

ASX Code: AEF
Date: 5 June 2009

Employee share incentive scheme

At the company's 2008 AGM, shareholders approved an employee share incentive scheme. The company had intended to implement arrangements under that scheme for its employees in September / October 2009. The effective operation of the scheme relied on taxation deferral arrangements for employee share schemes which had been in place for many years.

As part of the 2009 Commonwealth budget, the Federal Government announced that it was removing the tax deferral arrangement that had previously applied. Since that budget announcement, the Government has indicated that it will consult further on its proposed changes and may make some amendments to budget announcements.

The company will not proceed with implementation of the employee share incentive scheme until taxation arrangements are clearer.

A minor amendment to the scheme rules has also been made to clarify that under the Share Purchase arrangements, shares may either be issued to employees or the company may arrange for shares to be purchased from existing shareholders to be provided to employees. Rules 18.1 and 18.3 were amended to effect this change. A copy of the amended rules is attached.

End/.

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.

Australian Ethical Investment Limited

Employee Share Incentive Scheme

Scheme Rules

Version: 2.0

Date: 25 May 2009

1. Definitions

In these Rules the following words and expressions have the meanings indicated unless a contrary intention appears:

'Adjustment Shares' means the number of Shares determined to be added or subtracted from the Shares provided to a Participant at the expiration of a Performance Period in accordance with Rule 6.1b

'ASX' means the Exchange.

'ASIC' means the Australian Securities and Investments Commission;

'Board': means:

- the board of directors of the Company as constituted from time to time;
- the Remuneration Committee appointed by the board of directors, or any other committee nominated by the board of directors for this purpose; or
- their duly appointed representatives (as the case may be);

'Commencement' means the commencement date of the Scheme determined under Rule 14.1;

'Committee' means the Remuneration Committee appointed by the Board, or any other committee nominated by the Board in its place;

'Company' means Australian Ethical Investment Limited (ABN 47 003 188 930);

'Employee' means a permanent employee of a Group Company who is determined by the Board from time to time in its discretion to be eligible to participate in the Scheme;

'Entitlement shares' means the maximum number of Shares that a Participant may be entitled to at the end of a Performance Period assuming that the Performance Criteria applicable to that Performance Period have been fully satisfied;

'Exchange' means the Australian Securities Exchange;

'Group Company' means the Company, its Subsidiaries and any other entity determined by the Board to be a group company for the purposes of these Rules;

'Listing Rules' means the listing rules of the Exchange;

'Notice of removal of restrictions' means a completed and executed request to remove the Restrictions from some or all of the Shares provided under the Scheme submitted by a Participant to the Company Secretary or other person nominated by the Board. The notice must specify the number of Shares to which the request to remove the Restrictions applies and must be submitted on a form approved by the Board;

'Participant' means an Employee who has accepted ordinary shares or Performance Rights under the Scheme in accordance with Rules 4.1, 4.5 or 18;

'Performance Criteria' means the criteria determined by the Board from time to time for assessing the performance of the Company and/or a Participant for the purpose of and in accordance with Rule 5;

'Performance Period' means any period as the Board in its discretion determines which relates to the assessment of the Performance Criteria;

'Performance Rights' mean the conditional entitlements to Shares awarded to Employees under Rule 4.3;

'Qualifying Reason' means in relation to an Employee ceasing to be employed by the Group Company, ceasing to be employed by reason of:

- pursuit of other Company initiatives (for example, taking up a position with alliance partners or secondments);
- hardship (for example, the death, serious illness or accident of an Employee or an Employee's partner or de facto or any other similar hardship incurred by the Employee);
- redundancy; or

- other circumstances which are considered by the Board to be extraordinary;

'Restrictions' means the restrictions imposed on Shares provided to Participants in accordance with these Rules and specified in Rule 7;

'Restriction Period' means the period commencing from the date Shares are provided to a Participant and ending on the date ten years from the date the Performance Rights in respect of which the Shares were provided, were originally awarded (or such other period as the Board in its discretion determines for the Performance Rights or for some number of Performance Rights);

'Rules' means the terms and conditions of the Scheme as set out in this document, as amended from time to time;

'Scheme' means the Employee Share Incentive Scheme established and operated in accordance with these Rules;

'Scheme Cap' means 5% of the issued capital of the Company as at 30 June in the immediately preceding financial year.

'Security interest' means a mortgage, charge, pledge, lien or other encumbrance of any nature;

'Share' means a fully paid ordinary share in the capital of the Company.

'Subsidiary' has the meaning given to that term in the Corporations Act 2001

2. Interpretation

2.1 In these Rules, unless the contrary intention appears:

- (a) the singular includes the plural and vice versa;
- (b) a reference to a Listing Rule, statute or law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (c) a reference to a person includes a reference to the person's executors, administrators and successors, a legal personal representative, a firm or a body corporate.

2.2 Headings are inserted for convenience and do not affect the interpretation of these Rules.

3. Operation of the Scheme

3.1 The Scheme must be operated in accordance with these Rules which bind the Company, each subsidiary of the Company and each Participant.

3.2 The Scheme will be administered by or on behalf of the Board in accordance with these Rules.

- 3.3 The Company will pay all expenses, costs and charges in relation to the establishment and operation of the Scheme, including all costs incurred in or associated with an issue or purchase of Shares pursuant to Performance Rights awarded to Participants under the Scheme.

Part A – Performance Rights

4. Award of Performance Rights

- 4.1 The Board may at any time and in accordance with these Rules offer an Employee participation in the Scheme by way of an award of Performance Rights. By accepting that award, the Employee agrees to be bound by the Rules.
- 4.2 Prior to an award of Performance Rights the Board will determine in its discretion a Participant's Entitlement Shares. A Participant will be taken to have one Performance Right for each Entitlement Share. The number of Shares provided to a Participant at the end of a Performance Period will be determined by the Performance Criteria in accordance with Rule 5.1 as adjusted by the Adjustment Shares.
- 4.3 An award of Performance Rights will entitle a Participant, subject these Rules, to be provided at the expiration of the relevant Performance Period with a number of Shares up to the number of that Participant's Entitlement Shares plus or minus (as the case may be) the number of Adjustment Shares. One Performance Right will be taken to have vested for each Share provided to the Participant under the Scheme at the end of the Performance Period (subject to any adjustment under Rules 5 and 6). For the avoidance of doubt, the Board can exercise its discretion to provide Adjustment Shares to a Participant in accordance with this Scheme even though this may result in the Participant being provided more Shares than the number of Performance Rights which the Participant held in respect of the relevant Performance Period.
- 4.4 An award of Performance Rights under 4.1 or 4.5 must not result in the aggregate number of:
- (a) ordinary shares issued in the same financial year under Rule 18; and
 - (b) Performance Rights issued in the same financial year under 4.1 or 4.5,
- exceeding the Scheme Cap at the time the Performance Rights are awarded.
- 4.5 The Board may in its discretion add to or vary any Employee's award of Performance Rights, in the event that an Employee is promoted, receives an increase in remuneration, or experiences a change in circumstances which the Board considers would make the previous award of Performance Rights no longer appropriate.

5. Performance Criteria

- 5.1 The Board will in its discretion determine the Performance Criteria applicable to any grant of Performance Rights. The Performance Criteria will specify the relationship between the performance of the Company and/or the Participant and the Participant's Entitlement Shares.
- 5.2 The Board will give written notice of the Performance Criteria applicable to a grant of Performance Rights at or prior to the award of the Performance Rights.
- 5.3 Subject to Rules 12 and 13, the Board may not alter the Performance Criteria in respect of a grant of Performance Rights or substitute new Performance Criteria applicable to a grant of Performance Rights.
- 5.4 Except as described in Rules 5.5 and 5.6, Performance Rights do not entitle a Participant to participate in new issues of securities to holders of Shares.
- 5.5 If the Company makes a bonus issue of Shares or other securities pro rata to holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Shares have been provided to a Participant before the books closing date for determining entitlements to the bonus issue then the number of Shares to which the Participant may be entitled at the expiration of the relevant Performance Period pursuant to the Performance Rights must be increased by the number of Shares which the Participant would have received if Shares had been provided before the books closing date.
- 5.6 If the Company makes an offer of securities pro rata to all or substantially all holders of Shares (other than an issue in or in satisfaction of dividends or by way of dividend reinvestment) for a subscription price which is less than the market price and no Shares have been provided to Participants before the books closing date for determining entitlements to the pro rata issue then the Board must endeavour to ensure that the pro rata issue is taken into account in providing Shares to Participants at the expiration of the relevant Performance Period in a manner which is fair and equitable to the Participants.
- 5.7 In the event of any reconstruction of the issued ordinary capital of the Company the number of Shares to which the Participant may be entitled at the expiration of the relevant Performance Period pursuant to the Performance Rights will be adjusted in a way which ensures that the Participant does not receive a benefit that holders of ordinary securities do not receive.

6. Provision of shares

- 6.1 At the end of each Performance Period the Board will determine:
 - (a) whether and, if so, the extent to which, the Performance Criteria applicable to that Performance Period have been met; and

- (b) the number of shares to be added or subtracted from the Shares in respect of each Participant. That number is to be determined by the Board in its discretion, but must not exceed 20% of each Participant's Entitlement Shares.
- 6.2 As soon as possible after making such a determination, the Board must notify each Participant of the number of Shares to be provided to that Participant by setting out the number of Shares to be provided in accordance with the Performance Criteria and the relevant number of Adjustment Shares.
- 6.3 The number of Shares calculated in accordance with Rule 6.1 will be provided by the Board to each Participant subject to the Restrictions.
- 6.4 Where the number of Shares provided to a Participant is less than the Entitlement Shares the Performance Rights which have not vested will immediately lapse. Where the Board determines that a Participant is not entitled to be provided with any Shares in respect of a Performance Period, all the Participant's Performance Rights for that Performance Period will immediately lapse.
- 6.5 Unless the Board otherwise determines, where Shares are to be provided to a Participant under the Scheme, the Company will issue the Shares directly to the Participant.
- 6.6 If the Board determines, Shares may be purchased on-market for the benefit of the Participant under the Scheme. The Board will authorise appropriate procedures to facilitate the transfer of Shares directly to the Participant.

7. Restrictions on shares

- 7.1 Participants may not dispose of, or grant a Security Interest over, any Shares held by them during the Restriction Period. The Company will place a holding lock or similar arrangement to give effect to the Restrictions on all Shares provided to Participants under the Scheme.
- 7.2 A Participant (and any person claiming through him or her) will forfeit any right or interest in any Shares under the Scheme held subject to the Restrictions to the Company if, during the Restriction Period:
 - (a) they cease to be employed by the Group; and
 - (b) the Participant has in the opinion of the Board:
 - (i) been dismissed with cause or has committed any act of fraud, dishonesty, defalcation or gross misconduct or a breach of duty in relation to the affairs of the Company or the Group (whether or not proven or charged with an offence); or
 - (ii) engaged in activity detrimental or potentially detrimental to the Group including, without limiting the generality of this concept, the unauthorised

communication or use of confidential information relating to the business of the Group.

- 7.3 On provision of Shares to a Participant or at any other time the Company may request a Participant to provide it with a signed blank transfer in relation to those Shares or any such other documentation to facilitate the restriction in Rule 7.2. A Participant must comply with any such request.
- 7.4 The Board may determine at the time of an award of Performance Rights to Participants further restrictions, if any, to apply to Shares provided to Participants at the expiration of the relevant Performance Period.

8. Removal of Restrictions

- 8.1 A Participant may request that the Restrictions applying to Shares held by them be removed at any time during the Restriction Period by giving a Notice of Removal of Restrictions.
- 8.2 The Board will process a Notice of Removal of Restrictions within one month of receipt. Subject to Rules 8.3 and 8.4, the Board may remove the Restrictions from the number of Shares stated in the Notice.
- 8.3 Without in any way limiting the Board's discretion, relevant factors for the consideration of the Board in deciding whether or not to remove Restrictions include the following:
- (a) whether the Participant might forfeit any right or interest in any Shares pursuant to Rule 7.2; or
 - (b) the personal circumstances of the Participant.
- 8.4 The Board will not unreasonably withhold approval to remove the Restrictions.

9. Takeover or arrangement

- 9.1 This Rule applies where:
- (a) a bid (as defined in the Corporations Act) is made for the Company and the bidder has or acquires a relevant interest in more than 20% of the voting shares in the Company; or
 - (b) in the reasonable opinion of the Board, another transaction is proposed under which control of the Company is likely to pass from the then existing shareholders, including, without limitation, a scheme of arrangement.
- 9.2 Where this Rule 9 applies, the restrictions contained in Rule 7.1 no longer apply, and the Company must lift any holding lock or similar arrangement which it has implemented under Rule 7.1
- 9.3 Where this Rule 9 applies, the Performance Rights will vest regardless of the fulfilment of the Performance Criteria and the Company will issue Shares (equal in number to a Participant's Entitlement Shares) to a Participant. In the event the Board

provides Shares to a Participant in circumstances where Rule 9 applies, the Shares will not be subject to the restrictions contained in Rule 7.1.

10. Cessation of employment

- 10.1 Where a Participant ceases employment with the Group and has been awarded Performance Rights but has not yet been provided Shares in accordance with these Rules, those Performance Rights lapse immediately unless the Board in its discretion determines that the Participant has ceased employment with the Group as a result of a Qualifying Reason.
- 10.2 If the Board makes a determination in accordance with Rule 10.1, the Board will determine in its discretion the proportion of Shares to be provided to the Participant and any other condition which it deems appropriate given the particular circumstances.
- 10.3 Subject to Rule 7.2, where a Participant has been provided Shares in accordance with these Rules and ceases employment with the Group before giving a Notice of Removal of Restrictions to the Board, the Restrictions in relation to those Shares will immediately be removed.

11. Rights attaching to Shares

- 11.1 Unless otherwise determined by the Board at the time Shares are provided to a Participant, Shares provided under the Scheme rank pari passu in all respects with other Shares on issue at the time the Shares are provided and carry the same rights and entitlements as those conferred by other Shares.
- 11.2 Nothing in the Scheme restricts the ability of a Participant to receive dividends paid on the Shares during the Restricted Period.
- 11.3 Subject to 11.4, each Share provided under the Scheme confers on the holder the same right to participate in bonus issues by the Company as that conferred by each other Share.
- 11.4 Where a bonus issue is made, the bonus shares are deemed, for the purposes of the Scheme, to be Shares provided under the Scheme and subject to the Restrictions applicable at the time the Shares to which the bonus shares accrued were issued to the Employee under the Scheme.
- 11.5 Each Share provided under the Scheme confers on the holder the same right to participate in any new issue of securities by the Company as that conferred by every other Share and those securities will not be subject to the Restrictions.

12. Administration of the Scheme

- 12.1 The Board may make regulations for the operation of the Scheme which are consistent with these Rules.
- 12.2 Any power or discretion which is conferred on the Board by these Rules may be exercised by the Board in the interests or for the

benefit of the Company, and the Board is not, in exercising that power or discretion, under any fiduciary or other obligation to any other person.

- 12.3 The Board hereby delegates its powers and discretions under these Rules to the Committee. Any power or discretion which is conferred on the Board by these Rules may be exercised by the Board itself or by the Committee, as the delegate of the Board for all purposes under these Rules.
- 12.4 Every exercise of discretion may be made by the Board (or the Committee) in its absolute discretion and every decision of the Board or Committee as to the interpretation, effect or application of these Rules is final, conclusive and binding.

13. Amendment of these rules

- 13.1 Subject to Rules 13.2 and 13.3, the Company may at any time by written instrument or by resolution of the Board, amend all or any of the provisions of these Rules (including this Rule 13).
- 13.2 No amendment of the provisions of these Rules is to reduce the rights of any Participant in respect of Performance Rights or Shares provided to that Participant under the Scheme prior to the date of the amendment, other than an amendment introduced primarily:
- (a) for the purpose of complying with or conforming to present or future laws governing or regulating the maintenance or operation of the Scheme or like schemes;
 - (b) to correct any manifest error or mistake;
 - (c) to enable contributions or other amounts paid by a member of the Group in respect of the Scheme to qualify as tax deductions for that entity;
 - (d) to enable the Participant or their employer to reduce the amount of tax or impost that may be payable by the Participant or their employer in relation to the Scheme, including under the Fringe Benefits Tax Assessment Act 1986, the Income Tax Assessment Acts of 1936 and 1997 and A New Tax System (Goods and Services Act) 1999, or any other similar legislation in any jurisdiction outside Australia;
 - (e) for the purpose of enabling the Participant (but not necessarily each Participant) to receive a more favourable taxation treatment in respect of their participation in the Scheme; or
 - (f) to enable the Company to comply with the Corporations Act or the Listing Rules or any similar legislation or requirements in any jurisdiction outside Australia.
- 13.3 Any amendment of these Rules must be made in accordance with and in the manner stipulated (if any) by the Listing Rules.

13.4 Subject to the provisions of this Rule 13, any amendment made under Rule 13.1 may be given retrospective effect, as specified in the written instrument or resolution by which the amendment is made.

14. Commencement, termination and suspension of the Scheme

14.1 The Scheme will commence on a date determined by the Board.

14.2 The Board may terminate or suspend the operation of the Scheme at any time.

14.3 A resolution to terminate or suspend the operation of the Scheme will not reduce the rights of any Participant in respect of Performance Rights or Shares provided to that Participant under the Scheme prior to the date of termination or suspension of the Scheme.

15. Connection with other Scheme

15.1 The Company is not restricted to using this Scheme as the only method of providing incentive rewards to Employees. The Board may approve other incentive schemes.

15.2 Participation in the Scheme does not affect, and is not affected by, participation in any other incentive or other scheme operated by the Company unless the terms of that other scheme provide otherwise.

16. Notices

16.1 Any notice or direction given under these Rules is validly given if it is handed to the Employee or Participant concerned or sent by ordinary prepaid post to the person's last known address or given in any manner which the Board from time to time determines.

17. Rights of participants

17.1 Nothing in these Rules:

- (a) confers on any Employee the right to receive any Shares until a determination is made under Rule 6.1
- (b) confers on any Participant the right to continue as an employee of the Group;
- (c) affects any rights which any corporation in the Group may have to terminate the employment of any Participant; or
- (d) may be used to increase damages in any action brought against any corporation in the Group in respect of the termination of the employment of any Participant of any corporation in the Group.

Part B – Share Purchase

18. Share purchase

- 18.1 At least once each year, staff will be given an opportunity to obtain ordinary shares in the company. New shares may be issued by the company or the company may arrange for shares to be purchased from existing shareholders. In the event new shares are issued Clause 18.2 will apply.
- 18.2 The price of the ordinary shares so issued will be set at a maximum 5% discount to the weighted average sale price of ordinary shares over the five ASX trading days immediately preceding the allocation date. If the shares of the company are not traded on the ASX during any of the five trading days immediately prior to the issue date the price will be the last sale price, unless this is considered inappropriate by the Board.
- 18.3 The ordinary shares obtained under this Rule 18 entitle the holder to normal voting and dividend rights. However, the ordinary shares obtained under this Rule 18 may not be sold or transferred for a period of 3 years from the date of acquisition, except that if an employee leaves the company's employment during that 3 year period, the restrictions on the ordinary shares held by that employee are lifted.
- 18.4 An issue of ordinary shares under this Rule 18 must not result in the aggregate number of:
- (a) ordinary shares issued in the same financial year; and
 - (b) Performance Rights issued in the same financial year,
- exceeding the Scheme Cap at the time the ordinary shares are issued.

19. General

- 19.1 The entitlement of Participants under the Scheme and these Rules are subject to the Company's constitution, the Listing Rules and the Corporations Act.
- 19.2 Notwithstanding any provisions of these Rules no Shares may be acquired, allocated for the benefit of Participants, assigned, or dealt with if to do so would contravene the Corporations Act, the Listing Rules or any other applicable laws.

20. Governing Law

- 20.1 This Scheme, and the rights of a Participant under the terms and conditions of this Scheme, are governed by the laws of the Australian Capital Territory.