

# Corporate governance statement 2009

This statement discloses the extent to which Australian Ethical Investment Ltd has followed the best practice recommendations set down by the ASX Corporate Governance Council during the reporting period. This statement has been prepared with reference to the second edition of the Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Council's Principles of Good Corporate Governance and Best Practice Recommendations provide a framework for good governance set out in eight core principles and 27 specific recommendations.

Australian Ethical has provided information on its corporate governance practices against all recommendations. This corporate governance statement will be placed onto the corporate governance section of the company's website.

## Principle 1 - Lay solid foundations for management and oversight

Australian Ethical has formalised the functions reserved to the board and those delegated to management.

### Board responsibilities

The Australian Ethical Board is directly responsible for the following activities.

- Setting the strategic direction of Australian Ethical
  - Annual appraisal of the Board
  - Approval of Board committee fees
  - Recommendation to shareholders on the aggregate level of directors' fees
  - Approval of individual director fees
  - Appointment and removal of the CEO
  - Annual appraisal of the CEO
  - Approval of the annual operational and capital expenditure budget and any material revisions
  - Approval of major contracts, acquisitions or disposals which have not been approved in the budget
  - Authorisation of Board project expenditure
  - Accept and sign-off of the annual audited accounts and directors' report for the Australian Ethical group
  - Approval of the issue of shares and options
  - Approval of significant changes to unit trust fees, including discount programs
  - Approval of significant changes to products or product offerings
  - Approval of the constitutional bonus and tithe amounts
  - Approval of the terms and conditions for any employee share ownership scheme, or if shareholder approval is required, approval of recommendations to shareholders
  - Approval of employee performance based remuneration programs
  - Approval of dividend payments and any DRP
  - Authorisation of the issue of the Trust PDS
  - Approval of risk management and compliance programs
  - Approval of significant company policies
  - Approval of indemnity, crime, director and officer and similar insurance programs
  - Protection and promotion of the Australian Ethical Charter
- The Board makes the following general delegations.

### Chair of the Board

The chair of the board is delegated with all necessary authority to carry out the following functions:

#### *Inside the boardroom*

- Acting as the link between the board and the company when the CEO is unable to perform this role;
- Establishing and maintaining an effective working relationship with the CEO;
- Setting the tone for the board, including the establishment of a common purpose;
- Chairing board meetings efficiently and shaping the agenda in relation to goals, strategy, budget and executive performance;
- Work with the Company Secretary and CEO to ensure that appropriate information is presented to the Board;
- Ensuring contributions by all board members and reaching consensus when making decisions;
- Motivating board members and where appropriate dealing with underperformance;
- Instituting the process for appraising board members individually and the board as a whole;
- Overseeing conducting and finalising negotiations for the CEO's employment and evaluating the CEO's performance;
- Assisting with the selection of board committee members.

#### *Outside the boardroom*

- Communicating with shareholders on matters of corporate governance;
- Chairing shareholder meetings – annual and extraordinary general meetings (AGMs and EGMs);
- Ensuring compliance with ASX Listing Rules and continuous disclosure requirements;
- Increasingly, being available to speak with large institutional investors;
- In conjunction with the CEO, communicating Board views to staff.

### Board Committees

Board committees are delegated with all necessary authority to carry out their functions as set out in Board committee charters.

### CEO

Other than in respect of:

- those responsibilities reserved to the Board;
- delegations (general or specific) made by the Board to the Chair, Board Committees, Directors or other senior executives,

the CEO is delegated with all necessary authority to run Australian Ethical on an ongoing, day to day basis.

Specifically the CEO is delegated with responsibility and authority for the following:

- Implementing the strategic direction set by the Board;
- Implementing the risk management and compliance programs approved by the Board;
- Approval and maintenance of Expenditure and Payment Guidelines;
- Approval and maintenance of Employee Authorisations;

- Employment, termination and suspension of staff;
- Employee remuneration;
- Employee policies and procedures.

The above responsibilities and delegations are made public through the publication of this statement and the inclusion of the statement in the corporate governance section of the company's website.

## Evaluating the performance of senior executives

The performance of executives is evaluated in accordance with the company's annual performance review guidelines. For the CEO, the review is conducted by the board chair. For other executives, the review is undertaken by the CEO.

The process is as follows:

- receive 360° comments from staff (and directors if applicable);
- review comments once received and incorporate into the annual review as considered appropriate. Emphasis is on themes or perceptions rather than specific comments;
- complete a draft of the annual performance review and provide to the executive for discussion;
- discuss the annual performance review with the executive – cover key responsibilities, overall performance, key behaviours, review achievements against previous year's objectives, discuss objectives for the coming year, discuss aspirations and areas for improvement;
- review competencies and qualifications to ensure they remain applicable to the position. If not, a training program must be developed to bring the executive to the appropriate level; and
- investigate what specific training may be suitable and available;
- where remuneration is subject to the achieve of performance hurdles, review and discuss the achievement of those hurdles and determine the amount of any performance based remuneration.

In respect of the CEO, the chair presents the results of the review to the board. The board then has an opportunity to provide feedback to the CEO, and to consider recommendations from the chair on the CEO's remuneration package.

An evaluation of the performance of senior executives was undertaken in the financial year in accordance with the process described above.

## Principle 2 - Structure the board to add value

### Independent directors

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

1. is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
2. has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;

3. within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. has no material contractual relationship with the company or another group member other than as a director of the company;
6. has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company;
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

These areas reflect the relationships set out as relevant in the ASX Corporate Governance Council's Principles and Recommendations.

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

The classification of directors who held office during or since the end of the financial year is as follows:

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

The board of Australian Ethical did not comprise a majority of independent directors during the reporting period. For the first five months of the reporting period, the board comprised four non executive directors (three of whom are considered independent) and four executive directors. For the remaining seven months, the board comprised four non executive directors (three of whom are considered independent) and three executive directors.

Les Coleman serves on the Investment Policy Committee of United Funds Management Ltd, a wholly owned subsidiary of SMF Funds Management Limited, which is a substantial shareholder. As such he is associated with a substantial shareholder (albeit in a limited way), and therefore given the above criteria is not classified as an independent director.

At the date of this report, the board has an equal number of independent and non-independent directors, with four non-executive directors out of a board of six directors.

The board's approach to composition is to seek to maintain a good long term balance between executive and non-executive / independent directors, with the right mix of independence, competence and alignment with the Australian Ethical Charter.

The board carries out its responsibilities according to its Constitution, regulatory requirements, and an overall mandate, including the following:

- the board must comprise at least three and not more than ten directors;
- the board is bound by the Australian Ethical Charter that is set out in the Australian Ethical Constitution. The Charter sets out 23 ethical principles to be applied to the operations and activities of the company;
- each director is committed to the Australian Ethical Code of Conduct that governs the conduct of employees and directors;
- all available information on items to be discussed at a board meeting is provided to each director prior to that meeting;
- the board has adopted a policy for the management of conflicts of interest;
- with the prior approval of the chair, each director has the right to seek independent legal and other professional advice at the company's expense on any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

## Chair of the board

The company's chair was an independent director throughout the reporting period.

## Nomination committee

The Board established a nominations committee in February 2009 by expanding the responsibilities of the Remuneration committee, to form the Remuneration and Nominations Committee. Naomi Edwards and Justine Hickey are the members of the Remuneration and Nominations Committee. Attendance at meetings are detailed in the directors' report. A summary of the Committee's charter is available from the corporate governance section of the company's website.

## Board and director evaluation

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

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

examined from both a qualitative and quantitative perspective.

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

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

## Director skills and experience

The time in office, skills, experience and expertise of each director in office as at the date of this report is included in the directors' report.

## Selection and appointment of directors and re-appointment of incumbents

The Remuneration and Nominations Committee has the following responsibilities:

- assess the necessary and desirable competencies of directors;
- ensure the directors have the appropriate mix of competencies to enable the board to discharge its responsibilities effectively;
- develop board succession plans to ensure an appropriate balance of skills, experience and expertise is maintained;
- make recommendations to the board relating to the appointment and retirement of directors.

The Remuneration and Nominations committee will at least annually consider the above responsibilities, the current board composition, any nominations or suggestions for directorship, and the assessment of incumbent directors and make recommendations to the board on composition.

## Principle 3 - Promote ethical and responsible decision making

### Code of conduct

The company has a code of conduct which applies to directors and staff. It is available on the company's website.

### Share trading

The company has a share trading policy which applies to directors and staff. It is available on the company's website.

## Principle 4 - Safeguard integrity in financial reporting

### Audit committee

Throughout the period, the board had an Audit Committee consisting of three members.

Up to 31 December 2008, the Audit Committee consisted of one independent director (Naomi Edwards), one external member (Ruth Medd) and the company secretary.

On 1 January 2009, the Audit Committee merged with the Compliance and Risk Committee to form the Audit, Compliance and Risk Committee. The membership of the Audit, Compliance and Risk Committee is one external member (Ruth Medd, chair), one independent director (Naomi Edwards) and one non-executive director (Les Coleman).

Ms Medd is the independent chair of the company's

subsidiary, Australian Ethical Superannuation Pty Ltd.

The qualifications of those appointed to the audit committee are provided in the directors' report, as are the number of meetings of the committee and attendances at those meetings.

The Committee does not consist of only non-executive directors of the company (it has one external member).

A summary of the charter for the audit committee appears on the company's website.

The board is of the view that notwithstanding that the audit committee does not comply with all the Corporate Governance recommendations on membership, it is consistent with the spirit of the recommendations and the committee is able to perform its functions with independence and diligence.

In particular:

- the committee is comprised only of non-executives;
- at a number of meetings the committee speaks directly to the external auditor in the absence of executive management.

The Committee considers the performance and independence of the external auditor over the course of a reporting period. In selecting an external auditor the board seeks competence, industry experience, integrity and independence. In normal circumstances, appointment of the external auditor will typically continue for a significant number of years. Rotation of external audit engagement partners will occur in accordance with the rotation requirements of the Corporations Act 2001.

### **Principle 5 - Make timely and balanced disclosure**

The company has written policies and procedures designed to ensure compliance with the ASX Listing Rule disclosure requirements and accountability at senior executive level for compliance. The disclosure policy appears in the corporate governance section on the company's website.

### **Principle 6 - Respect the rights of shareholders**

The company does not have separately documented policy for shareholder communication, but it maintains a comprehensive and informative 'shareholder centre' on its website which provides shareholders (and others) with up-to-date information about the corporate activities of the company, including company announcements. A facility is available to shareholders to be advised via e-mail when announcements are made. The company's website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings.

The company produces a newsletter, Aim High, for trust and superannuation investors, and since listing the company has introduced a shareholder newsletter. It has revised its annual general meeting arrangements to promote participation and dissemination of information and has ensured access to the external auditor at these meetings.

The company also produces a sustainability report for shareholders and other stakeholders on the triple bottom line performance of Australian Ethical (available on the

company's website). The sustainability report is produced using the Global Reporting Initiative guidelines.

The company complies with the corporate governance guidelines for notices of meeting.

### **Principle 7 - Recognise and manage risk**

Policies for the oversight and management of material business risks

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

The board has required management to implement a risk management system consistent with the company's risk management guide. The board has required management to report to it on whether material business risks are being appropriately managed. During the relevant period, management has reported to the board's Audit, Compliance and Risk Committee and directly to the board as to the effectiveness of the entity's management of its material business risks.

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

#### **CEO and CFO sign-off of financial reports**

The company requires the CEO and the CFO to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operating results and are in accordance with relevant accounting standards.

The CEO and chief financial officer certify to the board that the integrity of the financial statements are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

### **Principle 8 - Remunerate fairly and responsibly**

#### **Remuneration committee**

The board has a Remuneration and Nominations committee. The members of the Committee throughout the relevant period were Naomi Edwards and Justine Hickey. Details of attendance at meetings of the Committee are provided in the directors' report. The charter for the Committee is available in the corporate governance section of the company's website.

#### **Details of remuneration**

Details of remuneration paid to directors and executives during the reporting period is set out in the directors' report. The report distinguishes the structure of non-executive director remuneration and that of executive directors. Non-executive directors receive fees for serving as a director in the form of cash payments, plus mandated superannuation contributions. They do not participate in bonus or equity schemes designed for the remuneration of executives.