b>1,195,345</b>	<b>768,921</b>

Printer and photocopier paper usage per average full-time equivalent staff member decreased by 12% in 2011–12 to 6,320 A4 sheets (or approximately 12.6 reams; Figure 10). The 12% decrease exceeded our 10% reduction target for 2011–12. Australian Ethical is determined to reduce its printer and photocopier paper use and has again set a 10% reduction target for the current year. Staff education is a key part of the reduction strategy.

**Figure 9: Printer and photocopier paper usage per average full-time equivalent staff member**

Technology will help Australian Ethical 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 Australian Ethical website

and much of the information previously mailed to investors is now sent by email. As technology improves, Australian Ethical aims to provide more information to its stakeholders by electronic means, restricting and reducing paper use.

In February 2011, Australian Ethical launched its online application forms for individuals to join our ethical super fund and for employers making contributions for their staff. Individuals can join in four simple steps and employers can join in two. No printing is required and applicants will receive an electronic copy of their application. To join online go to [australianethical.com.au/join-now-individuals](http://australianethical.com.au/join-now-individuals) for individuals or for employers [australianethical.com.au/join-now-employers](http://australianethical.com.au/join-now-employers).

Australian Ethical also launched a mobile version of our website that can be browsed from a number of mobile devices, including smart phones and standard devices.

### Stationery

Australian Ethical's stationery use as represented by total dollar costs, decreased by \$1,294 or 25% in 2011–12. The cost per average full-time equivalent staff member decreased to \$103 (Table 10) and underscores the company's commitment to its 4 R's Policy – reduce, reuse, recycle and refuse.

<sup>1</sup> Paper usage data excludes envelopes.

**Table 10: Stationery use**

Stationery costs	Financial year		
	2009–10	2010–11	2011–12
Total cost	\$5,317	\$5,147	\$3,853
Cost/average FTE staff	\$137	\$123	\$103

## Energy

### Canberra office

In Australia, the commercial building sector is responsible for 10% of total greenhouse gas emissions (DCCEE, 2012). The built environment is an area which presents significant opportunities for carbon abatement and mitigation of climate change.

The 2011–12 year was Australian Ethical's fifth full financial year in the six green-star Trevor Pearcey House. During 2011–12, Australian Ethical used 402,940 MJ or 442 MJ/sqm of energy (79,494 kWh of electricity and 116,762 MJ of gas).

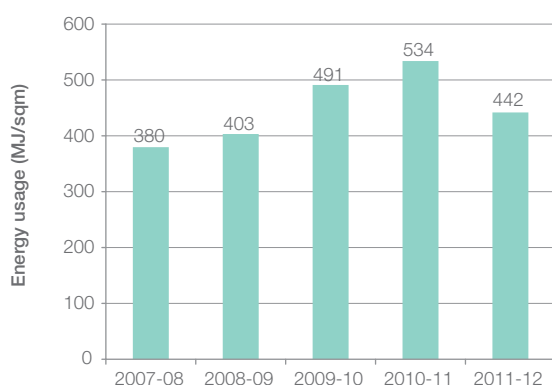
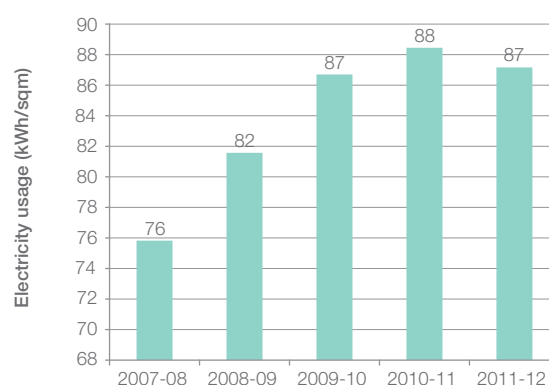
On a per square metre basis, this represents a 17% decrease on our 2010–11 energy use (Table 11; Figure 11).

Electricity use per square metre decreased by one per cent over the year, from 88 kWh/sqm in 2010–11 to 87 kWh/sqm in 2011–12 (Table 11; Figure 12). Gas use per square metre also decreased over the period, falling 41% from 215 MJ/sqm in 2010–11 to 128 MJ/sqm in 2011–12 (Table 11; Figure 13).

The decrease in gas usage was associated with changes to the programming of the heating system in May 2011 after a problem with the building management system scheduler was detected and fixed.

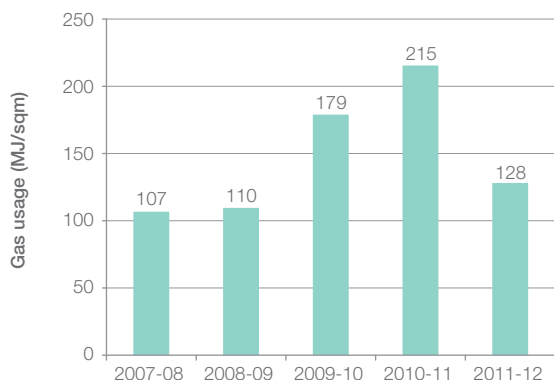
**Table 11: Energy use – Canberra office**

Energy use	Financial year		
	2009–10	2010–11	2011–12
Energy MJ <sup>1</sup>	447,827	486,891	402,940
Energy MJ/sqm	491	534	442
Electricity kWh	79,071	80,666	79,494
Electricity kWh/sqm	87	88	87
Gas MJ	163,172	196,493	116,762
Gas MJ/sqm	179	215	128
GHG emissions (tonnes CO <sub>2</sub> e)	95.66	99.19	91.91
GHG emissions (tonnes CO <sub>2</sub> e/sqm)	0.105	0.109	0.101

**Figure 10: Energy usage – Canberra office (mega joules per square metre)****Figure 11: Electricity usage – Canberra office (kilowatt-hours per square metre)**

<sup>1</sup> Sum of total gas and electricity usage, where 1 kWh = 3.6 MJ.





**Figure 12: Gas usage – Canberra office (mega joules per square metre)**

In order to negate the greenhouse gas emissions related to our energy use at the Canberra office, Australian Ethical purchased 100% accredited Green Power from ActewAGL along with carbon credits from Climate Friendly. By doing this, we saved and offset 99.91 tonnes of CO<sub>2</sub>e (or 0.101 tonnes CO<sub>2</sub>e/sqm) that our energy use at Trevor Pearcey House would have generated (Table 11; Figure 14). The per square metre figure of 0.101 tonnes CO<sub>2</sub>e/sqm is 68% lower than the greenhouse gas emissions from an average Canberra office building.



**Figure 13: Greenhouse gas emissions – Canberra office (tonnes CO<sub>2</sub>e/sqm)**

### Sydney office

This is the first year that Australian Ethical has publicly reported electricity use at its Sydney office (data on gas and water use is unavailable). During 2011–12 Australian Ethical used 16,537

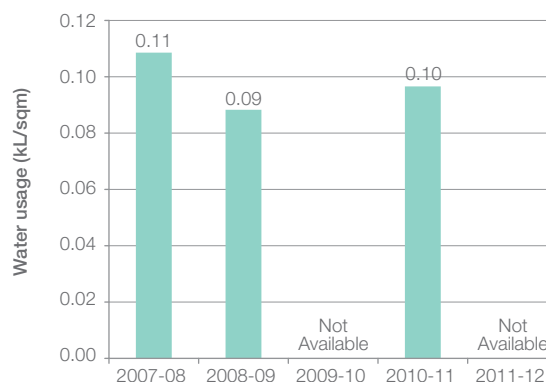
kWh of electricity or 141.1 kWh/sqm. Reporting of comparative electricity data in future reports will enable a meaningful assessment of our performance over time.

## Water

Water scarcity is a key issue facing Australia today. Australian Ethical is committed to the careful use of this precious resource. Water efficient features incorporated into Trevor Pearcey House include:

- taps upgraded to 4L per minute, showerheads to 5A fittings–6L per minute
- upgrade of the existing single flush toilets to dual flush with a 9/4.5L system
- rainwater tanks collecting from the roof and plumbed for use in flushing the toilets
- garden drip irrigation with moisture sensor
- Water Guard leak detection.

Unfortunately, as a result of a lost connection to its water meter system in October 2011, Australian Ethical is unable to report its water use data for the Canberra office in 2011–12 (water use data is also unavailable for the Sydney office). During 2010–11 Australian Ethical used 88 kL of mains water at its Canberra office. This represents just 0.10kL/sqm which is 86% less than the median Canberra office water consumption benchmark of 0.72 kL/sqm<sup>2</sup>. (Table 12; Figure 15).



**Figure 14: Water usage – Canberra office (kilolitres per square metre)**

**Table 12: Water usage**

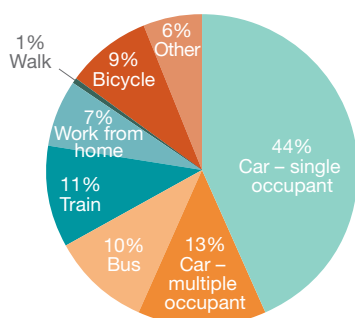
Water used	Financial year		
	2009–10	2010–11	2011–12
kL/sqm	Not available	0.10	Not available
Total kL	Not available	88	Not available

2 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)

## Transport

During 2011–12, 44% of employees commuted to work by car on their own – slightly less than the previous year (50%). Another 13% of employees carpooled, a small decrease compared to 2010–11 (15%). The use of motor vehicles to get to work is significantly lower than the overall average for the ACT, where approximately 83% of people drive to work (ACT Integrated Transport Framework, 2008). A full breakdown of the modes of transport used by Australian Ethical's employees for 2011-12 is shown in Figure 16.

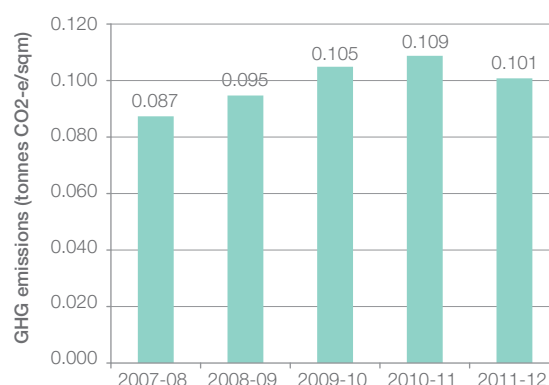
Australian Ethical is aware that the use of motor vehicles in the daily commute to and from work is responsible for significant greenhouse gas emissions. To encourage the use of alternative modes of transport with a smaller environmental footprint, Australian Ethical promotes the use of bicycles by providing bike friendly facilities. Also, the Canberra office is located on several bus routes which makes the use of public transport practical; the Sydney office is in the CBD and is easily accessible by bus, train and ferry services.



**Figure 15: Primary transport used by Australian Ethical staff to commute to work during 2011–12.**

Flights are the largest source of emissions at Australian Ethical. In 2011–12 Australian Ethical staff made 399 flights and 561 taxi cab trips (2010–11: 472 flights and 655 taxi cab trips). Total greenhouse gas emissions from air travel in 2011–12 was 87.36 tonnes, compared to 103.7 tonnes in 2010–11. Greenhouse gas emissions per average FTE decreased, from 2.12 tonnes in 2010–11 to 2.09 tonnes in 2011–12 (Figure 17). Australian Ethical offset all emissions from flights and cab trips using Climate Friendly.

To encourage and promote the use of alternative forms of transport as a way of reducing the environmental impact of commuting, Australian Ethical hosts 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. Australian Ethical makes available corporate bus tickets to employees who need to travel during work hours for work purposes within Canberra. Additionally, Australian Ethical endeavours to use its teleconferencing facilities where possible to replace face-to-face meetings that may require travel. Where business travel cannot be avoided, Australian Ethical encourages employees to choose the most sustainable travel option.



**Figure 16: Greenhouse gas emissions from flights (tonnes CO<sub>2</sub>e) per average FTE**

## 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 Australian Ethical's Canberra office produced 3924 kg of waste in 2011–12, a decrease from 4086 kg of waste generated in 2010–11. Approximately 3165 kg of waste generated was recycled, which is about 84% of the total waste generated, while 759 kg of waste went to landfill. The majority of waste was paper, making up approximately 68% of total waste (Tables 13 and 14).

**Table 13: Waste for the year to 30 June 2012**

Waste type	Weekly waste (kg)	2011–12 waste (kg)	% of waste sub-total	% of total waste
<b>Waste to landfill</b>				
Paper	1.7	86	11%	2%
Cardboard	0.5	23	3%	1%
Recyclable containers <sup>1</sup>	1.0	52	7%	1%
Food organics	0.2	11	1%	0%
General waste <sup>2</sup>	11.3	587	77%	15%
<b>Sub-total</b>	<b>14.6</b>	<b>759</b>	<b>100%</b>	<b>19%</b>
<b>Waste recycled</b>				
Paper	51.2	2,660	84%	68%
Cardboard	0.9	45	1%	1%
Recyclable containers <sup>1</sup>	1.3	67	2%	2%
Food organics	7.6	394	12%	10%
Sub-total	60.9	3,165	100%	81%
<b>Waste generation total<sup>3</sup></b>	<b>75.5</b>	<b>3,924</b>		<b>100%</b>

**Table 14: Waste for the year to 30 June 2011**

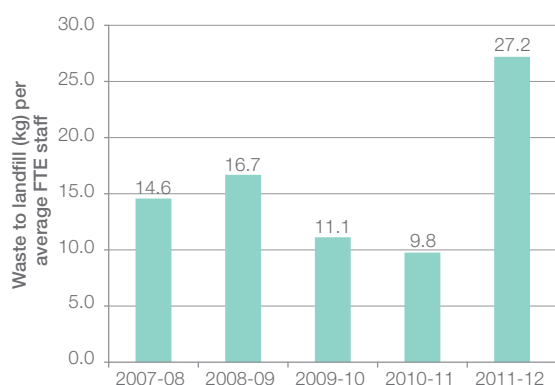
Waste type	Weekly waste (kg)	2011–12 waste (kg)	% of waste sub-total	% of total waste
<b>Waste to landfill</b>				
Paper	1.1	57	14%	1%
Cardboard	0.9	47	11%	1%
Recyclable containers <sup>1</sup>	1.4	73	18%	2%
Food organics	1.2	62	15%	2%
General waste <sup>2</sup>	3.3	169	41%	4%
Sub-total	7.9	408	100%	10%
<b>Waste recycled</b>				
Paper	58.2	3,027	82%	74%
Cardboard	1.3	69	2%	2%
Recyclable containers <sup>1</sup>	1.8	94	3%	2%
Food organics	9.4	489	13%	12%
Sub-total	70.7	3,678	100%	90%
<b>Waste generation total<sup>3</sup></b>	<b>78.6</b>	<b>4,086</b>		<b>100%</b>

Waste to landfill per average FTE staff increased by 17.4 kg in 2011–12 to 27.2 kg (Figure 18). The increase reflects the increase in total waste to landfill while FTE figures declined.

<sup>1</sup> Includes glass, plastic and aluminium.

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

<sup>3</sup> Australian Ethical's Canberra offices only.



**Figure 17: Waste to landfill (kg) per average FTE staff**

### 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 (citizens of the USA emit 19.78 tonnes per person; Maplecroft 2009). Australian Ethical is committed to combating climate change not only through our investments, but also within our own operations.

During 2011–12 Australian Ethical saved the equivalent of 91.65 tonnes of carbon dioxide from entering the atmosphere and offset a further 116.42 tonnes (Table 15). Australian Ethical saved 84.26 tonnes of carbon dioxide by purchasing 79,494 kWh of 100% accredited Green Power electricity from ActewAGL under the GreenChoice program. The company also saved a further 7.39 tonnes of carbon dioxide by recycling 81% (3.165 tonnes) of waste. The company offset 116.42 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of carbon credits from Climate Friendly.

Prior to being offset, Australian Ethical's 2011–12 greenhouse gas emissions were 3% lower than in 2010–11 (Tables 15 and 16). The decrease in emissions was a result of a decrease in the number of air flights, from 472 in 2010–11 to 399 in 2011–12, and decreased gas usage (from 215 MJ/sqm in 2010–11 to 128 MJ/sqm in 2011–12). This was partially offset by the inclusion for the first time of emissions from electricity at the Company's Sydney office.

**Table 15: Greenhouse gas (GHG) emissions for the year to 30 June 2012<sup>1</sup>**

GHG emissions (t CO <sub>2</sub> e)	Saved	Generated	Offset
<b>Scope 1 emissions</b>			
Gas – Canberra	0.00	7.65	7.65
<b>Scope 2 emissions</b>			
Electricity – Canberra	84.26	0.00	0.00
Electricity – Sydney	0.00	17.53	17.53
<b>Scope 3 emissions</b>			
Waste recycled – Canberra	7.39	0.00	0.00
Waste to landfill – Canberra	0.00	0.99	0.99
Air flights	0.00	87.36	87.36
Taxi cabs	0.00	2.89	2.89
<b>Total</b>	<b>91.65</b>	<b>116.42</b>	<b>116.42</b>

<sup>1</sup> Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors – July 2011. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator. Scope 1 emissions are considered direct emissions; Scope 2 and 3 emissions are considered indirect. Indirect emissions from courier services have not been calculated.

**Table 16: Greenhouse gas (GHG) emissions for the year to 30 June 2011<sup>1</sup>**

GHG emissions (t CO2e)	Saved	Generated	Offset
<b>Scope 1 emissions</b>			
Gas	0.00	12.88	12.88
<b>Scope 2 emissions</b>			
Electricity	86.31	0.00	0.00
<b>Scope 3 emissions</b>			
Waste recycled	8.18	0.00	0.00
Waste to landfill	0.00	0.49	0.49
Air flights	0.00	103.70	103.70
Taxi cabs	0.00	3.00	3.00
<b>Total</b>	<b>94.49</b>	<b>120.07</b>	<b>120.07</b>

### *Environmental protection expenditure*

During 2011–12 Australian Ethical spent a total of \$8,156 on the protection of the environment. This figure includes costs for off-setting greenhouse gas emissions through Climate Friendly and paying a premium for Green Power generated from renewable energy sources.

### *Products and services*

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

<sup>1</sup> Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors – July 2010. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator. Scope 1 emissions are considered direct emissions; Scope 2 and 3 emissions are considered indirect. Indirect emissions from courier services have not been calculated.

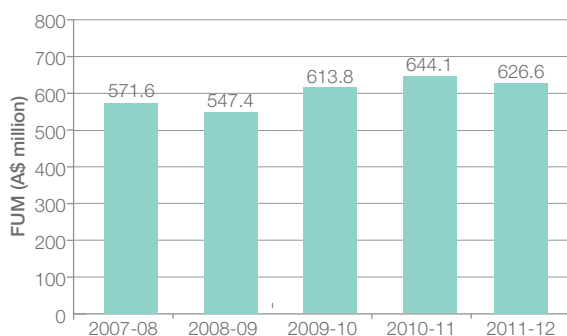
# Economic performance

The following section of the Report outlines the company's economic performance during the period 1 July 2011 through to 30 June 2012.

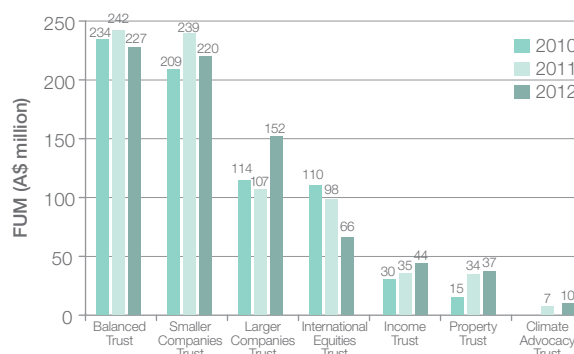
Over the past few years we have achieved a lot toward setting the company up for a sustainable, long term future. In particular, during the 2012 financial year we made significant improvements in our products, client service and costs.

In addition, new client growth results have been very encouraging particularly in light of current market conditions, nervous investor sentiment and a rapidly evolving financial services environment. Over the 12 months to 30 June 2012, we had net new individual client growth of 5% across managed funds and superannuation. We also increased the number of default superannuation employer clients by 20% (from 248 to 297).

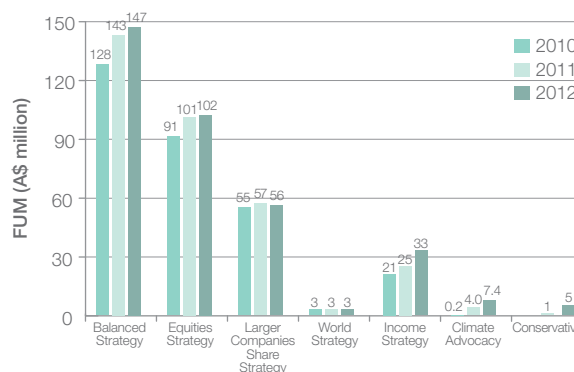
Funds under management across the investment trusts and corresponding superannuation strategies are shown in Figures 20, 21 and 22. The company intends to act as a leader, influencing change and advocating for change in the Australian and international business environments in which it continues to invest.



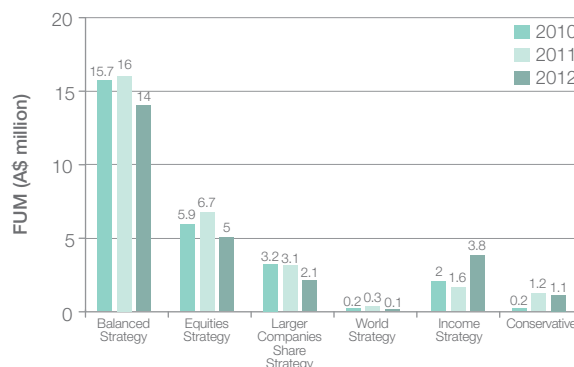
**Figure 18: Growth of group funds under management (years ending 30 June) – figures are net of crossholdings**



**Figure 19: Unit trusts – funds under management – figures include crossholdings**



**Figure 20: Superannuation accumulation and rollover strategies – funds under management**



**Figure 21: Superannuation pension strategies – funds under management**



Revenue to the end of June 2012 was \$14,792,790 down 6%, compared with the year ending 30 June 2011, which was \$15,744,031. The company net profit after tax was down 64% to \$402,155; the previous profit after tax was \$1,125,031<sup>3</sup>. Total dividend declared in relation to the 2011–12 year was \$0.60 representing a 150% payout ratio. The dividends paid to shareholders during the 2011–12 year totalled \$1,504,553 million. The payment represents an interim dividend of 25 cents per share and a final dividend of 35 cents per share.

Economic value retained went from negative \$656,239 in 2010–11 to negative \$1,102,398 in the 2011–12 financial year (Table 17). 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. Economic value retained was negative again in 2011–12 mainly due to timing issues related to when economic value is generated and when economic value is distributed by the company.

Our inflows have remained resilient in a tough managed funds market and fell by 16% for the year ended 30 June 2012. Inflows were lower than the previous year but less markedly for our superannuation fund.

Over the year the company's net assets decreased from \$7,628,812 to \$6,707,721, this is a reduction of \$921,091 in the value of net assets, or a drop in value of 12% of net company assets (Table 18).

**Table 17: Economic performance indicators – financial year**

Economic performance indicator	Financial year		
	2009–10	2010–11	2011–12
<b>Direct economic value generated</b>			
Revenues	\$14,067,899	\$15,143,951	\$14,792,790
<b>Economic value distributed</b>			
Operating costs	\$4,997,729	\$5,572,759	\$7,262,875
Employee wages and benefits <sup>1</sup>	\$7,000,615	\$7,147,797	\$6,408,096
Payments to capital providers (dividend)	\$1,805,424	\$1,938,772	\$1,504,553
Payroll tax	\$339,109	\$323,218	\$345,865
Income tax	\$582,950	\$664,842	\$320,471
Total tax (total payment to government)	\$922,059	\$988,060	\$666,336
Community grants	\$124,941	\$152,802	\$53,327
<b>Economic value retained</b>			
Economic value generated less economic value distributed	(\$782,869)	(\$656,239)	(\$1,102,398)

**Table 18: Economic performance indicators – balance date**

Economic performance indicator	Balance as at 30 June		
	2010	2011	2012
Total assets	\$11,099,926	\$11,284,140	\$8,638,687
Net assets	\$8,055,728	\$7,628,812	\$6,707,721

<sup>1</sup> Excludes payroll tax.

<sup>3</sup> All comparisons in this paragraph are against the restated 2011 consolidated revenue and net profit. Further information on the restatement is included in the 2012 Financial Report Note 3 and 27.

## Superannuation obligations

The company meets its superannuation obligations under Australian law which, broadly speaking, requires employers to contribute 9% of salary to a superannuation fund nominated by the employee. No defined benefit plans are offered to employees.

## Financial assistance from the government

Australia Ethical has not received financial assistance from governments and further there are no governments represented in Australian Ethical's shareholding.

## Market presence

### Suppliers

Tenet 'b' of the Australian Ethical 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.

Australian Ethical's is an office based and a relatively small organisation with 38 employees, the company purchases a moderate amount of stationery, cleaning, staff amenities and corporate office supplies.

Australian Ethical'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 that the company sources fair trade and organic coffee and tea where available, and has become an official Fair Trade Workplace during 2011-12.

### Hiring

Australian Ethical's recruitment strategy is aimed at attracting high quality candidates with the skills and experience to ensure the company's ongoing success.

With offices in both Sydney and Canberra there is a focus on recruiting locally for each site by using local media and employment agencies along with internet/web options. Senior management in both Sydney (5) and Canberra (3) were all local hires.

All applicants are required to undergo formal interviews, reference checks and police checks, with successful applicants completing induction and compliance training on entry to the company.



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## *Indirect economic impacts*

Indirect economic impacts are of significant importance to Australian Ethical as indirect impacts play an important role in fostering socio-economic change in society.

Australian Ethical'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's 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 Australian Ethical Charter in the investment process. Australian Ethical undertakes presentations on ethical investment and engages with various media outlets highlighting links between responsible investment or on topical environmental and social issues of interest to Australian Ethical stakeholders and stakeholders at large in the Australian community. Such initiatives provide public benefit to the community through commercial, in-kind and pro bono engagement.

Australian Ethical continued to be a major sponsor and supporter of environmental and social justice events and organisations across Australia in 2011–12, including Sustainable House Day and Sustainable Living Festivals. Australian Ethical is also a major sponsor of organisations such as the Australian Youth Climate Coalition and Voiceless. These events and organisations play a high profile role in educating people about the actions they can take to reduce their environmental and negative social impacts, and place pressure on business and governments to improve their sustainability performance.

Additionally, Australian Ethical was the major sponsor of large state based environmental and cultural events such as the Western Australian Conservation Week, Gold Coast Green Week, Human Rights Film Festival (nationwide), the Perth Sun Fair, the Big Canberra Bike Ride.

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 Australian Ethical's vision of future investing.

# Verification

## *Report content*

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

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

## **Materiality**

GRI defines materiality as the threshold at which an issue or indicator becomes sufficiently important that it should be reported (GRI 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, Australian Ethical took into account a number of internal and external factors. These included Australian Ethical's vision and mission statement, the Australian Ethical Charter (see page 10), the expectations and interests of stakeholders, and Australian Ethical's sustainability impacts, risks and opportunities.

Australian Ethical considered the majority of GRI core indicators to be material. A number of GRI additional indicators were also considered material, as were the majority of indicators contained in the 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**

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

In preparing this Report, Australian Ethical 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.

## *Verification*

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

Selected information in Australian Ethical's 2012 Sustainability Report was verified by NetBalance. NetBalance visited Australian Ethical's Canberra office on Thursday, 25 October 2012. A report resulting from this review was provided and is presented on the following page.

## INDEPENDENT VERIFICATION STATEMENT

To the Board of Directors and Management of Australian Ethical:

Australian Ethical Investment Limited (Australian Ethical) commissioned the Net Balance Foundation Ltd (Net Balance) to provide independent verification of selected material data and statements in their 2012 Sustainability Report (the 'Report'). The Report presents Australian Ethical's sustainability performance over the period 1 July 2011 to 30 June 2012.

### Verification Objectives

The objective of the verification process was to provide Australian Ethical and its stakeholders with an independent opinion on the accuracy of the information presented within the Report. This was confirmed through verification of selected material data and statements, review of underlying systems, processes and competencies that support the selected information in the Report.

### Responsibility

Australian Ethical was responsible for the preparation of the Report and this statement represents the verification provider's independent opinion. Net Balance's responsibility in performing its verification activities is to the management of Australian Ethical alone and in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

### Verification Scope

The engagement covered a selection of data points and qualitative statements across the following subject matter:

Sustainability indicator description	Criteria (Global Reporting Initiative indicators)
Community investment	EC1 (Community investment only)
Materials, Energy	EN1 – EN4, EN16, EN22, EN28
Employment, Occupational health and safety, Diversity and Equal Opportunity, Training and development	LA1, LA2, LA7, LA10 – LA12, LA14
Public Policy, Anti-competitive Behaviour, Compliance	SO5 – SO8
Marketing Communication, Customer Privacy	PR6, PR8
Product Portfolio	FS1 – FS3, FS5, FS6, FS10 – FS12

### Inherent Limitations

Because of the inherent limitations of any internal control framework and underlying data, it is possible that undetectable data manipulation or system non-compliance errors may occur and not be detected during the verification engagement. A verification engagement is restricted primarily to enquiries and analytical procedures and the work is less detailed than undertaken for an assurance engagement. Additionally, non-financial performance data may be subject to more inherent limitations than financial data, given both its nature and the methods used for determining, calculating and sampling or estimating such data.

### Verification Methodology

The verification process was undertaken in October to November 2012, and involved the following:

- Interviews with data and process owners to understand the selected performance data metric definitions, data sources, reliability of data, completeness of data and the basis of assumptions used in

reporting of performance. Particular attention was paid to the consistency with recognised published standards and guidelines.

- Review of internal and IT controls relevant to the calculation of the selected performance data.
- Interviews with a sample of the management team to gather evidence for a selection of qualitative statements made within the report.
- Re-performing of calculations for a sample of data points.
- Collection and evaluation of documentary evidence.

The verification process was subject to the following limitations:

- The scope of work did not involve verification of financial data, other than that relating to environmental, social or broader economic performance.
- Only the corporate office in Canberra was visited as part of this verification engagement.

### Our Independence

Net Balance was not responsible for preparation of any part of the Report. Net Balance has not undertaken any other project work for Australian Ethical in the reporting period. As such the verification team was deemed independent and objective. A copy of our Independence Policy can be viewed at <http://www.netbalance.com/services/assurance>.

### Our Competency

The verification engagement was carried out by an experienced team of professionals headed by a Lead Sustainability Assurance Practitioner (Lead CSAP), accredited by AccountAbility UK. Our project team has been formally trained to use assurance, audit and verification standards. The engagement included team members with expertise in environmental, social and economic performance measurement.

### Our Opinion

Based on the scope of the verification process, the following observations and conclusions were made:

- The level of data accuracy was found to be robust.
- The performance data reviewed during this engagement appropriately reflects the performance achieved during the period.
- Data trails were easily identifiable and traceable.
- The personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data.

All suggested changes were satisfactorily addressed by Australian Ethical prior to finalising the report.

### The Way Forward

It was found that Australian Ethical has established internal processes in place to manage sustainability performance data. To ensure that Australian Ethical continues to improve, Net Balance has provided recommendations on data collection, management and calculation processes. These recommendations have been provided to Australian Ethical's management in a detailed report.

On behalf of the verification team  
15 November 2012  
Melbourne, Australia



Kirsten Simpson  
Lead Certified Sustainability Assurance Practitioner  
Associate Director, Net Balance





## Statement GRI Application Level Check

GRI hereby states that **Australian Ethical Investment Ltd** has presented its report "Sustainability report 2012" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 13 November 2012

A handwritten signature in blue ink, appearing to read "Nelmara Arbex", is written over a faint, large watermark of the GRI globe logo.

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The "+" has been added to this Application Level because Australian Ethical Investment Ltd has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 9 November 2012. GRI explicitly excludes the statement being applied to any later changes to such material.

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# Australian Ethical Sustainability Report 2012 – Feedback Form

To assist us in improving our economic, social and environmental reporting, please provide us with your feedback.

I am a (please tick)

- Trust unitholder  
 Superannuation member  
 Staff member  
 Shareholder  
 Financial adviser  
 Other, please specify

Overall you found the:

Content of the report

- very good     good     fair  
 poor     very poor

Format of the report

- very good     good     fair  
 poor     very poor

Amount of information in the report

- very good     good     fair  
 poor     very poor

Graphs and tables

- very good     good     fair  
 poor     very poor

Which sections did you find most useful and why?

Which (GRI or other) indicators would you like included in future Australian Ethical sustainability reports?

How could we improve the report?

Any other comments?

Optional (for future mailing)

Name:

Address:

Phone:

Email:

Thank you for your feedback.

Please send this form to:

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