

ASX Announcement

ASX Code: AEF
Date: 27 October 2008

Notice of Annual General Meeting

Please find attached a copy of Australian Ethical's Notice of Annual General Meeting 2008 and associated documents. These have been provided to our share registry for distribution to shareholders. The documents will be sent to shareholders tomorrow.

/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.

22 October 2008

To: Australian Ethical Investment Ltd shareholders

Dear Shareholder,

**Notice of Annual General Meeting
Thursday 27 November 2008**

I would like to invite you to attend the Australian Ethical Investment Ltd Annual General Meeting to be held at The Oak Room, Belconnen Premier Inn, 110 Benjamin Way, Belconnen ACT 2617 on Thursday 27 November 2008, commencing at 6.00pm.

Please find enclosed the AGM agenda, proxy form, newsletter and a form for the submission of written questions prior to the meeting.

Depending on your annual report preferences, a copy of the 2008 Annual Report may also be enclosed. The annual report is also available from our website on the following link:
http://www.austethical.com.au/company_information/company_reports.

The Board and CEO look forward to meeting you at the AGM.

Yours sincerely



Philip George
Company Secretary
AUSTRALIAN ETHICAL INVESTMENT LTD

Australian Ethical® Investment

Notice of twenty second Annual General Meeting of shareholders

Notice is hereby given that the Annual General Meeting of the shareholders of Australian Ethical Investment Ltd (the Company) will be held at The Oak Room, Belconnen Premier Inn, 110 Benjamin Way, Belconnen ACT 2617 on Thursday 27 November 2008, commencing at 6.00pm.

Business:

Fifteen motions will be proposed. Of these, 13 motions will be proposed as ordinary resolutions and two resolutions will be proposed as special resolutions.

Explanatory material for the business to be conducted is attached to and forms part of this Notice. Shareholders should read the explanatory material carefully.

1. Accounts and reports

To receive and consider the financial statements of the Company and its controlled entity for the year ended 30 June 2008 and the related Directors' Report, Directors' Declaration and Auditor's Report.

2. Remuneration report and the status of employees

To consider and if thought fit pass the following resolutions:

- (a) **That** the remuneration report included in the Directors' Report to shareholders be approved.
- (b) **That** the report on the status of employees to shareholders be noted pursuant to clause 2.2 of the Constitution.

3. Directors

- (a) **That** Mr Howard Pender who retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.
- (b) **That** Ms Anne O'Donnell, a director appointed on 29 May 2008 and, being eligible, offers herself for election, be elected as a director of the Company.
- (c) **That** Dr Les Coleman, a director appointed on 1 July 2008 and, being eligible, offers himself for election, be elected as a director of the Company.
- (d) **That** Mr André Morony, a director appointed on 1 July 2008 and, being eligible, offers himself for election, be elected as a director of the Company.

Note: The Board does not support motions 3(e) to 3(g) and recommends that shareholders vote against the motions

- (e) **That** Mr Trevor Lee be elected as a director of the Company.
- (f) **That** Dr Robert Pearson be elected as a director of the Company.
- (g) **That** Mr Kevin McCready be elected as a director of the Company.

4. Amendment of Constitution

To consider and if thought fit pass the following special resolutions:

- (a) **That** the Company's Constitution be amended as set out in the attachment to the explanatory material.
- (b) **That** Rule 22 of the Constitution – Proportional Takeover Plebiscite be reinserted into the Constitution.

5. Employee share ownership arrangements

To consider and if thought fit pass the following resolutions:

- (a) **That** amendments to the terms of employee options described in the explanatory notes accompanying this notice of meeting be approved.
- (b) **That** the issue of options to staff in October 2008 be approved for the purpose of ASX Listing Rule 7.4.
- (c) **That** the meeting approve a grant of options to Anne O'Donnell (an eligible employee under the company's employee share ownership plan) for the purpose of ASX Listing Rule 10.11.
- (d) **That** the employee share incentive scheme described in the explanatory notes accompanying this notice of meeting be approved.

In accordance with the *Corporations Act 2001*, a reasonable opportunity will be given to shareholders at the meeting to ask questions about or make comments on the management of the Company. Shareholders will also have a reasonable opportunity to ask the auditor or their representative questions relevant to the conduct of the audit and the preparation and content of the Auditor's Report.

By order of the Board

Philip George

Company Secretary

Voting Restrictions

Voting Exclusion Statements

Resolutions 5(a) and 5(b)

The Company will disregard any votes cast on resolutions 5(a) and 5(b) by:

- (a) a person who holds an option that is the subject of the resolution; and
- (b) an associate of those persons.

Resolution 5(c)

The Company will disregard any votes cast on resolution 5(c) by:

- (a) Anne O'Donnell; and
- (b) an associate of Anne O'Donnell.

Resolution 5(d)

The Company will disregard any votes cast on resolution 5(d) by:

- (a) a director, except one who is ineligible to participate in any employee incentive scheme; and
- (b) an associate of such a director.

However, in the above circumstances, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Additional information

Annual report

The Company's annual report is available from its website. The url is:
http://www.austethical.com.au/company_information/company_reports

Proxies

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise.

To appoint a proxy, ordinary shareholders should complete the proxy form distributed with this notice of meeting. The proxy form must be deposited at the share registry, Registries Limited, or at the Company's Registered Office not later than 48 hours before the commencement of the meeting (i.e. by 6.00 pm on Tuesday, 25 November 2008). Any proxy received after that time will not be valid for the scheduled meeting.

Proxies can be delivered as follows:

	<i>Share Registry</i>	<i>Company</i>
By hand	Registries Limited Level 7, 207 Kent Street Sydney NSW 2000	Australian Ethical Investment Ltd Trevor Pearcey House 34 Thynne Street Block E, Traeger Court Bruce ACT 2617
By mail	Registries Limited GPO Box 3993 Sydney NSW 2001	Australian Ethical Investment Ltd GPO Box 2435 Canberra ACT 2601
By facsimile	1 300 653 459	02 6201 1987

If posting your proxy, please ensure that you mail it sufficiently in advance so that it arrives by the required time.

In appointing a proxy, ordinary shareholders should consider how they wish to direct the proxy to vote. A shareholder can direct a proxy to vote "for" or "against", or abstain from voting, on each proposed resolution or can leave the decision to the appointed proxy after discussion at the meeting.

Voting entitlements

The Directors have determined that the shareholding of each shareholder for the purposes of ascertaining the voting entitlements for the Annual General Meeting will be as it appears in the share register at 6.00pm on Tuesday 25 November 2008 (Section 1074E and Regulation 7.11.37 Corporations Act 2001, ASTC Settlement Rules, Section 5.6).

Written questions

Members are able to put written questions to directors or to the auditors. To submit a written question please complete the question form distributed with this notice. Questions directed to the auditor should relate to:

- the content of the auditor's report to be considered at the meeting;
- the conduct of the audit of the annual financial report to be considered at the meeting.

The question form should be deposited at the Company's Registered Office not later than five business days prior to the meeting - by 6.00 pm on Thursday 20 November 2008. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 2435, Canberra ACT 2601 or faxed to 02 6201 1987. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time. Please include the shareholder name on the form exactly as it appears on your holding certificate.

Written questions addressed to the auditor will be passed onto the auditor for consideration.

Recording of proceedings

Please note that the Company intends to record the proceedings of the Annual General Meeting.

Explanatory material for AGM Agenda items

1. Accounts and Reports

The financial statements of the Company for the 2007/2008 financial year have been lodged with the Australian Securities Exchange and with the Australian Securities and Investments Commission in accordance with statutory lodgement timetables and requirements. The financial statements are tabled at the Annual General Meeting to be received and considered by shareholders. No formal resolution on the financial statements and reports is required.

2. Remuneration report and the status of employees

Remuneration Report

Section 250R(2) of the Corporations Act 2001 requires directors to put forward, and afford shareholders an opportunity to vote upon, a resolution to accept the remuneration report included in the directors' report. Under section 250R(3) the vote on the resolution is advisory only and does not bind the directors or the Company.

Status of employees

Under clause 2.2 of the Constitution, the Company is required to have regard for the status of its employees and, in particular, to promote employee ownership of the Company and to report on the status of employees at the time of the Annual General Meeting. The Company seeks to be an exemplary employer, valuing each individual as a member of a cohesive team. The Company has sought to recognise its employees in its day-to-day operations, including:

- employees elect a staff advocate who represents staff through direct contact with the Board;
- the Company has an employee share ownership plan for the issue of share options to staff;
- payment of an annual bonus to employees; and
- provision of benefits to employees beyond those legally mandated.

In particular, the Company has the following employment conditions:

- flexibility in working hours, subject to business needs;
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service;
- up to three days paid compassionate leave as often as required;
- allowing sick leave to be used to care for sick relatives;
- paternity leave;
- up to three hours paid study leave per week, plus up to two days paid study leave per year to prepare for examinations or to finalise course work;
- three days additional leave between Christmas and New Year;
- the choice of being paid monthly or fortnightly;
- a subsidised personal development program; and
- access for staff and their families to a counselling service.

Reporting on the status of employees is in the sustainability section of the Annual Report and also found in the Company's detailed Sustainability Report that is prepared with reference to the Global Reporting Initiative Guidelines. Copies of the Sustainability Report are available from the Company's website (www.austethical.com.au).

3. Election of directors

In accordance with the Constitution, two directors retire by rotation being Ms Caroline Le Couteur and Mr Howard Pender.

Ms Le Couteur has decided not to stand for re-election and her appointment will cease at the end of the Annual General Meeting.

Nominations supported by the Board

Mr Pender is standing for re-election. Details of the qualifications and experience of Mr Pender are provided in the Annual Report.

The Board **supports** the re-election of Mr Pender.

Under rule 11.4 of the Constitution, the Board has appointed Ms Anne O'Donnell, Dr Les Coleman and Mr André Morony as directors. Under Rule 11.4 any director so appointed holds office only until the next following general meeting and is then eligible for election. Ms O'Donnell, Dr Coleman and Mr Morony offer themselves for election. Details of the qualifications and experience of the nominees are provided in the Annual Report.

The Board **supports** the election of Ms O'Donnell, Dr Coleman and Mr Morony.

Nominations not supported by the Board

The Company has received valid nominations for the position of director from Mr Trevor Lee, Dr Robert Pearson and Mr Kevin McCready.

Mr Lee was formerly a director of the Company. The Board did not support his reappointment as a director at the AGM held in 2004. At the 2004 AGM, shareholders voted **not** to reappoint Mr Lee to the Board. Mr Lee has been dissatisfied with the Board for many years, stemming from an investigation by the Board into the veracity of a report requested by the Board in 2004 on Steiner Schools. More detail on the Board's interaction with Mr Lee can be found at:

http://www.austethical.com.au/_data/assets/pdf_file/0019/11755/ShareholderNL_April08.pdf (closure of ongoing investigations); and

http://www.austethical.com.au/_data/assets/pdf_file/0020/9614/Discussion_about_shareholder_written_questions_-_Nov_2007.pdf

Dr Pearson raised concerns with the company about the 2006 AGM minutes prior to the 2007 AGM. Those issues were dealt with at the 2007 AGM. The company sent a letter to shareholders in January 2008 regarding Dr Pearson's concerns. A copy of the letter can be accessed at:

http://www.austethical.com.au/_data/assets/pdf_file/0012/10560/Letter_to_shareholders_re_Pearson_correspondence_January_2008.pdf

Mr McCready nominated for the position of director at the company's AGM held in 2005. He did not attend the AGM and shareholders voted **not** to appoint Mr McCready to the Board at that time.

The Board does not believe that Mr Lee, Dr Pearson or Mr McCready have skills or competencies which would enhance the functioning of the Board or the Company. The Board believes that the appointment of Mr Lee, Dr Pearson or Mr McCready to the Board would be very disruptive to the proper functioning of the Board and the Company, to the significant detriment of shareholders.

The Board **does not support** the election of Mr Lee, Dr Pearson or Mr McCready.

The size of the Board

There are seven nominations for director and five positions capable of being filled. **Note that the Board only supports the election of four candidates, meaning that it is the Board's intention that the size of the Board will reduce from eight to seven directors at the conclusion of the AGM.**

Order in which motions will be voted on

Under Rule 11.3(b) of the Constitution, where the number of nominations for election as a director exceeds the number of directors who have or are to resign at the general meeting, the order in which nominations are to be voted on must be determined by ballot and once the relevant vacancies have been filled, no further nominations may be voted on.

The ballot required under Rule 11.3(b) will be conducted at the AGM, with the Chair drawing names to determine the order in which motions 3(a) to 3(g) will be put.

4. Amendment of Constitution

Resolution 4(a) - That the Company's Constitution be amended as set out in the attachment to the explanatory material.

Section 136(2) of the Corporations Act 2001 states that a Company may modify or repeal its constitution, or a provision of its constitution, by special resolution.

The Directors are seeking to amend a number of rules to improve the operation of the Constitution. The specific changes proposed are attached to this explanatory material (Attachment A). The proposed changes are highlighted for ease of review.

A brief discussion of the proposed changes follows:

Rule 10.22 – Direct Voting

Chartered Secretaries Australia has called on Australian listed companies to implement provisions in their Constitution that will enable shareholders to exercise voting rights through direct voting, in addition to exercising a right to appoint a proxy.

Direct voting enables shareholders to exercise voting rights without the need to attend meetings. It is an additional option to appointing proxies or representatives (over whom shareholders may have little control). For example, a proxy appointed by a shareholder (other than the chair) may decide not to attend the meeting, or if they do attend a meeting, may decide not to vote

Assuming the resolution is passed, the Board will develop voting rules for direct voting and will publish those prior to the next general meeting. The voting rules will be consistent with those proposed by Chartered Secretaries Australia in their publication "CSA's guide to implementing direct voting".

Rule 11.3 – Election of directors

The Board is proposing that the timeframe for nomination of directors (other than Board nominees) is extended from 30 business days to 45 business days. This extension is sought to provide sufficient time to address the issue of director nominations in the notice of meeting materials for an Annual General Meeting. In the past, nominations for the position of director have been received on the last day of the time currently allowed which has required urgent reworking of notices of meeting to ensure that they can be distributed to members within required timeframes. It has also meant that the notice of meeting needed to be resubmitted to the Australian Securities Exchange for another approval.

The Board is also proposing that director nominations (other than Board nominees) be supported by five members or by a member or members who are together entitled to at least 5% of the votes on a resolution to elect a director. This is consistent with the ability to request a poll on a vote and will help prevent frivolous or vexatious nominations.

Rule 11.6 – 11.10 Director remuneration

The proposed changes to these provisions:

- recognise that the Board does not pay retirement benefits to directors (other than through superannuation contributions);
- include superannuation contributions as part of the aggregate remuneration which must be approved by members under rule 11.6;
- clarify that a director may choose to salary sacrifice director fees into superannuation contributions.

Rule 11.12(c)

The proposed change clarifies that a director with a material personal interest in a matter is only entitled to be present and/or vote at a board meeting on that matter where the requirements of section 195(2) or section 195(3) of the Corporations Act 2001 have been satisfied.

Rule 11.14 – Consequences of cessation of directorship

The proposed change clarifies that once a directorship ceases, appointments and delegations which have been made by virtue of that directorship also cease.

Rule 13.10 – Committees

The proposed change clarifies that the Board can determine who will chair a committee and also that the chair of a Board committee does not have a casting vote at the committee.

Rule 14 – Managing Director

This rule has been changed to remove references to executive directors. References to executive directors in this context is confusing. Contracts of employment with executive directors are between the Company and those directors. In their capacity as employees, executive directors report to the Managing Director / Chief Executive Officer. Terms and conditions of employment and remuneration of the executive directors is similarly set by the Managing Director / Chief Executive Officer.

Rule 15.1 – Determination of dividend

Minor changes are proposed to this rule to clarify that the tithe is typically gifted to a number of eligible non-profit organisations.

Board Recommendation

The Board recommends that shareholders approve the amended Constitution.

Resolution 4(b) - That Rule 22 of the Constitution – Proportional Takeover Plebiscite be reinserted into the Constitution.

Background

The Company's Constitution previously contained Rule 22 which dealt with proportional or partial takeovers.

A proportional or partial takeover is a bid made for a specified proportion of each shareholder's shares. Broadly, Rule 22 permitted shareholders in a general meeting to vote on any proportional or partial takeover offer and if the resolution were rejected, would stop the offer proceeding.

In accordance with the Corporations Act, Rule 22 expired after three years of the adoption of the Constitution, and at that time ceased to have effect.

A copy of proposed Rule 22 is in the Constitution attached to these explanatory materials (Attachment A).

The operation of Rule 22

If a proportional or partial takeover bid is made for the Company, the existence of the reinstated Rule 22 would require the Directors to submit to shareholders a resolution to approve the proportional bid. The resolution must be voted on at least 14 days before the close of the proportional bid. If a meeting were called it would be conducted in accordance with the provisions governing general meetings in the Company's Constitution. Rule 22 provides that for a resolution to be approved it must be passed by a majority of votes, excluding votes by the bidder and its associates. If a resolution approving the proportional bid is passed, the offer may proceed. If the resolution is rejected, the offer will be taken to be withdrawn.

Rule 22 does not apply to full takeover bids, that is, for all shares in the Company. Under the Corporations Act, the Rule will lapse on the expiry of three years unless renewed by shareholders.

Reasons for proposing the resolution

The Directors consider it appropriate for shareholders to decide whether they wish to have a proportional takeover approval rule in the Constitution. The inclusion of the rule gives shareholders the opportunity to vote on a proposed proportional takeover bid.

Advantages and disadvantages

The Corporations Act requires this explanatory material to discuss the potential advantages and disadvantages of the reinstatement of Rule 22 for both directors and shareholders.

As the directors remain free to make recommendations on whether a proportional takeover bid should be accepted, they consider that there are no advantages or disadvantages specific to them as directors, for the reinstatement of Rule 22.

Advantages of Rule 22 are:

- it enables shareholders to have an opportunity to study a proportional takeover bid and specifically to vote on the proposal. It provides a process for shareholders to express their collective views and to act in a cohesive manner to both increase their bargaining power in the face of a proportional bid and to lessen any coercive effects of the proportional bid.
- it may enable shareholders to prevent a proportional takeover bid proceeding if they believe that control of the Company should not be permitted to pass in such circumstances.
- it may impact upon the terms of any future proportional bid and lead prospective bidders to structure any prospective proportional bids to be attractive to a majority of shareholders.

Disadvantages are:

- the Rule may reduce the possibility of a successful proportional takeover bid, therefore discouraging proportional bids for the Company.
- it may deny some shareholders an opportunity to sell securities at what they consider to be an attractive price where the majority of shareholders rejects an offer. As a consequence, shareholders may have fewer opportunities to receive an attractive price for some of their shares from persons seeking control of the Company.

Present Acquisition Proposals

The Board is not aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company or to announce a takeover offer for shares in the Company.

Proxy voting by Chair

The Chair will abstain from voting open proxies on this resolution.

5. Employee share ownership arrangements

Resolution 5(a) - That amendments to the terms of employee options described in the explanatory notes accompanying this notice of meeting be approved.

The options currently on issue under the Company's current employee share ownership plans (as at the date of this notice of meeting) are as follows:

<i>Options Reference</i>	<i>Number of options on issue</i>	<i>Exercise Period</i>	<i>Exercise Price</i>
AEFAQ	36,080	21/9/08 to 20/12/08	\$24.82
AEFAS	36,357	22/9/09 to 21/12/09	\$32.50
AEFAT	41,837	24/9/10 to 23/12/10	\$57.57
AEFAU	39,289 ¹	14/10/2011 to 13/01/12	\$32.27
Totals	153,563		

As part of developing a new employee share incentive scheme (see resolution 5(d)), the Company reviewed a number of other companies' employee equity arrangements. Most of these schemes include a provision where unvested share entitlements will vest where a change of control event emerges or occurs. This ensures that employees are not treated unfairly in circumstances where a change of control occurs. Such a provision is not currently included in the terms and conditions of employee option classes AEFAQ, AEFAS and AEFAT. The Board believes it appropriate to include such a provision in the terms and conditions of employee option classes AEFAS and AEFAT. Options in class AEFAQ are currently in their exercise period, so no changes are being sought to the terms of those options.

The Board also considers it appropriate to include in the terms and conditions of employee option classes AEFAS and AEFAT a provision that the Company be given a first right of refusal to purchase shares issued upon the exercise of options where it has an employee share buyback in place during the exercise period. This provision is considered useful to prevent undue dilution of shareholders in a situation where the Company has sufficient resources to institute an employee share scheme buyback.

Specifically the directors propose that the following provisions be included in the terms and conditions of employee option classes AEFAS and AEFAT.

"Where:

- *a takeover 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*
- *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,*

then options in classes AEFAS and AEFAT will become exercisable at that time, and must be exercised within three months of becoming so exercisable, otherwise the options will lapse.

In the event that:

- *the Company has announced a buy-back scheme to purchase shares resulting from the exercise of options granted in classes AEFAS and AEFAT;*

¹ These options were issued in October 2008 and are the subject of resolution 5(b) of the meeting agenda.

- *the option holder wishes to sell all or some of the shares resulting from the exercise of the options during the exercise period for those options,*

then the option holder will offer the Company a first right of refusal to match in quantum and price any other offer made to purchase those shares from the option holder."

In other respects the options terms would remain unchanged.

The ASX has granted a waiver from the Listing Rules in respect of these changes. The waiver is granted on condition that the motion is approved by shareholders.

If approval is obtained, then the Company will seek agreement of the individual option holders to the proposed changes.

Executive directors hold options that are the subject of this resolution and in that capacity are subject to a voting exclusion.

The Board recommends that shareholders vote in favour of the resolution.

Resolution 5(b) - That the issue of options to staff in October 2008 be approved for the purpose of ASX Listing Rule 7.4

In October 2008 the Board approved the grant of 39,289 options to all permanent, non-probationary staff as at 30 June 2008 (option class AEFAU). The securities were issued for nil consideration with an exercise price of \$32.27.

The options were issued under the terms and conditions of the employee share ownership plan approved at the 2005 Annual General Meeting (see Attachment B), except that two additional provisions were included. These provisions were:

- a change of control provision; and
- a provision that the Company be given a first right of refusal to purchase shares issued upon the exercise of options where it has an employee share buyback in place during the exercise period.

A discussion of the reasons for including these provisions is in the explanatory material for resolution 5(a).

As neither of those provisions were included in the terms of the scheme approved at the 2005 Annual General Meeting, the grant of the options counts towards the 15% cap on the issue of capital under ASX listing rule 7.1.

Under ASX listing rule 7.4, an issue made without approval under listing rule 7.1 is treated as having been made with approval for the purposes of listing rule 7.1 if the issue did not breach listing rule 7.1 and the issue of the securities is subsequently approved by holders of ordinary securities.

The issue of the options did not breach listing rule 7.1.

The Board seeks the approval of this Annual General Meeting to the grant of these options so that the grant will not count towards the cap under ASX listing rule 7.1.

Resolution 5(c) - That the meeting approve a grant of options to Anne O'Donnell (an eligible employee under the company's employee share ownership plan) for the purpose of ASX Listing Rule 10.11

As set out in resolution 5(b), permanent, non-probationary staff of the Company (as at 30 June 2008) were eligible to participate in an issue of options in October 2008 under the Company's employee share ownership plan.

Anne O'Donnell was a permanent, non-probationary member of staff as at 30 June 2008 and is therefore entitled to participate in the employee share ownership plan in the same way as all other eligible employees.

As Ms O'Donnell was appointed a director in May 2008, the grant of options needs to be made with the approval of holders of ordinary securities.

As per the arrangements for all eligible staff, options are granted for nil consideration with an exercise price of \$32.27. The terms and conditions of the options are set out in Attachment B. At this stage it is expected that any funds raised from the exercise of the options would be used either for working capital, or invested in liquid securities. If approved the options will be granted within one week of the date of the Annual General Meeting.

Approval is sought for a grant of 2,648 options to Ms O'Donnell.

Anne O'Donnell is subject to a voting exclusion on this resolution.

ASX Listing Rule 10.14 approval for issues of shares and options to executive directors under the current employee share ownership plan was obtained at the Annual General Meeting held in November 2006. The

following numbers of shares and options have been issued to executive directors under the employee share ownership plan since that approval.

<i>Options Reference</i>	<i>Issue Price</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
AEFAT	Nil	\$57.57	24/9/10 to 23/12/10

<i>Name</i>	<i>Class</i>	<i>Number issued</i>
Howard Pender	AEFAT	1,513
Caroline Le Couteur	AEFAT	1,791
James Thier	AEFAT	1,517
Anne O'Donnell	AEFAT	3,025

Non-executive directors recommend that shareholders vote in favour of the resolution.

Resolution 5(d) - That the employee share incentive scheme described in the explanatory notes accompanying this notice of meeting be approved.

Replacement for current employee share ownership scheme

The Company has had employee share ownership arrangements in place since 2001. In 2005, the Annual General Meeting approved an employee share ownership plan. Over the last 12 months, the Company has reviewed its existing employee share ownership arrangements as part of a broader remuneration review. As a result of that review the Board has agreed to introduce a new employee share incentive scheme, which will replace the current employee share ownership scheme.

Shares and performance rights will not be issued under the employee share incentive scheme until 2009.

Rationale for an employee share incentive scheme

The Board believes that an appropriately structured employee share incentive scheme ('ESIS') can improve Company performance through:

- (a) an increased ability to attract quality staff;
- (b) an ongoing ability to retain key staff; and
- (c) motivation of staff to deliver ongoing shareholder value.

The principal objective of the scheme is to recognise performance and behaviour that delivers sustainable long-term shareholder value and seeks to align the interests of employees with those of shareholders. Other objectives of the scheme are to ensure that:

- employees are able to derive the value to which they are properly entitled under the scheme without the need to obtain finance, and without the need to sell shares received under the scheme to discharge that finance; and
- employee shareholding is encouraged.

Reason for shareholder approval

Under ASX Listing Rule 7.2, Exception 9(b), issues of shares under an employee incentive scheme will not be included when calculating the limit on the number of shares that a listed Company may issue in a 12 month rolling period under ASX Listing Rule 7.1, provided that the terms of the scheme have been approved by shareholders. Such approval continues for a period of three years.

Rules of the employee share incentive scheme

The rules of the employee share incentive scheme are set out at Attachment C.

The employee share incentive scheme consists of two elements: a share based component and a performance rights component.

Share component of the ESIS

At least once each year, staff will be given an opportunity to take shares in the Company.

The price of the shares 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.

Shares issued under the share scheme component of the ESIS are ordinary shares and entitle the holder to normal voting and dividend rights. However, shares issued under the ESIS may not be sold or transferred for a period of 3 years, except that if an employee leaves the Company's employment during that 3 year period, the restrictions on shares held by that employee are lifted.

Performance right component of the ESIS

A. Eligibility

The scheme will be open to the Company's permanent employees ('participants').

B. Form of award

Participants will receive an award of performance rights, which are conditional entitlements to receive the Company's shares for no consideration, subject to satisfaction of performance criteria and the terms of the scheme.

C. Award categories

There will be two award categories under the scheme – a general category and an individual category.

Under the general category, performance rights will be issued annually to participants (normally in September of each year). The number of rights offered to participants will be determined on the basis of each staff member's remuneration. A staff member will be invited to take up the number of performance rights out of a total pool of performance rights offered that is proportional to the amount that their remuneration within the relevant period bears to the total remuneration paid by the Company in the relevant period (normally a financial year).

Where an employee commences employment within six months of the end of the relevant period (normally a financial year) they will be granted a small, fixed number of performance rights.

Performance rights issued under the general category will be subject to a three year performance period.

Under the individual category, performance rights will be issued to some participants. The award of these performance rights will be subject to team or individually set performance conditions. Issue of performance rights under the individual category may occur at different times during the course of a year.

D. Performance criteria

General category

The vesting of the general category performance rights will be subject to a performance condition and a period of employment condition.

The performance condition is likely to be based on measures of ratios such as earnings per share, return on equity, share price growth or total shareholder return over a three year performance period.

In most circumstances, if a performance right holder leaves the employment of the Company before the end of a three year performance period, the performance rights will expire.

Individual category

The Board (or its delegated committee) will approve performance criteria for the individual category. The performance criteria for the individual category will be subject to team based or individual performance conditions and an employment condition.

Once finalised, performance criteria for awards made under the individual category will be published on the Company's website (de-identified).

In most circumstances, if a performance right holder leaves the employment of the Company before the end of the performance period, the performance rights will expire.

E. Issue of Shares

General category

At the end of a performance period, the Board will assess whether the performance criteria have been met in respect of the relevant performance rights.

If the performance criteria have been met, the Board will cause one share to be issued for each performance right held. There will be no further restrictions on shares issued under the general category.

Individual category

At the end of a performance period, the Board will assess whether the performance criteria have been met in respect of the relevant performance rights.

For the individual category the Board will also determine whether there should be any adjustment to the number of shares that would otherwise be issued (the Board may increase or decrease by 20% the number of shares provided under the individual category based on an assessment of whether the achievement of the performance criteria was influenced by controllable factors or market factors).

Share issued under the individual category may be issued without further restrictions or they may be subject to further restrictions on sale or encumbrance for a period of 10 years from the date the performance rights were issued.

If a sale restriction is imposed, it can be lifted in two ways:

1. the employee applies to the Board to have the restriction lifted. The Board cannot unreasonably refuse to lift the restriction.
2. the employee's employment ceases (other than being dismissed for cause or because of some other serious breach of Company policy).

Maximum number of securities to be issued under the ESIS

The maximum number of securities that can be issued under the ESIS for a financial year is 5% of the issued capital as at 30 June for the previous financial year.

Other information on the ESIS

As the scheme is a new scheme, there have been no securities issued under this scheme.

The table below sets out the number of securities issued under the employee share ownership plan approved at the 2005 Annual General Meeting (including option class AEFAU).

Number of shares issued	1665
Number of options issued	132369

The proposed ESIS has not previously been approved by shareholders.

Non-executive directors will not participate in the scheme.

Executive directors are subject to a voting exclusion.

The Board recommends that shareholders vote in favour of the resolution.

End./

Attachment A – Constitutional changes

Corporations Act
Public Company Limited by Shares

CONSTITUTION

AUSTRALIAN ETHICAL INVESTMENT LIMITED

ABN 47 003 188 930

APPROVED ~~27~~ NOVEMBER ~~2008~~

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left unfinished at the general meeting from which the adjournment took place.

10.7 Notice of resumption of adjourned general meeting

When a general meeting is adjourned for 30 days or more, notice of the resumption of the meeting must be given in the same manner as for the original general meeting. When a general meeting is adjourned for less than 30 days, notice of any adjournment or of the business to be transacted on the resumption of the adjourned general meeting need not be given.

10.8 Voting rights - Members present at the meeting

Subject to restrictions on voting from time to time affecting any class of shares, at general meetings of Members:

- (a) subject to paragraphs (b) and (c), on a show of hands, each Member present has one vote;
- (b) where a Member has appointed more than one person as Representative, proxy or attorney for that Member, none of the Representatives, proxies or attorneys is entitled to vote on a show of hands;
- (c) where a person is entitled to vote by virtue of paragraph (a) in more than one capacity, that person is entitled to only one vote on a show of hands;
- (d) on a poll, each Member present:
 - (i) has one vote for each fully paid share held; and
 - (ii) for each other share held has a fraction of a vote equivalent to the proportion which the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited) for the share. When calculating this proportion, amounts paid in advance of a call are to be ignored.

10.9 Voting - show of hands

At any general meeting a resolution put to the vote of the general meeting must be decided on a show of hands unless a poll is demanded in accordance with Rule 10.11.

Registered Office or any other place the Board may determine together, in each case, with evidence of the due execution of the power of attorney as required by the Board. The attorney may be authorised to appoint a proxy for the Member granting the power of attorney.

10.21 Special meetings

All the provisions of this Constitution as to general meetings apply to any special meeting of any class of Members which may be held under the operation of this Constitution or the Corporations Act.

10.22 Direct voting

The Board may determine that at any general meeting or class meeting, a member who is entitled to attend that meeting is entitled to a direct vote. A 'direct vote' includes a vote delivered to the company by post, fax or other electronic means approved by the Board. The Board may specify the form, method and timing of giving a direct vote at a meeting in order for the vote to be valid.

11. THE DIRECTORS

11.1 Number of Directors

The number of Directors (not including alternate Directors) must be the number, not being less than three nor more than ten, as may be determined by the Board. The Board may not reduce the number below the number of Directors in office at the time of reduction. All Directors must be natural persons.

11.2 Rotation of Directors

Subject to Rules 11.4 and 11.5, at every annual general meeting, one-third of the Directors for the time being (other than any Managing Director), or, if their number is not a multiple of three, then the whole number nearest to one-third, must retire from office. A Director (other than any Managing Director) must retire from office at the conclusion of the third annual general meeting after which the Director was elected or re-elected. A Director who is required to retire under this Rule retains office until the dissolution or adjournment of the meeting at which the retiring Director retires. The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire must (unless they otherwise agree among themselves) be determined by ballot. A retiring Director is eligible for re-election.

11.3 Election of Directors

- (a) No person (other than a retiring Director seeking re-election or a nominee recommended by the Board) is eligible for election to the office of Director at a general meeting unless the person or some Member intending to nominate the person has given notice in writing signed by the nominee giving consent to the nomination and signifying either candidature for the office or the intention of the Member to nominate the nominee. To be valid, the notice for the person must be:
- (i) signed by at least five Members; or
 - (ii) signed by any one or more Members who are together entitled to at least 5% of the votes on a resolution to elect a Director; and
 - (iii) left at the Registered Office not less than 45 Business Days nor more than 55 Business Days before the meeting.
- (b) Where the nominee has been recommended by the Board for election, a notice is required to be left at the Registered Office at least 28 days before the meeting.
- (c) Where the number of nominations for election as a Director exceeds the number of Directors who have or are to resign at the general meeting, the order in which the nominations are to be voted on must be determined by ballot and once the relevant vacancies have been filled, no further nominations may be voted on.

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11.4 Casual vacancies and additional Directors

The Directors may at any time appoint a person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors does not at any time exceed the maximum number specified by this Constitution. Any Director so appointed holds office only until the next following general meeting and is then eligible for re-election but must not be taken into account in determining the Directors who are to retire by rotation at that meeting.

11.5 Termination of office of Director

- (a) The office of a Director is terminated if the Director:

- (i) ceases to be a Director by virtue of Part 2D.6 or any other provision of the Corporations Act;
 - (ii) becomes bankrupt or makes any arrangement or composition with his creditors generally;
 - (iii) becomes prohibited from being a Director by reason of any order made the Corporations Act;
 - (iv) becomes of unsound mind or a person whose person or estate is administered under laws relating to mental health;
 - (v) resigns the Director's office by notice in writing to the Company;
 - (vi) is removed from office under the Corporations Act; or
 - (vii) is absent for more than 6 months, without permission of the Board, from meetings of the Board held during that period.
- (b) A Director whose office is terminated under Rule 11.5(a) must not be taken into account in determining the number of Directors who are to retire by rotation at any annual general meeting.

11.6 Remuneration

As remuneration for services, each Director may be paid out of the funds of the Company an amount determined by the Board payable at the time and in the manner determined by the Board. The aggregate remuneration paid to all the Directors in any one year must not exceed an amount fixed by the Company in general meeting from time to time. The expression "remuneration" in this Rule does not include any amount which may be paid by the Company under Rules 11.7 ~~or 11.8~~.

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11.7 Expenses

The Directors are entitled to be paid reasonable travelling, hotel and other expenses properly incurred by them in attending meetings of the Company or of the Board or of any committee of the Board, or in connection with the Company's business.

11.8 Remuneration for extra services

Any Director who serves on any committee, or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Board are outside the scope of the

ordinary duties of a Director, may be paid extra remuneration as determined by the Board.

11.9 ~~Not used~~

Deleted: Retirement benefits

11.10 ~~Superannuation contributions~~

The Company may pay superannuation contributions for each Director ~~either at or above the rate~~ necessary for the avoidance or minimisation of any penalty, charge, tax, or other impost on the Company under any applicable legislation which imposes a penalty, charge, tax or other impost on employers if a minimum level of superannuation contributions are not paid for an employee (within the meaning of the legislation).

Deleted: Any Director may be paid a retirement benefit, as determined by the Board, in accordance with the Corporations Act. The Board may make arrangements with any Director with respect to the payment of retirement benefits in accordance with this Rule.¶

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11.11 No Share qualification

A Director is not required to hold any shares in the capital of the Company.

11.12 Conflicts of Interest: Directors may hold other offices, Directors may contract with the Company

- (a) A Director is not disqualified from office by:
- (i) holding any other office or position of profit (except that of auditor) in the Company or in any body corporate in which the Company is a member or otherwise interested;
 - (ii) entering into a contract or arrangement with the Company as vendor, purchaser, underwriter or otherwise and participating in any association, institution, fund, trust or scheme for past or present employees or Directors of the Company;
 - (iii) retaining for the Director's own benefit any profit arising from any other office or position of profit, or from any such contract or arrangement and any remuneration, pension, allowance, commission or other benefit received in relation to those matters or received by reason of participation in any such association, institution, fund, trust or scheme;
 - (iv) voting on any contract or arrangement or proposed contract or arrangement or any other matter in which the Director has, directly or indirectly, an interest;

- (v) signing or countersigning a contract or other document to which the Seal is affixed and in which the Director has, whether directly or indirectly, an interest; and
 - (vi) being counted in the number present for a quorum, where the Director has an interest in any matters arising in the meeting.
- (b) A Director who is in any way, directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of the interest at a meeting of Directors if required under and in accordance with section 191 of the Corporations Act.
- (c) If a Director of the Company has a material personal interest in a matter that relates to the affairs of the Company and:
- (i) under Rule 11.12(b) the Director discloses the nature and extent of the interest and its relation to the affairs of the Company at a meeting of the Directors; or
 - (ii) the interest is one that does not need to be disclosed under Rule 11.12(b);
- then, ~~provided sections 195(2) or 195(3) are complied with,~~
- (iii) the Director may vote on matters that related to the interest; and
 - (iv) any transactions that related to the interest may proceed; and
 - (v) the Director may retain benefits under the transaction even though the Director has the interest; and
 - (vi) the Company can not avoid the transaction merely because of the existence of the interest.

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If disclosure is required under Rule 11.12(b), paragraphs 11.12(c)(v) and (vi) apply only if the disclosure is made before the transaction is entered into.

11.13 Exercise of voting power in other corporations

The Board may exercise the voting power conferred by the shares in any corporation held or owned by the Company as the Board thinks fit (including the exercise of the voting power in favour of any resolution appointing any Director a director of that corporation or voting or

providing for the payment of remuneration to the directors of that corporation) and a Director may vote in favour of the exercise of those voting rights notwithstanding that the Director is, or may be about to be appointed, a director of that other corporation and may be interested in the exercise of those voting rights.

11.14 Consequences of cessation of directorship

Where a director ceases for any reason to hold office as a director of the Company, the appointment by the Board of that director to any committee or other office, and any delegations bestowed on that director by the Board, automatically terminate at the time of the cessation.

12. POWERS OF THE BOARD

12.1 Management of the Company

Subject to the Corporations Act and to any other provision of this Constitution, the management and control of the business of the Company are vested in the Board, which may exercise all such powers of the Company as are not, by the Corporations Act or by this Constitution, required to be exercised by the Company in general meeting.

12.2 Board must have regard to the Charter

In the exercise of its powers, the Board shall have regard to the Charter of the Company.

12.3 Seal

The Company may have a Seal and a duplicate common seal which are to be used by the Company as determined by the Board.

13. PROCEEDINGS OF DIRECTORS

13.1 Convening a meeting

- (a) A Director may at any time, and a Secretary must, whenever requested to do so by one or more Directors, call a Directors' meeting. At least 24 hours' notice of every such Directors' meeting must be given to each Director either by personal telephone contact or in writing or email by its convenor unless the Directors by unanimous resolution agree to shorter notice.

- (b) the alternate Director may exercise any powers that the alternate Director's appointor Director may exercise, and the exercise of any such power by the alternate Director is deemed to be the exercise of the power by the alternate Director's appointor Director;
- (c) the alternate Director is not required to hold any shares in the capital of the Company;
- (d) the alternate Director's appointment may be terminated at any time by the alternate Director's appointor Director despite the period of the appointment of the alternate Director not having expired, and the appointment must terminate in any event if the alternate Director's appointor Director vacates office as a Director; and
- (e) the appointment or the termination of an appointment of an alternate Director must be effected by a written notice signed by the Director who made the appointment given to the Company.

13.8 Continuing Directors may act

In the event of a vacancy in the office of a Director, the remaining Directors may act but, if the number of remaining Directors is not sufficient to constitute a quorum at a meeting of Directors, they may act only for the purpose of increasing the number of Directors to a number sufficient to constitute such a quorum, or in order to call a general meeting of the Company.

13.9 Chair

The Board may elect from among their number a Chair and Deputy Chair of their meetings and determine the period for which each is to hold office. If no Chair or Deputy Chair is elected or if at any meeting the Chair and the Deputy Chair are not present at the time specified for holding the meeting, the Directors present may choose one of their number to be Chair of the meeting.

13.10 Committees

The Board may delegate any of its powers to a committee consisting of Directors or any other person as the Board thinks fit. A committee to which any powers have been so delegated must exercise the powers delegated in accordance with any directions of the Board, and a power so exercised is deemed to have been exercised by the Board. Unless otherwise determined by the Board, the members of such a committee may elect one of their number as chair of their meetings. Questions

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arising at a meeting of a committee must be determined by a majority of votes of the members present and voting.

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13.11 Written resolutions

A resolution in writing signed by a majority of the Directors for the time being (except those Directors who expressly indicate their abstention in writing to the Company and those who would not be permitted, by virtue of section 195 of the Corporations Act, to vote were the resolution to be put to a meeting of the Directors), is as valid and effectual as if it had been passed at a meeting of the Directors duly called and held. Any such resolution may consist of several documents in like form, each signed by one or more Directors. A facsimile transmission or other document produced by mechanical or electronic means under the name of a Director with the Director's authority is deemed to be a document in writing signed by the Director.

13.12 Defective appointment

All acts done by any Board meeting or of a committee of the Board or by any person acting as a Director are, despite any defect in the appointment of a person to be, or to act as, a Director, or that a person so appointed was disqualified, as valid as if the person had been duly appointed and was qualified to be a Director or to be a member of the committee.

13.13 Wholly owned subsidiary

If the Company is a wholly owned subsidiary of a body corporate then the Directors may in carrying out their duties act in the best interests of the holding company of the Company.

14. MANAGING DIRECTOR

14.1 Appointment

The Board may from time to time appoint one or more Directors to the office of managing director (**Managing Director**) of the Company either for a fixed term or at will, but not for life and, subject to the terms of any agreement entered into in a particular case, may revoke any such appointment. The appointment of a Managing Director so appointed automatically terminates if the person ceases for any reason to be a Director.

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Deleted: or to any other office, except that of auditor, of employment under the Company,

Deleted: A Director other than a Managing Director so appointed is referred to in this Constitution as an **Executive Director**.

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14.2 Remuneration

Subject to Rules 11.6 to 11.10 inclusive and the terms of any agreement entered into in a particular case, a Managing Director receives such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Board may determine.

Deleted: or Executive Director

14.3 Powers

The Board may, upon such terms and conditions and with such restrictions as it thinks fit, confer upon a Managing Director any of the powers exercisable by it. Any powers so conferred may be concurrent with, or be to the exclusion of, the powers of the Board. The Board may at any time withdraw or vary any of the powers so conferred on a Managing Director.

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14.4 Rotation

A Managing Director (and where there is more than one Managing Director, then one only of the Managing Directors, as determined by the Board from time to time) does not retire by rotation in accordance with Rule 11.2.

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15. DIVIDENDS

15.1 Determination of dividend

- (a) Subject to the rights of persons (if any) entitled to shares with special rights to dividend, the directors may declare dividends and may authorise the payment or crediting by the Company to, or at the direction of, the Members of such a dividend.
- (b) The company in general meeting may declare a dividend if, and only if the directors have recommended a dividend. A dividend declared under this Rule shall not exceed the amount recommended by the directors.
- (c) The directors before recommending or declaring any dividend to be paid out of the profits of any one year must have first:-
 - (i) paid or provisioned for payment to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of

what the profit for that year would have been had not the bonus or incentive payment been deducted.

- (ii) gifted or provisioned for gifting an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the abovementioned bonus and amount gifted been deducted. The abovementioned amount shall be gifted to ~~non-profit organisations~~ for any useful charitable, benevolent or conservation purpose, providing however that the company, its employees and shareholders do not receive any immediate material benefit nor its Directors any personal benefit. Directors who hold office in non-profit organisations to which it is proposed the company makes such title shall not be entitled to vote on the disposition of monies to that particular organisation. Deleted: a
- (d) The directors may in lieu of granting or paying a bonus in cash or an incentive payment to employees or others under ~~Rule 15.1(c)(i)~~, issue to any employee or person performing work for the company shares in the company. Where a bonus is given through the issue of shares, for the purpose of computing the value of the bonus, shares are to be taken to be issued at a price which, in the opinion of the directors, reflects the current market value of the shares. Deleted: Sub-rule (3)
- (e) The directors may authorise the payment by the company to the members of such interim dividends as appear to the directors to be justified by the profits of the company.
- (f) Interest is not payable by the company in respect of any dividend.

15.2 Retention of dividends

- (a) The directors may, before declaring or recommending any dividend, set aside out of the profits of the company such sums as they think proper as reserves, to be applied, at the discretion of the directors, for any purpose for which the profits of the company may be properly applied.
- (b) Pending any such application, the reserves may, at the discretion of the directors, be used in the business of the company or be invested in such investments as the directors think fit.
- (c) The directors may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends without transferring those profits to a reserve.

in this Rule 20 may be started again after the close of the offers made under the takeover.

20.13 Use by Company of this Rule

This Rule 20 may be invoked by the Company only once in any 12 month period.

20.14 Commencement of this Rule

This Rule 20 will be of no force or effect until the Company has applied to be admitted to the Official List.

21. CONSISTENCY WITH LISTING RULES

If and for so long as the Company is admitted to the Official List, the following rules apply:

- (a) notwithstanding anything contained in this Constitution, if the Listing Rules prohibit an act being done, the act shall not be done;
- (b) nothing contained in this Constitution prevents an act being done that the Listing Rules require to be done;
- (c) if the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be);
- (d) if the Listing Rules require this Constitution to contain a provision and it does not contain such a provision, this Constitution is deemed to contain that provision;
- (e) if the Listing Rules require this Constitution not to contain a provision and the rules contain such a provision, this Constitution is deemed not to contain that provision;
- (f) if any provision of this Constitution is or becomes inconsistent with the Listing Rules, this Constitution is deemed not to contain that provision to the extent of the inconsistency.

22. PROPORTIONAL TAKEOVER PLEBISCITES

22.1 Definitions

In this Rule 22:

offer period has the meaning given to that expression in section 9 of the Corporations Act;

relevant day in relation to a takeover scheme, means the day that is the fourteenth day before the last day of the offer period;

proportional takeover scheme has the meaning given to ~~the~~ expression proportional takeover bid in section 9 of the Corporations Act;

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a reference to **a person associated with** another person has the meaning given to the expression **associate reference** in sections 10, 11, 12 and 15 of the Corporations Act.

22.2 Offers under a proportional takeover scheme

Where offers have been made under a proportional takeover scheme in respect of shares in a class of shares in the Company:

- (a) the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under the takeover scheme is prohibited unless and until a resolution (in this Rule 22.2 referred to as an approving resolution) to approve the takeover scheme is passed in accordance with the provisions of this Constitution;
- (b) a person (other than the offerer or an associate of the offerer) who, as at the end of the day on which the first offer under the takeover scheme was made, held shares included in that class is entitled to vote on an approving resolution and, for the purpose of so voting, is entitled to one vote for each of the last mentioned shares;
- (c) the offeror or an associate of the offeror is not entitled to vote on an approving resolution;
- (d) an approving resolution must be voted on at a meeting, called and conducted by the Company, of the persons entitled to vote on the resolution; and
- (e) an approving resolution that has been voted on, is taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than one-half, and otherwise is taken to have been rejected.

22.3 Meeting procedures

All the provisions of this Constitution as to general meetings apply, with such modifications as the circumstances require, to a meeting that is convened under this Rule 22.

22.4 Board to ensure resolution is voted on

Where takeover offers have been made under a proportional takeover scheme then the Board must ensure that a resolution to approve the takeover scheme is voted on in accordance with this Rule 22 before the relevant day in relation to the takeover scheme.

22.5 Deemed approval

Where as at the end of the day before the relevant day in relation to a proportional takeover scheme no resolution to approve the takeover scheme has been voted on in accordance with this Rule 22, a resolution to approve the takeover scheme is for the purposes of this Rule 22 deemed to have been passed in accordance with this Rule 22.

22.6 When this rule ceases

Rule 22 ceases to have effect on the third anniversary of the adoption or last renewal of this Rule 22.

Attachment B – Terms and conditions of AEFAU options

- The scheme will be open to non-probationary staff as at 30 June 2008 and, at the discretion of the Board, executive directors.
- The ESOP will offer options totalling 5% of AEI's issued share capital each year.
- Options will be offered for nil consideration.
- The number of options offered to eligible staff will be determined on the basis of each staff member's remuneration. A staff member will be invited to take up those number of options out of the total pool of options offered that is proportional to the amount that their remuneration within the relevant period bears to the total remuneration paid by AEI in the relevant period. Individual staff members will be advised of their specific entitlement in the application material that accompanies this offer information statement.
- The exercise price of the options will be the current market value of the underlying shares, as determined by the Board for the ESOP scheme, plus 10%. The exercise price for options offered under this offer information statement is set out in section 1.1.
- The options will not be exercisable for three years from their date of issue.
- Once an employee is entitled to exercise their options, they must do so within three months of becoming so eligible otherwise the options will lapse.
- Options issued under these arrangements lapse if an option holder is no longer an employee of AEI for any reason. The Board may, however, in its absolute discretion, allow a previous employee to retain their options under the scheme where the Board considers that to do otherwise would be substantially unfair to the employee, given the circumstances that surround their cessation of employment.
- Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.
- Shares acquired upon the exercise of the options will be ordinary shares, without any further restrictions or conditions.
- Where:
 - a takeover 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
 - 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,then options issued under these arrangements will become exercisable at that time, and must be exercised within three months of becoming so exercisable, otherwise the options will lapse.
- In the event that:
 - the Company has announced a buy-back scheme to purchase shares resulting from the exercise of the options;
 - the option holder wishes to sell all or some of the shares resulting from the exercise of the options during the exercise period for those options,then the option holder will offer the Company a first right of refusal to match in quantum and price any other offer made to purchase those shares from the option holder.

In addition to the above terms, where AEI remains on the official list of the Australian Stock Exchange ("ASX"), the options shall have following additional terms:

- If at any time AEI undergoes a reorganisation of capital, then notwithstanding anything contained in these terms, the terms of the options and the rights of the option holder will be changed in a manner fair and

reasonable to the parties and to the extent necessary to comply with the ASX Listing Rules in force at the time of that reorganisation.

- No option shall confer on its holder the right to participate in a new issue of securities made by AEI.
- If AEI makes a bonus issue of ordinary shares to holders of ordinary shares (other than an issue in lieu or satisfaction of dividends or by way of dividend reinvestment) the number of ordinary shares over which the option is exercisable may be increased by the number of ordinary shares which the option holder would have received if the option had been exercised before the record date for the bonus issue.
- If there is a pro rata issue (except a bonus issue) to the holders of ordinary shares, the exercise price of an option may be reduced according to the formula set out in ASX Listing Rule 6.22.2.

Attachment C –
Employee Share Incentive Scheme Rules

Australian Ethical Investment Limited

Employee Share Incentive Scheme

Scheme Rules

Version: 1.0

Date: 22 October 2008

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 be issued ordinary shares in the company.
- 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 issued under this Rule 18 entitle the holder to normal voting and dividend rights. However, the ordinary shares issued under this Rule 18 may not be sold or transferred for a period of 3 years from the date of issue, 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.

PROXY FORM

Australian Ethical Investment Limited
 ABN 47 003 188 930
 Annual General Meeting

All correspondence to:
 Registries Limited
 GPO Box 3993
 Sydney NSW 2001

Enquiries: 1 300 737 760
 Facsimile: 1 300 653 459
 www.registriesltd.com.au
 callcentre@registries.com.au

Appointment of Proxy

If appointing a proxy to attend the Australian Ethical Investment Limited Annual General Meeting on your behalf, please complete the form and submit it in accordance with the directions at the bottom of the page.

I/We being a shareholder/shareholders of Australian Ethical Investment Limited pursuant to my/our right to appoint not more than two proxies, appoint

The Chairman of the Meeting (mark with an "X") **OR**

Write here the name of the person you are appointing if this person **is someone other than** the Chairman of the Meeting.

or failing him/her

Write here the name of the other person you are appointing.

or failing him/her, (or if no proxy is specified above), the Chairman of the meeting, as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting to be held at The Oak Room, Belconnen Premier Inn, 110 Benjamin Way, Belconnen ACT 2617 on Thursday, 27 November 2008 at 6.00pm and at any adjournment of that meeting.

This proxy is to be used in respect of _____ % of the ordinary shares I/we hold.

The Chair intends to vote 100% of all open proxies in favour of all resolutions, **except that the Chair will vote open proxies against resolutions 3(e) - 3(g), and will abstain from voting open proxies on resolution 4(b).**

Voting directions to your proxy – please mark to indicate your directions

RESOLUTION	For	Against	Abstain*	RESOLUTION	For	Against	Abstain*
2(a) Approve the remuneration report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4(a) Approve amendments to Constitution.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(b) Note report on the status of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4(b) Approve proportional takeover plebiscite.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Board SUPPORTS the election of Mr Pender, Ms O'Donnell, Dr Coleman and Mr Morony				5(a) Approve amendments to options on issue under employee share ownership plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3(a) Re-elect Mr Howard Pender	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5(b) Approve grant of options - October 2008	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3(b) Elect Ms Anne O'Donnell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5(c) Approve grant of options to Anne O'Donnell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3(c) Elect Dr Les Coleman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5(d) Approve employee share incentive plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3(d) Elect Mr André Morony	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
The Board DOES NOT SUPPORT the election of Mr Lee, Dr Pearson or Mr McCready and recommends that you direct your proxy to vote AGAINST motions 3(e), 3(f) and 3(g)							
3(e) Elect Mr Trevor Lee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
3(f) Elect Dr Robert Pearson.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
3(g) Elect Mr Kevin McCready.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Executed in accordance with section 127 of the Corporations Act:

Individual or Shareholder 1	Joint Shareholder 2	Joint Shareholder 3
<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director & Sole Company Secretary	Director	Director / Company Secretary
Dated this _____	day of _____	2008

_____ **Contact Name** _____ **Contact Business Telephone / Mobile**

INSTRUCTIONS FOR COMPLETING PROXY FORM

1. Your pre-printed name and address is as it appears on the share register of Australian Ethical Investment Limited. If you are Issuer Sponsored and this information is incorrect, please make the correction on the form, sign and return it. Securityholders sponsored by a broker on the CHESS subregister should advise their broker of any changes. Please note, you cannot change ownership of your securities using this form.
2. Completion of a proxy form will not prevent individual shareholders from attending the Annual General Meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Annual General Meeting.
3. A shareholder of the Company entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the shareholder's voting rights. If the shareholder appoints two proxies and the appointment do not specify this proportion, each proxy may exercise half of the votes.
4. A proxy need not be a shareholder of the Company.
5. If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.
6. If a representative of a company shareholder is to attend the Meeting, a properly executed original (or certified copy) of the appropriate "Certificate of Appointment of Corporate Representative" should be produced for admission to the Meeting. Previously lodged "Certificates of Appointment of Corporate Representative" will be disregarded by the Company.
7. If a representative as Power of Attorney of a shareholder is to attend the meeting, a properly executed original (or originally certified copy) of an appropriate Power of Attorney should be produced for admission to the Annual General Meeting. Previously lodged Powers of Attorney will be disregarded by the Company.

8. Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: Where the holding is in one name, the holder must sign.

Joint Holding: Where the holding is in more than one name, all of the shareholders should sign.

Power of Attorney: If you are signing under a Power of Attorney, you must lodge an original or certified photocopy of the appropriate Power of Attorney with your completed Proxy Form.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person.

If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone.

Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

9. Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address below not later than 6.00 pm AEST on Tuesday, 25 November 2008 (48 hours before the commencement of the meeting).

Any Proxy Form received after that time will not be valid for the scheduled meeting.

Hand deliveries

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000

Postal address:

Registries Limited
GPO Box 3993
Sydney NSW 2001

Fax number:

1 300 653 459

Twenty second Annual General Meeting of Shareholders

Written questions from shareholders

The directors of Australian Ethical Investment Ltd invite you to ask written questions on:

- the management of the company;
- the content of the auditor's report to be considered at the meeting;
- the conduct of the audit of the annual financial report to be considered at the meeting.

This question form should be deposited at the Company's Registered Office not later than five business days prior to the meeting - by 6.00 pm on Thursday 20 November 2008. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 2435, Canberra ACT 2601 or faxed to 02 6201 1987. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time.

Written questions addressed to the auditor will be passed onto the auditor for consideration.

Please note that the company intends to respond to written questions thematically. Answers to questions will be provided at the Annual General Meeting and will also be published on the company's website. The company may not provide individual answers to written questions at the meeting.

Please note that the company 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.

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.

Directors provide this opportunity to, in particular, enable shareholders who may not be able to attend the Annual General Meeting to ask questions. This is something that directors choose to do, not something that they are compelled to do.

Shareholder name (exactly as it appears on holding statement)

Address and contact details

Question(s)

australianethical

SHAREHOLDER NEWSLETTER

October 2008

Chair's report



A sound year during troubled times

The board is pleased to report that Australian Ethical Investment Ltd has had another sound year in terms of profit and return on equity, with a dividend declaration of \$1.65 per share and a return on equity of 20.6%. While both these figures are somewhat lower than our 2007 record returns, they are very good in light of the market turbulence experienced over the past six months. Our balance sheet remains strong with the ability to finance our strategic initiatives discussed below.

With market volatility at record levels, it is worthwhile to review the fundamental growth prospects of our industry. The board is confident that our growth prospects remain strong, despite the market downturn. Our trusts have held up well relative to the market through the downturn. Our Equity Trust and Large Companies Share Trust in particular have outperformed their respective benchmarks strongly during the last few rocky months.

While the overall ethical market in Australia is still quite small - about \$17 billion - it is growing very fast. Investments that systematically take environmental, social and governance issues into account outgrew mainstream investing by more than double in the year to June 2007. They grew by 43%, from \$12 billion to \$17 billion, compared to 20% growth in the managed investments industry overall.

Within this high growth stream, Australian Ethical has a brand which is true to form, strong, and the envy of many others in the area. However, our brand recognition lags behind where it could be, partly because we have not had the capacity for large scale marketing expenditure and partly because we have focused on deep green niche target markets. We are currently in the middle of a two year project to address this, including:

- the development of marketing messages that are tangible and more accessible than the principles of the Charter
- close work with asset consultants and rating agencies to improve their understanding of our products.

We are confident that this will bear fruit in the next two years.

Our retail superannuation business has steadily grown as a percentage of our total business over the last five years, and now represents well over 50% of our funds under management. This business is much less sensitive to market fluctuations than our managed investments business and we are confident that this part of our business will continue to grow strongly. The board is mindful of recent statements by the government regarding the high cost of retail superannuation funds and has a strategy in place to minimise the impact of any government intervention in this area.

We are pleased to advise shareholders that our search for high quality non-executive directors has borne fruit this year, with the appointment of Andre Morony and Les Coleman to the board. Non-executive directors, Justine Hickey and Andre Morony bring to our board wide external funds management experience, while Les Coleman has deep risk management expertise.

Caroline Le Couteur has indicated that she will not be standing for re-election to the board this year meaning that the board will shortly comprise a majority of non-executive directors. I would personally like to thank Caroline for her significant contribution to the board of Australian Ethical over the last 17 years and for her commitment over that time to our Charter.

We continue our 2007 strategy of broadening our marketing reach beyond our traditional support base. A 2008 strategy meeting also identified the need for a review of our internal IT systems, and this is now underway to ensure our systems are robust to deal with future growth.

I have enjoyed my first year as chair and can personally attest to the qualities of Anne O'Donnell as CEO and managing director of Australian Ethical. While many boards are changing CEO during these troubled times, I have full confidence in Anne to deliver shareholder returns in a sustainable way. Anne has recruited a strong team around her, including Martin Halloran, our new chief investment officer and Paul Harding-Davis, our new head of distribution. I believe this team will take the best of Australian Ethical, which is our people, our ethical investment processes and our Charter, and use them in new and exciting ways which will grow our company into the future.



Naomi Edwards
Chair

Managing director's report



The financial year ended 30 June 2008 reflects a year of two halves. The Australian Ethical Investment group performed strongly in the first half of the year however the full year result reflects the volatility and uncertainty that has been experienced in global financial markets. The Australian Ethical trusts had no direct exposure to any 'sub-prime' investments, however we have experienced the impact of falling asset prices and depressed investor sentiment. The company recorded a consolidated net profit of \$1.65 million. This trading result represents a decrease on the previous financial year's excellent result of \$1.82m. 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 good result.

The company achieved strong growth in funds under management during the first half of the financial year with funds peaking at \$645m. This growth and the revenue generated cushioned the impact of downward market movements which occurred in the second half of the financial year. As at 30 June 2008, funds under management totalled \$562m (ex distribution). This compares with funds under management of \$552m (ex distribution) as at 30 June 2007.

The relative flatness in funds under management, combined with some increased costs and additional expenditure on business development, resulted in the cost to income ratio increasing from 76% in 2007 to 80%. This increase is in contrast with the steadily declining trend experienced in the past four financial years. Return on equity was also impacted falling from 26.1% to 20.6%.

The Australian Ethical Trusts performed credibly in a year of poorly performing financial markets with the returns for three of our five trusts exceeding their benchmarks. This was a good result and important as the success and growth of our business is dependant on the performance of the Australian Ethical trusts. We remain committed to investing in quality companies taking into account ethical and financial strength and ensuring our returns are commensurate with the risk profile of an individual trust.

The Australian Ethical Retail Superannuation Fund has continued to experience steady inflow of funds in line with expectations. On 1 April 2008 we transited the administration of our superannuation fund to a new service provider. This process has not been without its difficulties and we have incurred one-off costs as part of this process. Despite these transitional problems it is apparent the move will result in a more robust administration of the superannuation fund. In the past the fee structure of the administrator was linked to funds under management. The new structure is not linked to funds under management and we estimate this new arrangement will result in savings greater than half a million dollars in the current financial year.

When considering the level of dividend the directors are mindful of the significant franking credits held by the company and the need to ensure we have sufficient capital to provide prudent reinvestment into the business. The directors have decided that shareholders will be paid a final dividend (fully franked) of \$1.20 per ordinary share. Added to the interim dividend of 0.45 cents per share, the total dividend for the 2007-08 financial year will be \$1.65 per share.

The Australian Ethical Retail Superannuation Fund was awarded the inaugural Infinity Award at the Conference of Major Super Funds (CMSF) in March 2008. The award signifies the Fund as Australia's most environmentally and socially conscious fund and a leader in sustainable investment and sustainable business practices.

Trevor Pearcey House continues to meet high standards of energy efficiency and to provide our employees with a

comfortable and productive working environment. Interest in the building continues to be strong and this has been very useful in raising the profile of Australian Ethical generally. In July this year, our refurbishment won the Banksia Environmental Foundation award for the Built Environment. The Prime Minister is the Chief Patron of the awards and the win comes on the 20 year anniversary of the awards.

Outlook

A significant portion of investment in the Australian Ethical trusts comes from retail clients. This money has traditionally been 'sticky' in times of market downturn and historically the trusts have not experienced significant outflows. However, Australian Ethical is not immune to market volatility and negative investor sentiment. It is highly likely we will see the impact of these factors in our funds under management and revenue numbers during the 2008–09 financial year. A decline in revenue has the potential to impact company profitability.

Offsetting potential declines in revenue are savings which will flow from changes we have made to our custodian and superannuation administration providers. The company will continue to focus on building and servicing its clients and streamlining its processes, ensuring scalability and efficiency of operations. During challenging financial periods it is tempting to take the easy option and cut costs dramatically and potentially endanger future growth opportunities. Australian Ethical is fortunate in that we have a unique product offering and a very loyal customer base. Whilst we are mindful of the need to monitor our costs closely, we do not intend to undertake any radical changes to our business model at this time.

As previously flagged we are keen to attract increased non-retail investment. We continue to implement strategies which will allow us to tap into the growing commercial interest in sustainable investment. We also believe the rise in shareholder activism offers some exciting opportunities which complement our expertise and have the potential to expand our customer base. We are currently exploring the possibility of bringing to market a product which will tap into this trend.

All the staff at Australian Ethical have been working hard in what has been a very difficult financial market. I would like to thank them for their diligence and commitment. I would also like to thank you, our shareholders, for your ongoing support and I look forward to seeing you at the annual general meeting on 27 November.



Anne O'Donnell
Chief executive officer and managing director

Grants to community organisations

\$60 000

Bluegreen Films - 'Sustainability & Co' a three part documentary series on corporate sustainability and governance will be produced by Bluegreen Films.

\$50 000

MSAP - University of NSW Medical Students' Aid Project will stock a community store with school and household essentials, purchase a motorised canoe, fuel and one year's salary for a canoe pilot to transport the products to remote riverside markets in the Congo.

\$7945

Barefoot Economy
Engineers Without Borders - Tonlé Sap Lake Project

\$5000

Australian Marine Conservation Society
WaterAid Australia
ACT Eden Monaro Cancer Support Group
New Internationalist Publications
Edmund Rice Centre for Justice and Community Education
Pedal Power ACT

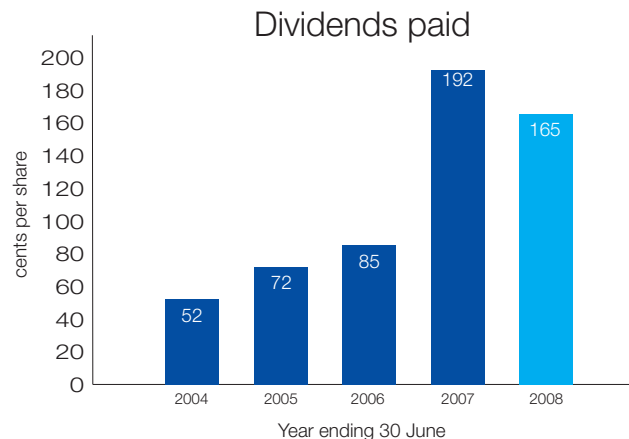
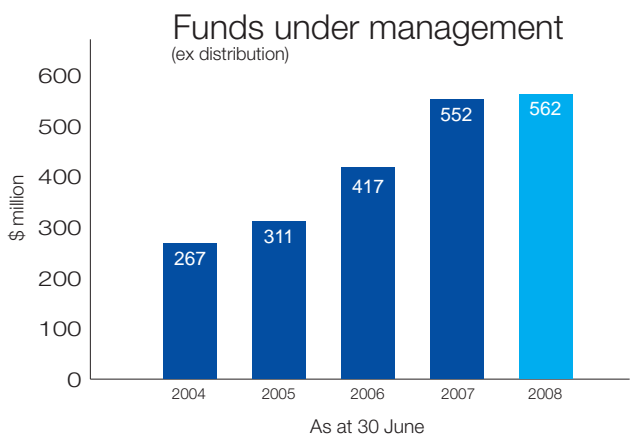
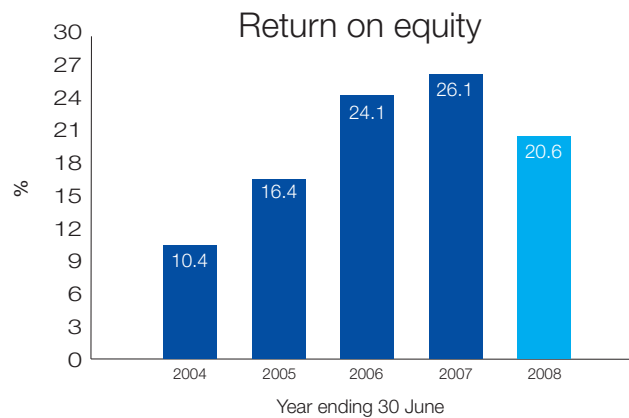
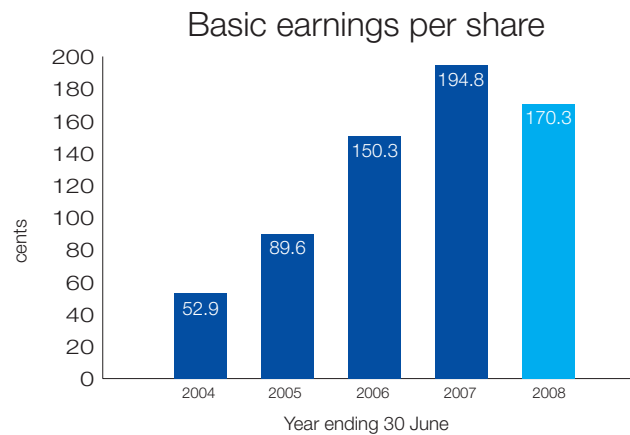
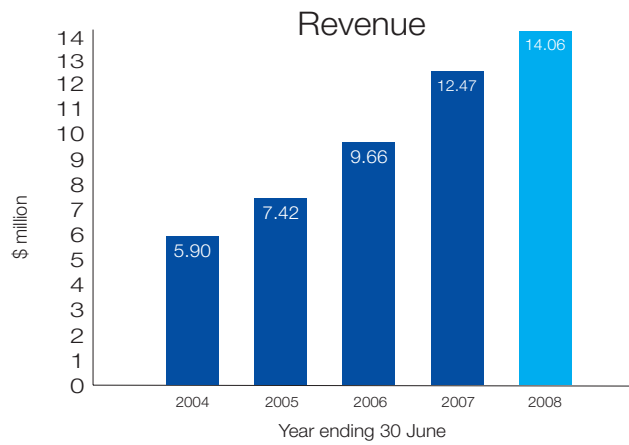
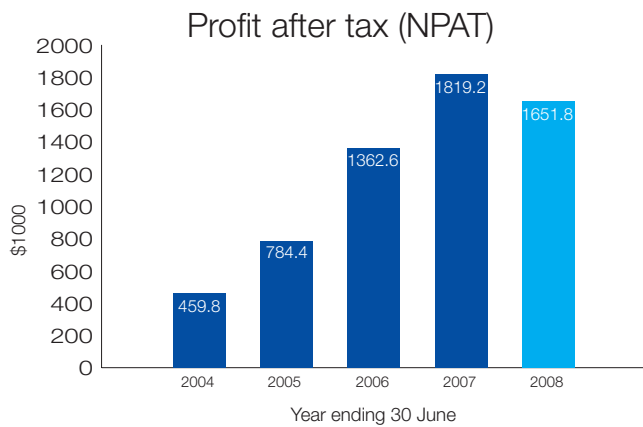
\$3000

Fair Trade Association of Australia and New Zealand
Animals Asia Foundation (Australia)
Child Wise
Rainforest Rescue
Royal Institute for Deaf and Blind Children
Sustainable Maleny
The Queensland Society for Crippled Children
Asian Women at Work
Bush Heritage Australia
Clean Ocean Foundation
Romero Centre
Trees For Life
Broken Hill & District Hearing Resource Centre
Kuusa Services Centre
The Australian Conservation Foundation

A full description of all the grant recipients is available on the website www.austethical.com.au/cg

Financial summary to 30 June 2008

as at	30 June 2008	30 June 2007	30 June 2006	30 June 2005
Current assets (\$'000)	6 362	5 174	5 176	5 833
Non-current assets (\$'000)	4 790	4 879	3 103	701
Current liabilities (\$'000)	2 658	2 293	1 928	1 456
Non-current liabilities (\$'000)	113	76	77	31
Net assets (\$'000)	8 381	7 684	6 274	5 047



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

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