

ASX Code: AEF

Date: 17 November 2010

AGM Presentations

The attached addresses will be provided at today's Annual General Meeting of Australian Ethical Investment Limited.

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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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Australian Ethical Investment Ltd **ABN** 47 003 188 930 **AFSL** 229949

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Chair's Presentation to the AGM – 17 November 2010

Good Morning

Welcome to the 2010 AGM for Australian Ethical, and before I begin I would like to acknowledge the traditional owners of the place in which we are having this meeting, the Ngunnawal.

The last 12 months have been extremely difficult for us. They have been difficult for trust investors and superannuation members, who have been spooked by continuing market jitters and lack of a clear outlook. They have been difficult for our staff, who have been faced with a large number of special projects, many changes in roles and being at the front face of a difficult external environment. And they have been a difficult 12 months for our shareholders, who have experienced a second year of reduced profit, with profit falling 15% to \$1.0 million and funds under management at \$614 million, still below pre GFC highs.

The reasons for our reduced profit over 2010/11 were fully detailed in our annual report, however I would like to give a little more flavour around them. With Phil Vernon's arrival in December 2009 we identified a number of long term staffing redeployments that were necessary. These changes, combined with the cost of changing CEO, affected our bottom line by nearly \$500,000. The result was also affected by a management fee error that had gone undiscovered in the prior year. Removing these two items, our underlying profit would have been closer to \$1.5 million.

We also need to remember that as an organisation, we generate more cash than shown by our NPAT, and our balance sheet has strengthened steadily over the years. We therefore decided this year to declare a special dividend of \$1.00, bringing our total dividend paid to \$2.00 over the year, a 36% increase on 2009.

Phil Vernon is going to talk to you in detail about our strategy for the coming year and beyond. But financially I believe we will still have a difficult 12 months ahead of us, but we should then turn the corner. I say this because, as Phil will discuss, we are at somewhat of a cross-roads in the development of our company. With funds management and retail super facing long term, structural threats, we have developed a strategy which will capitalize on our brand and reposition ourselves as a broader based ethical financial services provider. Phil will talk in detail about what this means. But over the next 12 months it will require enormous dedication from staff to implement, some financial investment, and patience from our shareholders.

But I do believe it will succeed, and it needs to, as we continue to have an urgent financial imperative to grow our funds under management to over \$1 billion. On this note, I would particularly like to thank Phil Vernon, our Managing Director, for his clarity of vision in seeing a way forward that will significantly grow our company. I believe Phil has both the vision and the skills to achieve it. He also has a very hard working and dedicated senior management team who understand the imperative and are behind the goal. And I would like to thank all our staff, in Canberra and Sydney, for their hard work in a rapidly changing environment.

I will now hand over to Phil to flesh out the environment in which we are now operating and the strategy he and his team have developed to deliver growth within that strategy.

CEO's Presentation to the AGM – 17 November 2010

Good Morning

Let me start by saying that I am pleased to be delivering my first address to shareholders as Managing Director and to be leading Australian Ethical at this time. This is a very special company which has carved out a unique place in the Australian investment landscape. It was a pioneer in the field of socially responsible investing and remains, I believe, the most committed financial services organisation to the sector. It has a great team and has demonstrated a significant capacity for innovation over the years.

These inherent strengths give it a fantastic foundation from which to continue to grow. As people become increasingly concerned about environmental and social issues driven by increased awareness about climate change and a concern about sustainability in general, there is an increasing demand for companies to deliver products and services that take these factors into account. Within financial services an increasing number of fund managers and superannuation managers are signing up to the United Nations Principles for Responsible Investment and there is a steadily growing awareness amongst investors and advisers wanting a different approach to investing.

Against this backdrop, these are some of the most challenging times that financial markets and retail funds management firms in particular, have seen for some time and there are a number of trends that will affect the business environment over the coming years, many of which are still to be played out.

These are:

- Investor nervousness. The first wave of the global financial crisis made investors nervous and lead them to invest in cash products such as term deposits. Just as they were becoming confident again the market dipped again in March 2010. This "second wave" if we can call it that has made investors even more nervous than they were the first time around leading to an industry wide increase in redemptions from investment products and reluctance to reinvest.
- Trend toward direct investing in shares. There is a steadily growing trend for investors to want to take more direct control over their investments and invest directly in the share market rather than through investment products. The rise of do it yourself superannuation funds, continual improvements in technology such as online broking platforms and greater access to information through investment newsletters make this all too possible. One third of investable dollars is now invested in this way and this is steadily increasing.
- The impact of regulatory change. There have been a myriad of regulatory reviews into the financial services industry over the past few years. Much of this is still playing out but the key outcomes are likely to be:
 - the banning of commissions paid to financial advisers. This is already having a profound effect on the industry as financial planning practises change their business models to adjust to the new environment;
 - superannuation providers will be required to provide their clients access to limited advice; and
 - superannuation providers will be need to provide a low cost, balanced investment strategy if they wish to remain competitive.

Against this backdrop Australian Ethical has the following key strengths.....

- Our brand and reputation. As the size of the market for socially responsible investing grows there is also increased competition in the form of "mainstream" fund managers providing products which on the face of it are similar to ours but, on closer examination are more closely aligned to normal investment products. Our reputation for "true to label" investing and pioneering history

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gives us an authenticity amongst certain investors wary of “greenwash” and gives us a real “point of difference”, something every investing house strives for.

- Our loyal direct client base. The majority of our business comes to us directly rather than through other channels. Over the years we have built an extremely loyal client base that is attracted by our commitment to their values. This is a strength that other fund managers would love to have. The retail financial services marketplace has become very “intermediated” over the past decade with financial services products being increasingly sold through the network of advisers and administration platforms rather than being sold directly. To have this direct relationship with a client is special and particularly so for a business such as ours where clients have that added level of interest in what we do and how we invest their money.
- A strong affinity with our network of ethical advisers. The balance of our business comes primarily from a network of ethical advisers who share our high conviction to social and responsible investing and with which we have a strong affinity through shared values.
- Our investment team. We have a strong investment team with an impressive investment track record particularly in our flagship fund, the Smaller Companies Trust.

Within this context our vision is to be a broad based ethical financial services provider providing a range of investment, superannuation and financial advice to clients and employers working both directly with clients as well as hand in hand with our network of friendly advisers. We believe the time is right for a broad based financial services business focused on truly ethical principles.

Key areas of focus over the past and coming year have been and will continue to be

- Client service – good client service is critical to our success. Clients expect a pleasant and informative experience when dealing with us in regard their investments, information about our ethical investing and financial advice with regard their investments.

As a result of activity over the past few years in relation to our outsourcing of registry, administration and superannuation call centre activities our service levels and retention rates are not as high as we would like. In the past year we have invested in both staff and systems in our client service area which has dramatically improved our service and retention levels albeit in a very challenging environment. There is still some way to go and continual improvement in this area will continue to be our focus for the foreseeable future.

- Provide limited financial advice - consistent with looming regulatory requirements we will be providing our clients with limited financial advice either directly or in conjunction with our friendly advisers. To date our inability to provide our direct clients with certain financial advice means that we will often have them for much of their saving and investing life only to lose them when they hit certain critical points in their life (such as retirement or pre-retirement). We expect our retention levels to improve significantly as a result.
- Improve our Adviser services - we have improved our services to our Advisers over the past year with a dedicated unit focused on Adviser relationships and an improvement in our dialogue with them so that we receive the right feedback with regard our products and service.
- Broaden our Adviser reach - whilst we currently enjoy most of our Adviser support from the network of ethical advisers we continue to broaden our reach into the Adviser market in general. This is important as many clients who want access to our products use “mainstream” Advisers. Equally, often our existing clients will seek advice from a “mainstream” Adviser from time to time and it is important that our products are on the right platforms. Our products are receiving improved reception from rating agencies and we continue to broaden our coverage on investment platforms giving us access to more Advisers.

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- Superannuation employers - our superannuation fund is one of the only ethical retail superannuation funds in the market and there are certain employers with which we are the natural “default” superannuation fund for their employees. We don’t have the penetration of this market that we should and will be giving this sector focused effort.
- Develop products to suit key trends - during the year we launched the Climate Advocacy Fund. This is an exciting new product which takes a new approach to ethical investing. With the increasing urgency for the world to move faster in tackling climate change, and the frustratingly slow and uncertain progress at a political level both globally and locally, many clients were interested in a product that contributed to a more pro-active approach to tackling the issue than our traditional screened funds. We also restructured our international trust to follow a “global smart energy” theme focused on investment in companies contributing to a more energy efficient world.
- Investor directed capability - we are exploring ways for our clients to gain access to the ability to invest directly in shares. Many clients are seeking this capability whilst still wishing to invest ethically. The aim is to provide a platform which can deliver a portfolio of ethical shares to our clients using the same research and portfolio management skills of our investment team.
- Efficient and robust operations - it is important for a business such as ours to have robust systems and processes. Underinvestment in this area is false economy as errors, though they may be rare, can be very costly. For many years we have been running on a system to record our investment transactions that is antiquated and lacks proper support from the vendor. We have been managing a project over the past year to upgrade this system to better manage our operations and our risk. This new platform aims to go live in January.

I’m looking forward to the coming year as we continue to evolve our business to take full advantage of the unique opportunities available to us. Whilst I don’t want to downplay the challenges facing us I believe we have a unique business with a strong point of difference and balanced array of products that will hold us in good stead as we navigate the next few years.