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Appointment of New Chief Executive Officer

Australian Ethical Investment Limited is pleased to advise that Mr Phillip Vernon has been appointed as its Chief Executive Officer.

Mr Vernon will join the company on 7 December 2009.

Mr Vernon has 25 years experience in financial services covering funds management, capital markets and superannuation. Most recently he was a member of the Executive Committee of Perpetual Limited heading up its Corporate Trust division. Over the past 10 years he grew the business organically and by acquisition from a small base to be a business of \$34m profit, 400 staff and responsible for over \$200bn in funds under administration.

With extensive experience in corporate governance and industry regulation Mr Vernon has played a large role in industry affairs most recently as Chairman of the Australian Securitisation Forum where he helped forge many industry standards for investor protection and transparency in the Australian credit markets.

Mr Vernon has a long held interest in sustainability and corporate social responsibility and has recently been invited to join the board of Planet Ark. He has a particular interest in the responsibility of investment markets and the incorporation of environmental, social and governance issues into fundamental investment decision analysis.

Ms Naomi Edwards, chair of Australian Ethical, welcomes Mr Vernon to the company. "The Board is delighted at Mr Vernon's appointment. Australian Ethical was a pioneer in the field of responsible investment in Australia and is at an important point in its history. We believe that Mr Vernon's broad experience in building financial services businesses, corporate governance, industry leadership and passion for responsible investment will serve us well in leading Australian Ethical at this exciting time as the industry continues to evolve. We look forward to a strong contribution from him to the company's mission and its performance."

Commenting on his appointment, Mr Vernon said "With the increasing awareness amongst consumers toward sustainable and socially responsible products and services, the responsible investment sector is set to grow significantly over the coming years. As the sector continues to grow, investors will become more discerning about the commitment to, and the integrity of the investment processes around environmental, social and governance issues. I'm delighted to be joining an organisation with Australian Ethical's pedigree, authenticity and commitment to this sector."

Mr Vernon has a Bachelor of Economics from the University of New England, a Master of Commerce from the University of New South Wales and a Master of Business Administration from the Macquarie Graduate School of Management. He is a Fellow of the Australian

Society of Certified Practising Accountants and a Member of the Australian Institute of Company Directors.

Mr Vernon's appointment follows an executive search conducted by the Board's Remuneration and Nominations committee, which provided a number of strong candidates for the role.

Attached is a summary of the key terms and conditions of Mr Vernon's appointment.

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Company Background

Australian Ethical is a funds manager that specialises exclusively in ethical funds management. It offers managed investment schemes and corresponding superannuation strategies (for accumulation and pension accounts). The Australian Ethical Charter is the foundation of the investment process. It aims to avoid harmful investments and actively seeks investments that benefit society and the environment. Uniquely, the company's constitution requires that 10% of profit is donated to charitable and conservation initiatives.

KEY TERMS AND CONDITIONS – EMPLOYMENT AGREEMENT

1. TERM

The appointment is subject to a 6 month probation period. The commencement date is 7 December 2009. Mr Vernon's employment agreement is an open ended permanent full-time contract. Employment is ongoing until notice is given by either party.

2. REMUNERATION

There are three components to Mr Vernon's remuneration. They are:

a. Fixed Remuneration

Mr Vernon will be paid a fixed remuneration amount of \$272,500 per annum calculated on a total cost basis and inclusive of employer superannuation contributions.

b. Short and mid-term incentive payments

As is the case for all employees, Mr Vernon may be granted an annual cash bonus under clause 15.1(c)(i) of the company's constitution. The bonus has typically been an amount of between \$4,000 to \$6,000 for an employee who has worked full time throughout the relevant year.

Mr Vernon will be entitled to an annual cash bonus of up to \$50,000. The payment of the cash bonus will be based on the achievement of various performance criteria. The criteria relate to net funds inflow, the company's return on equity, the delivery of qualitative changes and the company's cost to income ratio.

Mr Vernon will be entitled to receive up to \$55,000 worth of performance rights under the individual component of the company's employee share incentive scheme. The criteria to determine the number of performance rights to be granted will be the same as those used for the awarding of the cash bonus. So, for example, if only half the cash bonus is paid, then only \$27,500 worth of performance rights will be granted.

Subject to the Rules of the employee share incentive scheme, shares in respect of the performance rights will vest approximately 12 months after grant, assuming that employment continues until the end of that period. The number of shares which will finally vest will be adjusted by the board up or down by a maximum of 20% based on the company's performance against a pre-determined benchmark such as return on equity. The shares granted are ordinary shares in the capital of the company.

c. Long term incentive payments

Along with other permanent employees, Mr Vernon will participate in the general component of the company's employee share incentive scheme. Under these arrangements permanent employees receive performance rights each year which vest to ordinary shares of the company in three years time. The performance rights issued under the general component of the employee share incentive scheme are subject to an ongoing employment condition and to a performance hurdle set annually by the Board.

The number of performance rights that an employee receives under the general component of the scheme is proportional to the amount that their fixed remuneration for a relevant period (normally a financial year) bears to the total remuneration paid by the company over that same period. The company has estimated the annual value of the long term incentive for Mr Vernon under the scheme (determined as at the time of grant) as approximately \$17,500.

The company has agreed to grant to Mr Vernon upon appointment \$10,000 worth of performance rights with terms equivalent to those being offered to current permanent employees under the general component of the employee share incentive scheme. The performance hurdles for those rights (subject to the Rules of the scheme) are that:

- employment must continue until 30 June 2012;
- return on equity over the performance period must exceed 15% per annum for any shares to vest;
- if return on equity over the performance period exceeds 15% per annum but is less than 20% per annum, then half the maximum number of shares will vest;
- if return on equity over the performance period exceeds 20% per annum then the maximum number of shares will vest;
- the performance period is the three financial years 2009/10, 2010/11 and 2011/12.

d. Remuneration review

Mr Vernon's remuneration will be subject to annual review by the Board. There are no guaranteed remuneration increases in the employment agreement.

3. TERMINATION

In all termination events, the company will pay Mr Vernon the value of any untaken annual leave and long service leave which had accrued to him immediately before the termination.

a. Probation

During or at the completion of the probationary period the company may in its absolute discretion and with or without any prior notice or cause terminate Mr Vernon's employment.

b. Termination with Notice

The company may terminate Mr Vernon's employment by giving 12 weeks' notice in writing. In this event the post employment restraints will not apply.

The company and Mr Vernon may agree to a shorter period of notice or pay in lieu of notice.

c. Termination without Notice

The company may terminate Mr Vernon's employment without prior notice if he:

- commits any serious or persistent breach of the terms and conditions of his employment;

- is guilty of any serious misconduct or neglect in the discharge of their duties;
- is charged with any criminal offence other than an offence which in the opinion of the company is unrelated to their employment; or
- is unable to perform their duties for any reason for a period in excess of 60 consecutive working days or for an aggregate period of 90 working days in any period of 12 months during the term (other than during a period of approved leave).

d. Resignation with Notice

Mr Vernon may resign by giving 12 weeks' notice in writing to the company.

The company and Mr Vernon may agree to a shorter period of notice or pay in lieu of notice.

e. Resignation without notice

Mr Vernon will be deemed to have terminated his employment without notice if:

- he is absent from work other than on approved leave for more than 5 consecutive working days without notifying the company and receiving its approval prior to or during such absence; and
- the company has made reasonable but unsuccessful attempts to contact Mr Vernon for a further 5 days.

f. Redundancy

If Mr Vernon's position becomes redundant, the company:

- will, at Mr Vernon's request, engage a recruitment services provider for a period of 6 months to assist in finding alternative employment.
- must offer to redeploy Mr Vernon to a reasonable alternative position in the company.

If employment is terminated because of redundancy the following terms apply.

- the company will terminate employment with notice;
- consistent with the rules of any employee share ownership plan, the company will act to prevent the loss or expiry of any shares or rights issued under such a plan which would otherwise expire upon cessation of employment;
- Mr Vernon would be entitled to a redundancy payment in accordance with statutory entitlements or the company's internal policy whichever is more beneficial;
- post employment restraints will not apply.

g. Other circumstances

Subject to any requirement or prohibition of the Australian Securities Exchange Listing Rules, if there is a change of control of the company, and within six months of that change of control, the company terminates Mr Vernon's employment (other than in those circumstances where the company can terminate without notice), then, in addition to any other entitlements Mr Vernon has, Mr Vernon will be entitled to be paid an amount calculated in accordance with the redundancy provision discussed above.

4. POST EMPLOYMENT RESTRAINTS

For a period of up to six months after cessation of employment, Mr Vernon is restrained from undertaking employment or setting up a business which specialises in the field of ethical investment within certain geographic areas. Business means the provision of financial products or services where that product or service includes primarily consideration of ethical, moral, social, governance or environmental issues.