

ASX Code: AEF
Date: 17 March 2009

Shareholder newsletter

The attached shareholder newsletter is being sent to Australian Ethical Investment Limited's shareholders.

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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.

australianethical

SHAREHOLDER NEWSLETTER

April 2009

Managing director's report



Australian Ethical Investment achieved a consolidated net profit after income tax of \$536 203 for the half year ending 31 December 2008. The result is a 51% decrease on the previous corresponding period and reflects the very difficult market conditions being experienced in Australia and indeed world wide. When considering the quantum of the decrease it is worth remembering that the strong profit achieved in the first half of 2007–08 occurred before the impact of the market downturn. Domestic equity markets have seen declines of some 46% since December 2007.

The profitability of Australian Ethical is dependent on our overall level of funds under management (FUM) and the inflow of money into both our trusts and superannuation fund. Market volatility has impacted our FUM and battered investor confidence. In my October report, I indicated these factors would impact revenue numbers during this financial year and this is clearly the case. As at 1 July 2008, the company had FUM of \$562 million. Currently FUM stands at \$476 million reflecting the post Christmas uncertainties still existing in the market. We have also seen significant falls in all categories of our average monthly inflow during the six months to 31 December. On a positive note, the outflow of funds has been relatively low reflecting our loyal customer base.

The performance of the Australian Ethical trusts is a key factor in ensuring profitability and growing our business. In a relative sense, the Australian Ethical trusts have performed exceptionally well during this period of highly turbulent global markets. Trust performance has retreated a great deal less than the market and their peers. Most of the trusts outperformed their respective

benchmarks over the 12 months to December 2008 and have continued to do so.

In the last several years, we have been working to improve efficiencies in our processes and this work continues. We are currently reviewing all aspects of our operating processes with the aim of bringing our back office systems into line with standard industry practice where appropriate to ensure further streamlining, efficiency and scalability. This is a slow process but I am confident we are making steady progress. We continue to monitor all costs closely but are mindful to avoid cost savings that may adversely impact our strategy of increasing our presence on platforms and achieving economies of scale.

Positives for the company during this difficult period are:

- A strong balance sheet – no debt, no intangibles and net tangible assets are held in cash, fixed interest securities and the company's premises. There is no need to raise capital to strengthen the balance sheet;
- no significant change in historic outflow patterns for the trusts;
- excellent relative performance of the majority of the company's trusts;
- the global financial crisis has focused interest on our highly ethical products, as evidenced by continued good attendance at our investor roadshows; and
- loyal and hardworking staff who continue to work diligently for the benefit of all our stakeholders.

The company expects the current difficult conditions to continue for the remainder of 2008–09. Even when markets improve, it is our experience that broad investor confidence lags market sentiment and it may be some time before we see a strong and sustained return by investors to the equities markets.

A handwritten signature in black ink, appearing to read 'Anne O'Donnell'.

Anne O'Donnell

Director profiles



Naomi Edwards

B.Sc.(Hons), FIA FIAA., Independent Chairperson

Naomi is a fellow of the Institute of Actuaries and has a high level of financial experience. Since retiring from full time work she has worked tirelessly for the Tasmanian environment. Naomi was partner in charge of the financial services industry group within Deloitte Touche Tohmatsu in Sydney and leader of the financial services practice for Trowbridge Consulting for many years.

Since 2001, she has undertaken extensive pro bono work providing actuarial assistance, financial analysis and media commentary for environmental and social organisations. She has assisted the Australian Greens, The Wilderness Society and the Tasmanian Conservation Trust with their work to save Tasmania's environment. She has worked closely with environmentalists such as Senator Bob Brown and animal rights activists such as Professor Peter Singer to assist these causes.

Naomi lives on a small organic farm in southern Tasmania on a property which has been retrofitted to run on solar power to high environmental standards. Naomi is a director of Australian Ethical Superannuation Pty Ltd and is a member of the remuneration and audit, compliance and risk committees.



Justine Hickey

B.Com, GAICD, SAFin, CFA, Independent Director

Justine has over 15 years experience in investment and funds management, as an equities portfolio manager and in senior management. She was head of equities at Suncorp Investment Management in Brisbane until 2004 and previously a portfolio manager at Flemings Investment Management (now JP Morgan) in the UK. Justine is a director of Hyperion Flagship Investments Ltd and the Rio Tinto Staff Super Fund. She also is a member of the investment committees of Dalton Nicol Reid and the University of Melbourne.

For several years Justine has been involved with the Youth Enterprise Trust, a charity that works with disadvantaged youth providing a rite of passage in the Australian wilderness, helping them transition to productive adulthood. Justine chairs the YET Foundation which is responsible for the stewardship of the organisation's funds. This enables her to utilise her investment expertise as well as support our Ethical Charter with 'activities which contribute to human happiness dignity and education.'

Justine and her husband also have a particular interest in animal welfare and are 'adoptive parents' of RSPCA dogs.



australianethical SUSTAINABILITY REPORT 2008

2008 Sustainability Report

As well as describing the economic, environmental and social performance of Australian Ethical, our report challenged the government to take real action on climate change.

Australian Ethical's 2008 Sustainability Report outlines targets consistent with those advocated by the Australian Conservation Foundation, including:

- a legally binding target for cutting greenhouse gas emissions by at least 30 per cent by 2020, increasing the commitment to 40 per cent if other developed countries do the same;
- a national renewable energy target of 25 per cent by 2020;
- a national carbon trading scheme; and
- becoming carbon neutral by 2050.

The sustainability report is available from:
www.australianethical.com.au/company_information/company_reports

Investor roadshows

Australian Ethical conducts roadshows in various locations around Australia and New Zealand.

The roadshows allow people to find out more about the world of ethical investment and give an overview of our ethical products.

The seminars have successfully attracted new people to Australian Ethical and give current investors and superannuation members a chance to learn more about what their money is doing.

In 2008, we held roadshows in six capital cities, nine regional centres and New Zealand. Roadshows are held in regional areas where Australian Ethical has high numbers of investors and enquirers and there is strong community interest in environmental issues.

The roadshows form a key part of Australian Ethical's promotional mix. They are important to not only attract new clients to Australian Ethical, but also in retaining current investors and super members. Of the 800 people who attended roadshows in 2008, about one third were current investors with Australian Ethical.

Equities Trust wins 2008 sustainable fund award

The Australian Ethical Equities Trust was awarded the Ethical Investor Fund of the Year Award at the 2008 Australian Sustainability Awards. Lonsec, the award judge said 'the fund scored highly on the depth of socially responsible investment and was a clear outperformer over the assessed period.'

Money award

The Balanced Super Strategy won Money magazine's Best of The Best awards 2009 for the Best Green Super Fund.



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Visit www.investorserve.com.au to manage your Australian Ethical shareholding.

Chief investment officer Martin Halloran



Martin Halloran joined Australian Ethical as chief investment officer in August 2008. Martin comes to Australian Ethical with over 15 years experience in the financial services industry. He was most recently managing director of global markets at nabCapital, where he was responsible for developing strategies for capital management, funding and risk management. As well, Martin spent time developing the traded environmental markets capacity at nabCapital and brings detailed understanding of these issues. Australian Ethical will benefit from Martin's strengths in risk management, equity derivatives, and experience in leading teams of finance professionals. In addition, he will further add to the management of the various Australian Ethical portfolios particularly in the areas of fixed income and the Balanced Trust.

Visit www.australianethical.com.au for regular market updates from Martin

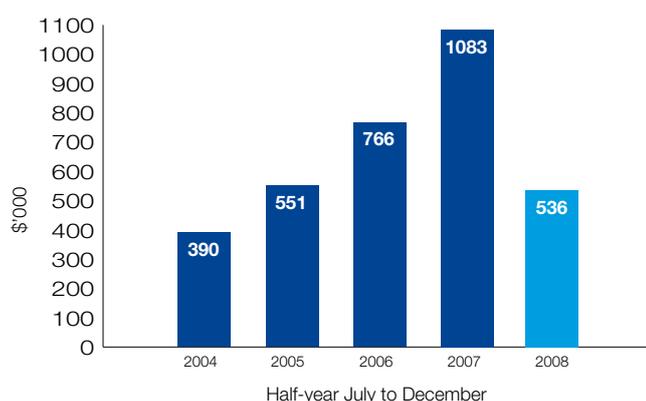
Financial performance

Half-year	Jul to Dec 2008	Jul to Dec 2007	Jul to Dec 2006	Jul to Dec 2005
Revenue (\$'000)	6 576	7 447	5 852	4 618
Net profit after tax (\$'000)	536	1 083	766	551
Basic earnings per share (cents)	54.4	113.3	82.9	61.4

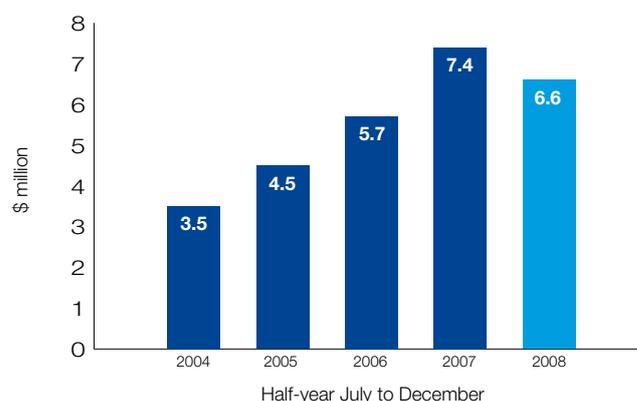
Financial position

as at	31 December 2008	31 December 2007	31 December 2006	31 December 2005
Current assets (\$'000)	5 573	6 361	5 395	6 308
Non-current assets (\$'000)	4 573	4 790	3 678	2 977
Current liabilities (\$'000)	2 226	2 658	2 139	3 439
Non-current liabilities (\$'000)	108	112	74	81
Net assets (\$'000)	7 812	8 381	6 860	5 765

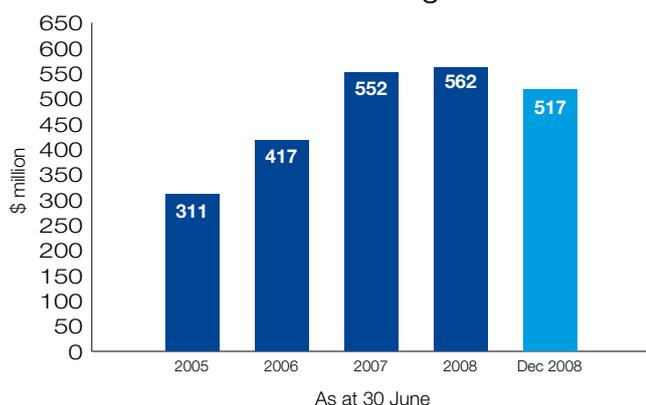
Profit after tax



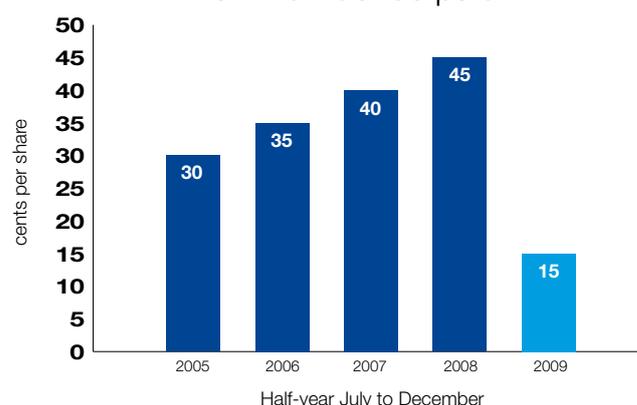
Revenue



Funds under management



Interim dividends paid



2005 figures in the above tables and graphs have been adjusted where necessary for first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS).

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