

Wednesday, 9 November 2011

Dear Shareholder

Letter to Shareholders and Report under Clause 2.2 of the Constitution – “Status of Employees”

Our shareholder newsletter reporting generally on the results of the business for the past year is now available and can be found at www.australianethical.com.au/shareholder-newsletter.

Also, Clause 2.2 of our company’s Constitution provides that Directors shall report to Shareholders on matters generally related to the status of employees at the time of the Annual General Meeting as well as regarding Clause 2.1 which provides for staff participation, control and employee share ownership. A report on these matters is provided below with further information in a report found at www.australianethical.com.au/asx-announcements.

Business Changes

The past year has seen some reasonably significant change for staff at Australian Ethical driven by the need to evolve and adapt our business in the face of the most challenging environment financial services firms have faced in decades. These changes affected the structure of the organisation, some people’s roles and, unfortunately, required a few redundancies. Whilst changes such as this inevitably impact on staff morale, we have responded and morale amongst the team is now quite high as evidenced in the recent staff survey results described below.

Staff Survey Results

A staff survey was conducted in September 2011. The results are extremely pleasing and are summarised below.

Measure		Employee Responses (%)		
		2008	2009	2011
Satisfaction with current role	Agree or Strongly Agree	77	79	97
	Unsure	16	8	0
	Disagree or Strongly Disagree	7	13	3
Satisfaction with communication	Agree or Strongly Agree	74	54	77
	Unsure	12	31	6
	Disagree or Strongly Disagree	14	15	17
Satisfaction with learning & development opportunities	Agree or Strongly Agree	74	59	63
	Unsure	21	31	23
	Disagree or Strongly Disagree	5	10	14
Satisfaction with remuneration	Agree or Strongly Agree	63	63	46
	Unsure	16	10	29
	Disagree or Strongly Disagree	21	27	25
Satisfaction with other employee benefits	Agree or Strongly Agree	84	71	72
	Unsure	12	24	20
	Disagree or Strongly Disagree	4	5	8
I feel personally valued at work ¹	Agree or Strongly Agree	-	-	79
	Unsure	-	-	12
	Disagree or Strongly Disagree	-	-	9
I have confidence in the board to govern the company ¹	Agree or Strongly Agree	-	37	59
	Unsure	-	31	38
	Disagree or Strongly Disagree	-	32	3
The Managing Director has a clear vision for the company ¹	Agree or Strongly Agree	-	-	77
	Unsure	-	-	17
	Disagree or Strongly Disagree	-	-	6
I have confidence in my manager/supervisor to lead their team	Agree or Strongly Agree	69 ²	70	77
	Unsure	22 ²	8	11
	Disagree or Strongly Disagree	9 ²	24	12

¹ data only available in years shown; not asked in previous years

² data shown for 2008 is the closest available correlation and was “my manager/supervisor’s management capability”

Staff Turnover

A key measure of the status of employees is the turnover of staff. Turnover statistics for the past three years are discussed in the attached report. A summary of the results is set out below.

Staff turnover	Financial year		
<i>Turnover by employment type</i>	2008-09	2009-10	2010-11
Full-time employees departing	7	5	5
Part-time employees departing	0	4	1
Part-time employees departing - FTE	0.0	2.42	0.6
Employees departing (total) - FTE	7.0	7.42	5.6
Total staff at 30 June ¹	50	48	50
Total FTE staff at 30 June ¹	45.4	45.2	46.6
Staff turnover (% of total staff)	14.0%	18.8%	12.0%
Staff turnover (% of FTE staff)	15.4%	16.4%	12.0%

¹ Figures include permanent and probationary employees but not temporary staff, casual staff or contractors.

Voluntary turnover was lower in the year to 30 June 2011 than the previous year (12% compared to 18.8%) despite the changes described above. In addition, there were 3 redundancies which was the same as the previous year.

Staff Share Ownership

The company operates two staff share ownership schemes which encourage long term share ownership. One scheme, known as the General Employee Share Incentive Scheme, allocates shares to all employees on the basis of their relative remuneration. The other, known as the Individual Employee Share Ownership Scheme, allocates shares to certain individuals on the basis of individual performance.

Staff Participation

Staff have many opportunities to have input into and participate in the affairs and business of the company. An employee representative is elected by the staff in accordance with the Constitution. The employee representative represents staff views and opinions at board meetings. A Managers Forum comprising the management team and anyone with staff responsibility (14 people across the company) meets on a regular basis to share views of staff and to provide input into strategy and priorities. Other forums such as team meetings, regular morning tea gatherings, lunches with the board and a recently attended staff offsite provide many ways in which staff can have input into the affairs of the company.

The board is committed to growing Australian Ethical, furthering its reputation for being the most committed ethical financial services firm and ensuring its long term sustainability in what is a very challenging environment. In order to do this we need a committed and motivated team with the right skills and attitude all working toward the same goal.

Based on our recent positive staff survey results, we firmly believe that we are on the right track.

Yours sincerely,



Phil Vernon
Managing Director

australian**ethical** EMPLOYEE STATUS REPORT 2011



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investment + superannuation

Our people

At Australian Ethical we recognise that our people are inherent to our success. We are committed to providing a stimulating work environment where employees are provided with continual development opportunities and encouraged to perform at their best and where the culture is shaped by the values set out in our Charter. This report describes our efforts and successes in achieving these aims.

Training and education

Training and education of Australian Ethical's workforce takes a number of forms including performance appraisals, external, internal and on-the-job training, tertiary study and personal development. Structured training and professional development not only increases employee skills, it increases job satisfaction amongst staff. Training and education opportunities are also important in attracting and retaining talented personnel.

Performance appraisal

All staff at Australian Ethical participate in an annual performance planning and development program.

Australian Ethical's Performance Planning and Development process to assist in achieving our Vision by helping employees and managers to:

- communicate the Company's priorities;
- guide the alignment of goals across the business;
- facilitate the achievement of meaningful objectives and the ongoing feedback needed to improve performance at all levels;
- identify development needs that assist growth in current role; and
- attract, motivate, develop and retain talent.

The Performance Planning and Development process aligns individual performance and development with company goals and objectives. It also allows time for employees and managers to discuss current and future employment and development opportunities. Importantly, Australian Ethical is focussed on providing staff with the opportunity to develop agreed objectives and to take ownership and control in the delivery of these objectives.

This year, a new system for probation reviews was introduced into the organisation. The benefits of this revised process include:

- Each employee receives two structured meetings regarding their performance with their supervisor;
- Awareness of performance or behaviour issues, if any;
- Training and development needs are documented and can be acted on;

- Confirmation of appointment is based on data through a formal process, rather than subjective opinion;
- The employee and manager discuss and agree areas of competence/improvement;
- If out of the performance planning and development cycle, the employee still receives a formal review in their first 6 months.

Training and development

The formal learning and development of our staff takes many forms. This includes on and off-the-job training, tertiary study and leadership development programs. For reporting purposes, training data includes structured training programs and tertiary study.

In 2010–11 Australian Ethical employees undertook a total of 2074 hours of training. The average number of training hours undertaken by staff during the period also increased to 35 hours per employee (Figure 1).

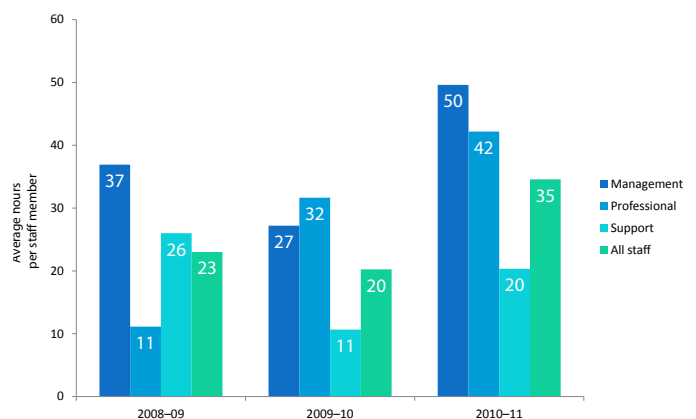


Figure 1: Training and study undertaken by staff

Skills management and lifelong learning programs

Australian Ethical has a longstanding commitment to support a healthy work-life balance. Our personal development program supports employees participating in a diverse range of activities from indoor cricket and gym membership to dance and music classes. The program entitles all permanent employees to an annual reimbursement of \$190 (pro-rata for part-time staff) to cover such activities.

Structured Training

Structured training is training that Australian Ethical has paid for and includes paid study leave. On average, staff undertook 18 hours of structured training during 2010–11. Structured training undertaken by support staff increased, while structured training undertaken by management staff decreased slightly (Figure 7). Structured training for professional staff remained constant over the reporting period.

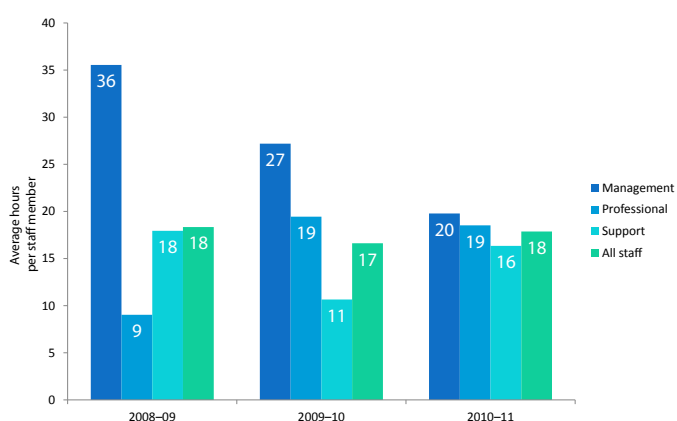


Figure 2: Structured training undertaken by staff

Approved External Study

Employees who are enrolled in approved external study or professional development receive financial support and paid study leave. Australian Ethical's study policy refunds course fees up to \$2000 per annum, per employee, on successful completion of the course. Paid study leave is available for three hours per week to attend or travel to classes, or to complete course work for approved programs. An additional two full days per year of paid study leave may also be taken for exam preparation or to finalise course requirements.

Figure 8 indicates an increase in approved private study undertaken by employees during 2010–11.

Money spent on training increased to \$119,162 in 2010–11, almost \$4,200 more than the previous year. The increase was also reflected on a per employee basis, with money spent per permanent employee rising to \$2,383 in 2010–11. The increase in expenditure and increase in average hours of training per employee is due to targeted changes in the type of training undertaken to meet business requirements, with more money being spent on conferences and short courses instead of tertiary study.

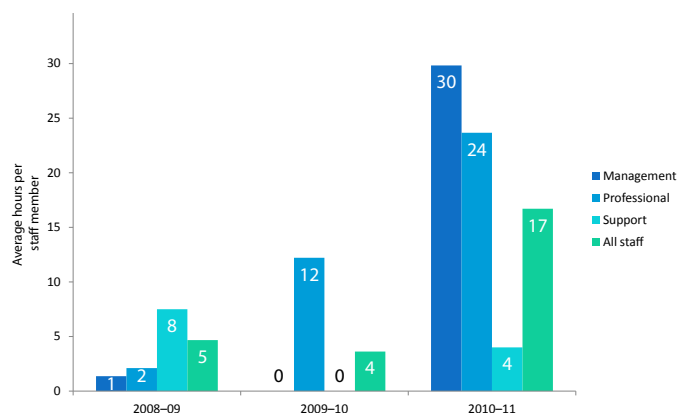


Figure 3: Study undertaken by staff

Employee benefits

Australian Ethical is committed to providing an attractive range of benefits to staff. All benefits offered to permanent full time employees are also made available to permanent part-time employees on a pro-rata basis. Temporary employees have access to all leave accrual entitlements and receive job related training. Casual employees receive long service leave accrual and any job related training they require.

To recognise family and personal responsibilities, Australian Ethical supports flexible working arrangements. These include flexible work hours, a high proportion of part-time employment, work from home arrangements where practicable, a subsidised personal development program, free access to a 24 hour counsellor through the employee assistance program and recent accreditation as a breastfeeding friendly workplace.

In addition, staff receive 3 days leave for the Christmas closedown period, eligible staff receiving six weeks paid maternity and adoption leave; entitlement to 25 days long service leave after 5 years' service along with study and examination leave.

Employee Share Ownership Plan

Australian Ethical encourages employee equity in the company through the ownership of shares. This is achieved through the opportunity of both short and long term incentive plans.

We aim to build and sustain our workforce with competitive remuneration and a diverse range of benefits. The aim is to attract, retain and motivate the talent pool capable of delivering our business strategy.

All employees participate in general share ownership arrangements. Australian Ethical's remuneration philosophy is designed to drive superior levels of performance based around business strategies, whilst aligning remuneration with the resultant value creation for shareholders.

Employee Assistance Program

In 2011, Australian Ethical continued to provide access for all staff and their immediate family to an external Employee Assistance Program which provides a professional, confidential and free counselling service.

Staff Offsite Day

This year, soon after the end of the reporting period, all staff were invited to a Staff Offsite. The day was hugely successful with excellent feedback received including letters of thanks to the Managing Director from some long term employees. The day covered strategic priorities, dealing with any employee concerns, a team building activity, information on the new performance planning and development program and the announcement of our Corporate Values.

Healthy workplace

Australian Ethical is acutely aware of its obligations when it comes to workplace health and safety. This year has seen the review and implementation of a suite of occupational health and safety related policies and procedures. These include a return to work policy, an accident, incident and hazard reporting policy and procedure and bullying and harassment policy.

Hazards, incidents and accidents are reported on a register and employees are encouraged to discuss any concerns in relation to health and safety with human resources or their manager.

During 2010/11 there was no time lost to injury at AEI. However, two (2) injuries were sustained, one outside the workplace but during work time. This is an increase of two (2) injuries on the 2009/10 reporting period. In the same period, no occupational diseases were recorded and there were no work related fatalities. Following on from previous years, Australian Ethical offered flu vaccinations to all staff in 2011, with 10 taking up the offer.

The average number of days taken in sick leave increased in 2010-11 to 5.9 days per staff member (6.3 days per FTE staff member). This is an increase on last year of 1.1 day per staff member however, being a relatively small company, average sick leave days may exhibit large fluctuations from year to year.

To maintain an active and healthy lifestyle, Australian Ethical encourages employees to ride their bicycle to work. Facilities at the Canberra office make riding a bike to work an

attractive alternative to driving. These include a lockable bike shed, showers, personal lockers, a tyre repair kit and a bike pump. Quarterly, alternative transport days encourage staff to consider different ways of commuting to work including walking, sharing transport, catching a bus or riding their bike. Australian Ethical also participates in the National Ride to Work Day, an annual event promoting the environmental and health benefits of bike riding each spring.

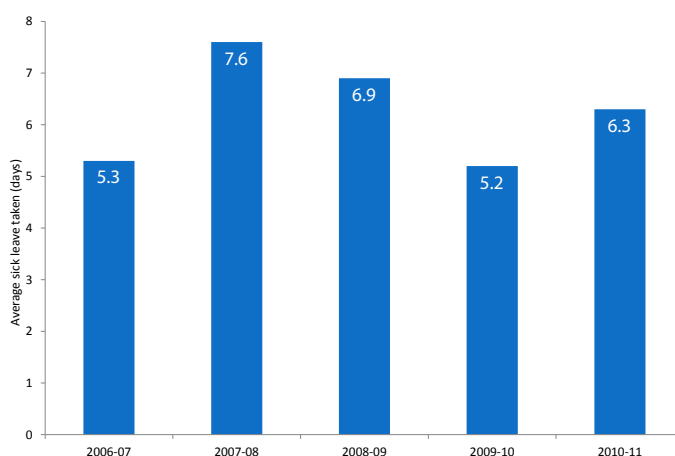


Figure 4: Sick leave taken (days) per FTE staff member

Breastfeeding Friendly Workplace Accreditation

This year, Australian Ethical was accredited as a Breastfeeding Friendly Workplace. Our aim was to display leadership by creating a supportive environment for breastfeeding women in the workplace by implementing a breastfeeding policy and providing adequate facilities to support breastfeeding employees. Both the Sydney and Canberra offices gained this accreditation.

Vegetable Garden

A 2011 staff initiative was to develop a staff vegetable garden on the front balcony of our Canberra office. The garden has been established for the use of everyone and is already providing a good range of salads, herbs and fruit. Staff have planted tomatoes, capsicum, chilli, parsley, garlic chives, basil, Thai mint, many lettuce varieties, snow peas, sugar snap peas, strawberries and ballerina apple trees. Australian Ethical is even using its own compost in the garden!

Staff BBQ

The Company has purchased a BBQ for staff and it has already been put to great use for a fundraiser day and the National Ride to Work Day. Staff are looking forward to the warmer weather to make more use of their BBQ.

Severance pay and job placement services

Australian Ethical does not have a minimum period for notifying employees of operational change. The company does, however, comply with all contractual and legislative requirements in relation to staff entitlements in the event of a position being made redundant.

In 2010/11, three (3) employees were made redundant as their positions were no longer required by the Company and no suitable redeployment options were available. This is the same amount of redundancies as in the previous financial year. Employees who were made redundant were provided with access to Outplacement Consultancy services and continued to receive access to the Employee Assistance Program. Redundant employees were paid their full entitlements under established employment contracts and relevant company policy.

Non-discrimination and indigenous rights

Australian Ethical recognises the Ngunnawal people as the traditional custodians of the Canberra Region where the majority of staff are located.

No incidents of discrimination on the grounds of race, colour, sex, religion, political opinion, national extraction or social origin were reported in 2010–11. Australia Ethical has not recorded any incidents involving indigenous rights in the reporting period related to either employees or to communities near the company's operations.

Staff turnover

Employee turnover figures provide one measure of a company's success in managing its people.

For the period 1 July 2010 to 30 June 2011 the annual turnover rate was 12.0%. This is a marked reduction in turnover against the previous financial year which was 18.8%.

Table 1: Voluntary staff turnover by employee type, gender, age group and location

Staff turnover ¹	Financial year		
	2008–09	2009–10	2010–11
Turnover by employment type			
Full-time employees departing	7	5	5
Part-time employees departing	0	4	1
Part-time employees departing – FTE	0.0	2.4	0.6
Employees departing (total) – FTE	7.0	7.4	5.6
Total staff at 30 June1	50	48	50
Total FTE staff at 30 June1	45.4	45.2	46.6
Staff turnover (% of total staff)	14.0%	18.8%	12.0%
Staff turnover (% of FTE staff)	15.4%	16.4%	12.0%
Turnover by gender			
Staff departing – female	4	5	3
Female staff turnover (% of total staff)	8.0%	10.4%	6.0%
Staff departing – male	3	4	3
Male staff turnover (% of total staff)	6.0%	8.3%	6.0%
Turnover by age group			
Staff departing <30	5	2	3
<30 Age group turnover (% of total staff)	10.0%	4.2%	6.0%
Staff departing 30–50	1	5	2
30–50 Age group turnover (% of total staff)	2.0%	10.4%	4.0%
Staff departing >50	1	2	1
>50 Age group turnover (% of total staff)	2.0%	4.2%	2.0%
Turnover by location			
Canberra office	6	7	5
Other	1	2	1

¹Figures include permanent and probationary employees but not temporary staff, casual staff or contractors.

Workforce Composition

At 30 June 2011, Australian Ethical employed 50 staff (46.64 full time equivalent (FTE) staff). Staff worked across the company in areas including superannuation, investment, trust administration, relationship management, accounting, information technology and marketing. Staff numbers decreased by 3.5% on 2009/10 figures. At the end of the reporting period 80% of Australian Ethical's workforce were full time, with the remaining 20% part time. The majority of staff (84%) are based in the Canberra office. Of the remaining 16%, one employee is based in Brisbane, one in Melbourne, with the remainder located in Sydney.

Table 2: Workforce by employment type, employment contract and location

Our workforce	Financial year		
	2008-09	2009-10	2010-11
Permanent staff by employment type			
Full-time	36	39	40
Part-time – number of staff	15	10	10
Part-time – FTE	10.2	6.6	6.6
Employment contract			
Permanent – number of staff	51	49	50
Permanent – FTE	45.8	45.6	46.6
Fixed term or temporary – number of staff	2	3	1
Fixed term or temporary – FTE	1.6	2.1	1.0
Employment location			
Canberra office – number of staff	44	42	42
Canberra office – FTE	39.0	38.6	39.3
Other – number of staff	9	10	8
Other – FTE	8.4	9.1	7.3

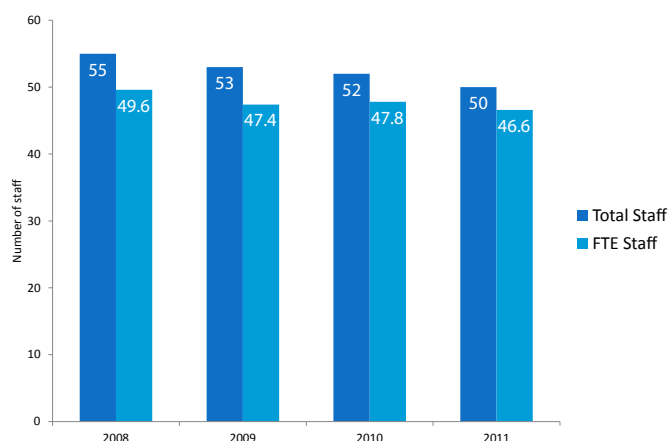


Figure 5: Trend by total staff and FTE staff

Table 3: Gender composition of corporate governance bodies and by employee categories

Category	Balance date					
	30 June 2010			30 June 2011		
	Total	% Male	% Female	Total	% Male	% Female
Australian Ethical board	6	67	33	6	83	17
AES board ¹	4	50	50	4	50	50
Management	10	90	10	12	84	16
Professional	19	89	11	17	76	24
Support	23	39	61	21	43	57
Total	52	67	33	50	64	36

¹ Australian Ethical Superannuation Pty Ltd (AES) Board

Pay equality is a meaningful indicator to assess not only gender equality in the workplace but Australian Ethical's commitment to equal pay for equal work. Market rates continue to be lower for female employees compared to their male peers.

The ratio of the pay for female to male employees in 2010/11 varies between 65% and 91%. The largest pay gap remains in management where females earn 65% of their male counterpart's basic salary. This is an increase on 2009/10 where the ratio was 60%. The differences in roles and responsibilities affect salary ratios within each category as opposed to gender.

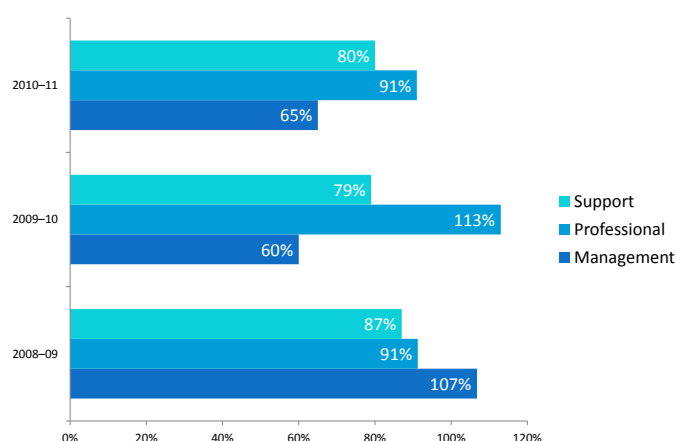


Figure 6: Ratio of female to male basic salaries per hierarchy level

