

ASX Announcement

ASX Code: AEF

Date: 19 November 2009

AGM presentations and answers to shareholder written questions

The attached addresses and presentations will be provided at today's AGM. The attached answers to shareholder written questions (received prior to the meeting) will also be distributed to shareholders who attend today's meeting.

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Company Background

Australian Ethical is a funds manager that specialises exclusively in ethical funds management. It offers managed investment schemes and corresponding superannuation strategies (for accumulation and pension accounts). The Australian Ethical Charter is the foundation of the investment process. It aims to avoid harmful investments and actively seeks investments that benefit society and the environment. Uniquely, the company's constitution requires that 10% of profit is donated to charitable and conservation initiatives.

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Chair's Presentation to AGM – November 2009

This is my third presentation to you as Chair of Australian Ethical. At my first presentation two years ago, we had been experiencing strong inflows and our funds under management were growing strongly. A year ago, we were in the midst of the GFC and my presentation was focussed on the risks we faced and the steps we were taking to manage them.

Today, the external situation has stabilised and markets appear to be returning to normal. Australian Ethical Investment Ltd has recorded a solid result for 2009, with a dividend declaration of \$1.47 per share and a return on equity of 14.7%. While both these figures are lower than our 2008 returns (\$1.65 per share and 20.6%, respectively) they are reasonable in light of the market turbulence experienced over the past twelve months.

However Australian Ethical, in common with many retail fund managers, has lost ground through the GFC and we now need to take some ambitious steps to regain our momentum. In particular:

1. We need to grow our FUM to over \$1 billion in order to achieve economies of scale. This will enable us to afford the systems and marketing campaigns that our people and brand deserve, and to continue to deliver excellent returns to shareholders.
2. We believe that the planet faces urgent environmental problems and that growing our model of sustainable and ethical investment will help companies and investors who want to solve these problems.
3. We want to provide our staff, customers and shareholders with the excitement and satisfaction that comes from being able to deliver real change, new opportunities and leadership in the field of sustainable investment.

Our choice of Phil Vernon, whom I am pleased to introduce to you today, as our new CEO, is a key part of our growth strategy. The appointment of any new CEO, of and in itself, tends to bring change and excitement to a company. However Phil comes to us with a solid track record of success, growing Perpetual's Corporate Trust business from a small base to over \$34m profit over a ten year period. Phil is highly respected in the Sydney financial services community and brings considerable bench strength to our senior team. Phil also has a longstanding interest in environmental issues, particularly the preservation of Australia's old growth forests, and this personal value alignment with the values of our customers and many of our staff and shareholders, is extremely positive.

The Board will be working closely with Phil over the next 12 months to capitalise on the opportunities we have, and to deal with the threats we face. Our key opportunity continues to be to leverage off our true to label brand and our excellent investment performance. Our strong balance sheet also offers us opportunities to form alliances with complementary lines of business or distribution channels and to invest in new technologies that will lower our cost to income ratio in the long term.

But the Board sees two emerging threats to our business model which we are moving quickly to address. Firstly, is the possibility of increased outflows from our superannuation fund as the industry fund advertising campaign starts to bite and also as more people set up SMSFs. We have initiated projects to defend our excellent historic retention of our super members as well as to continue to grow new members. A second threat is the continued focus on low fee models. The Climate Advocacy Fund we are launching, (we now expect in February 2010), will give us our first low cost product offering, as well as being an exciting new step for corporate advocacy in Australia. To this end, our plan for the coming financial year is that revenues will grow significantly, while there will be several one-off expenses (including CEO transition costs, new systems expenditure and new PDS and website production) that will dampen profit over 2009/10. However all of these expenditures are investments for the future and will result in a lower cost basis combined with increased revenues from 2011 onwards.

We remain focussed on a clear vision of providing truly ethical investments to our clients, spreading the reach of our approach through a clear growth strategy and making investments over the next 12 months that will significantly lower our cost base going forward and deliver economies of scale.

So we will not be standing still and Phil will be hitting the ground running when he starts on December 7th.

One other thing I would like to mention today is our sustainability report, copies of which are available at the back. It's a report that is well worth reading for the insights it gives into how we are trying to make every aspect of our company truly sustainable. This building has enabled us to be a leader in energy and water efficiency but we still have significant challenges, including a target to reduce our printer and photocopy paper by another 10% this year. Sustainability reports are an increasingly important source of understanding of a company's situation and our report is award winning and highly readable.

Many of our major projects have come to fruition in the last few months, including our new website, our new PDS, the outsourcing of our unitholder registry to Registries, and I would like to thank Anne O'Donnell for her contribution to these and to many, many projects over the last nine years. I have only had the pleasure to work with Anne for five of these nine years, but I can personally attest to her enormous optimism, calmness and cat-herding skills in professionalising and diligently steering Australian Ethical to a more financially robust and well positioned organisation than she inherited. It has been a pleasure for the Board to work with Anne and I know that Anne has also inspired tremendous loyalty from many of her staff. I also would like to thank the staff for their hard work over a challenging year because what makes Australian Ethical function is not the CEO or the Board, but the team effort from everyone. So now we farewell Anne and look forward to working closely with Phil Vernon to achieve excellent results for you our shareholders, for our investors, for our staff, for society and of course for the environment.

CEO's Presentation to AGM – November 2009

Good morning ladies and gentleman

The 16th of October was the 9th anniversary of my appointment to Australian Ethical. Nine years is a long time to lead an ASX listed company. It has been a great journey, full of wonderful people and great challenges. I will always treasure my time at Australian Ethical. My head tells me the time is right for me and the company for a change, but my heart is still coming to terms with the idea of handing over the reins.

When I joined Australian Ethical in late 2000 the company had \$85m funds under management and profitability was minimal. We were little known in the mainstream financial market; indeed those who did know us considered us a quaint market oddity.

There have been many challenges in our journey to increase the professionalism of the organisation and to grow our business and to do so in a way which did not compromise our commitment to the ethical charter. We have built a strong and profitable business which has weathered the most difficult of financial times well. We are now recognised as an expert in our field by the financial mainstream and respected for the commitment we have shown to our principles. We have excellent relationships with our various regulators and have met the continuous changes in legislation which have been thrust upon us.

Today Australian Ethical has a very professional and dedicated senior team and our key person risk has been significantly reduced. These achievements are the result of a team effort. I have been privileged to lead that team and I am very proud that through our growth and significant change we have been able to retain the core of our distinct culture.

Part of our mission has been to spread the message to the wider industry that money can be successfully invested whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment. We have been very successful in doing this, so successful in fact that we have more competitors in our investment space. It might seem like an odd thing for a commercial organisation to take this stand; I have always thought it says a lot about who Australian Ethical is that we have chosen a collaborative, co-operative approach to our work.

The Australian Ethical Investment group has produced a solid result during a period of unprecedented turmoil in the global financial markets. The Group recorded a consolidated net profit after income tax of \$1.2m. This trading result represents a decrease on the previous financial year's result of \$1.6m. Whilst it is disappointing to record a decrease in year on year profit; given the difficult circumstances experienced in the financial markets I consider this a solid result.

The company has experienced a number of positives during the past 12 to 18 months. We have a strong balance sheet with no debt, we have not experienced any significant change in historic outflow patterns and the majority of our funds have achieved excellent relative performances. Market uncertainty and volatility has impacted investor confidence, and inflow into our managed funds and superannuation fund have declined. Whilst our funds under management fell to a low of

\$461m in March 2009, we have seen a significant turn around since that time. Our funds under management are now around \$590m and in-flows are returning to previous levels.

The Global Financial Crisis has ensured the last 12 to 18 months have been a very difficult and often trying time. It has been my privilege to lead such a hard working and dedicated team. I hand over control of the company to my successor in the knowledge that the company is in great shape and has a bright future. Finally I would like to thank all my wonderful staff, past and present, for their support during my tenure and also to thank the all directors with whom I have worked over the years.

Thank you

Anne O'Donnell

**ANNUAL GENERAL MEETING
19 NOVEMBER 2009**

WRITTEN QUESTIONS FROM SHAREHOLDERS

As part of the 2009 Annual General Meeting, directors invited shareholders to ask written questions.

Questions received prior to the deadline are set out below.

Please note that the company has indicated that it will not respond to or publish questions which in its view are defamatory, vexatious or which are the subject of or related to potential legal action by or against the company.

Shareholders should also note that the company may choose not to answer questions which:

- would require the publication of confidential or commercially sensitive information which could cause detriment to the company; or
- are not posed by shareholders in their capacity as shareholders: for example questions asked by employee shareholders about specific staffing issues; questions asked by a contractor / shareholder about outsourcing arrangements; or questions asked by former directors or employees using confidential information obtained in their capacity as a director or employee.

The company has received two questions of this nature and has declined to publish or answer those questions.

The company has also responded to some questions thematically.

No.	Question	Response
1.	<p>As an ethically minded scientist, I am deeply troubled by my recent discovery of AEI's involvement with homeopathy. This is an industry that campaigns against and freely promotes practices that are counter to every effort to increase medical care to those who need it most. I would appreciate any efforts to address these concerns and ensure that investments and ethical decisions are in the future based on fact.</p>	<p>The Company has no investments in homeopathy and has not for many years.</p>
2.	<p>Why is there no reference to the AGM on the website? Why is there no investor section?</p> <p>Why can't we lodge questions electronically?</p>	<p>We went through an extensive process of researching the needs of website users, their preferences for content, and their behaviour in seeking information about us. In relation to shareholder-specific content, user testing demonstrated that most of the shareholder-related information was common to the information needs of other audiences. Therefore instead of doubling up information on the website, we decided to not create a specific shareholder section. For example, if people were interested in obtaining annual reports on the company or on our products, they were generally inclined to look under the heading 'Performance'. So we made all product reports and company reports available under this heading, as well as including other information that was also considered to be 'Performance' information, such as unit prices and the company share price.</p> <p>The electronic submission of questions was not considered in the design process for phase one of the new website. This idea will be considered at the next review of the website in 2010.</p>

No.	Question	Response
3.	<p>How is AEI ensuring that ethical decisions are not influenced by investment considerations? Have you considered external advice?</p>	<p>The Investment Process at Australian Ethical requires a researched opinion on the ethical compliance of an investment against the Australian Ethical Charter. This is done first, and a limit for an investment can not be approved without an understanding of the ethical view provided by the Centre for Australian Ethical Research. (CAER)</p> <p>In addition, each quarter the entire portfolios are reviewed by the Investment Committee for compliance against the Australian Ethical Charter.</p>
4.	<p>How does the bonus paid to the CEO compare to those paid to other staff members? I believe it is about 50 times Why are we paying 25% of the profits to a departing staff member?</p>	<p>The separation payment to the CEO was determined by the Board having regard to:</p> <ul style="list-style-type: none"> • The circumstances of the CEO transition; • The base pay level of the CEO; and • The unique situation of the CEO role which often has shorter tenures than other positions. <p>While the payment is significant in the context of the 2008/09 profit result (which was affected by the GFC) the Board is confident that the total circumstances of the CEO succession will deliver additional long term shareholder value.</p>
5.	<p>I have again received material from Mr Trevor Lee that makes various allegations against the company. The material appears to make the same claims as have been made for the last three or four years. To the company's knowledge, is the Australian Securities and Investments Commission aware of Mr Lee's claims, and if so, has ASIC expressed any concern or made any adverse finding against the company or any officer of the company in respect of those claims.</p>	<p>Mr Lee regularly copies the ASIC and the ASX in on his correspondence to the Company.</p> <p>The Company has never had an adverse finding made against it or any of its Officers or Directors in respect of Mr Lee's claims, nor has ASIC expressed any concerns to the Company regarding these claims.</p>