

ASX Code: AEF

Date: 17 November 2010

## Sustainability Report

Australian Ethical Investment Limited's Sustainability Report for the financial year ended 30 June 2010 is attached.

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.

australian**ethical**

SUSTAINABILITY  
REPORT 2010



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‘Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.’

Margaret Mead

*Courtesy of The Institute for Intercultural Studies, Inc., New York*

## GRI Application Level

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							<input checked="" type="checkbox"/>
	Third Party Checked			Report Externally Assured		Report Externally Assured		Externally Assured
Optional	GRI Checked			Report Externally Assured		Report Externally Assured		

## About this report

### Report profile

This is Australian Ethical Investment Limited's (australian**ethical**'s) ninth sustainability report and covers the period from 1 July 2009 to 30 June 2010. **australianethical** has an annual reporting cycle. The previous report covered the period from 1 July 2008 to 30 June 2009.

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### Report scope and boundary

This report describes the economic, environmental and social performance of Australian Ethical Investment Ltd and Australian Ethical Superannuation Pty Ltd for the year to 30 June 2010. It does not extend to the activities of the investments of the trusts and super fund managed by the **australianethical** group, nor does it extend to the activities of its ethics research provider, CAER – Corporate Analysis. Enhanced Responsibility.

The reporting of a number of environmental indicator aspects including materials, energy, water and waste is limited to **australianethical**'s main office in Canberra. It does not include the activities of staff working off site or at the Company's small Sydney office. There has been no change in the report boundary since the previous reporting period.

### Report scope

There has been no change in the report scope since the previous reporting period. A list of the GRI indicators covered can be found at the back of this report.

### Data measurement techniques

Data has been measured, calculated and compiled according to the GRI G3 indicator protocols.

### Restatements

Data that has been restated is identified in the text along with an explanation of the effect of any restatements and the reason for the restatement.

### Assurance

**australianethical**'s 2010 sustainability report was formally reviewed by Thomas Davis and Company, Chartered Accountants. A report of this review was provided to the Directors of **australianethical** and is at pages 46 and 48.

## Managing Director's report



This is my first sustainability report as Managing Director and CEO of **australianethical** and I would like to express my excitement at leading a company with such a strong record in sustainability reporting. **australianethical** continues to be among a select group of small and medium sized enterprises (SMEs) in Australia to produce an annual sustainability report, and has been doing so since 2002. This strong and unique record presents us with significant opportunities for market differentiation going forward.

Sustainability remains a key focus for **australianethical**. During the year we have re-positioned our International Equities Trust with the theme *globalsmartenergy*. The International Equities Trust now targets investment in companies involved in global sustainable energy supply and demand management. This dual focus on both the supply and demand side of energy use will allow it to benefit from the opportunities presented in combating and managing the impact of climate change.

The key environmental challenge we face as an organisation is reducing the amount of energy, water and paper used in our offices, as well as minimising the amount of greenhouse gas emissions and waste we produce. As demonstrated in the environment section of this report, we are leaders in the areas of energy and water efficiency, and offset the greenhouse gas emissions that we do produce. **australianethical** is determined to reduce its printer and photocopier paper use and has set a 10 per cent reduction target for 2010–11.

The key regulatory risks that **australianethical** is exposed to relate to the various regulatory reviews into financial services that have been released during the year, such as the Cooper review of superannuation. **australianethical** is well placed to handle any changes in regulations that ultimately result from these reviews.

**australianethical** continues to lead its sector in philanthropy. Despite the continuing difficult economic conditions faced by fund managers **australianethical** will again give 10 per cent of its profits to non-profit organisations, honouring the commitment in our constitution. Grants of \$124,941 will be made this year. This sees the total contribution over the years of our community grants program surpass \$1 million. We are proud of this important milestone in our commitment to the community.

During the year we have continued to focus on shareholder advocacy. **australianethical** believes that we not only have a responsibility to improve our own environmental performance, but to positively influence the behaviour of the wider community in an effort to build a more sustainable future. Our new climate advocacy fund aims to encourage better climate performance, especially around carbon disclosure, by putting resolutions at annual general meetings of other companies listed on the ASX. This will help promote sustainable business practices across Australia.

We have aligned our report with the G3 guidelines published by the Global Reporting Initiative (GRI 2006). GRI's G3 guidelines are used by companies and organisations worldwide as a framework for sustainability reporting. If you have any suggestions on ways in which to improve the content and quality of the report, please fill in the feedback form located at the back of this report or on the **australianethical** website [www.australianethical.com.au](http://www.australianethical.com.au).

A handwritten signature in black ink, appearing to read 'P. Vernon', with a long horizontal line extending to the right.

Philip Vernon  
Managing Director and CEO

## Company profile

### Company profile

australian**ethical** is an independent fund manager based in Canberra, Australia. The company was established in 1986 for the purpose of pooling investor savings, specialising in environmental and socially responsible investment. It originally managed a private ethical trust until 1989, when what is now the australiane**ethical** Balanced Trust opened for public subscription. australiane**ethical** became a publicly listed company on the Australian Securities Exchange in December 2002. As at 30 June 2010 the company had 52 employees and \$591.8 million in funds under management on behalf of over 18,000 responsible investors. Revenue for the year to 30 June 2010 was \$14,067,899, a seven per cent increase on the previous financial year.

The company has a commitment to promote ecologically sustainable and socially just enterprises using judicious investment throughout Australia as well as internationally. It currently manages seven retail unit trusts: the Climate Advocacy Fund, Balanced Trust, Smaller Companies Trust (previously known as the Equities Trust), Larger Companies Trust (previously known as the Large Companies Trust), Income Trust, International Equities Trust and Property Trust. Its wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, is Trustee of the Australian Ethical Retail Superannuation Fund. The Australian Ethical Retail Superannuation Fund offers seven accumulation and six pension superannuation strategies: Climate Advocacy (accumulation strategy only), Conservative, Balanced (previously known as the Balanced Strategy), Smaller Companies (previously known as the Equities Strategy), Growth (previously known as the Large Companies Share Strategy), International Shares (previously known as the World Strategy), and Defensive (previously known as the Income Strategy).

### All investments are managed to assist in:

- achieving a just and sustainable society
- protecting the natural environment
- providing a competitive financial return to investors

To do this, all investments are managed using the australiane**ethical** Charter (see page 9) which aims to provide investment support to environmental and socially positive activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare, workplace relations and a range of related issues.

As part of the company's constitution, 10 per cent of annual profits are donated to non-profit, charity, benevolent and conservation organisations.

### Review of operations

During the year australiane**ethical** launched the Climate Advocacy Fund, the Australian Ethical Property Trust and re-positioned our International Equities Trust with the theme globalmartenergy. Ms Anne O'Donnell also stepped down from her role as Managing Director and Chief Executive Officer (CEO) of the company. Following a comprehensive recruitment process the board was pleased to announce the appointment of Mr Phillip Vernon as the new CEO on 7 December 2009. Our Chief Investment Officer (CIO), Martin Halloran, resigned in May 2010 to take up a senior role in the Australian Public Service. He was replaced by James Jordan, previously our Head of Research.

There were no significant changes to the size, structure or ownership of australiane**ethical** during the reporting period. The company's capital structure and policies remain relatively simple. The company currently has no debt and capital not required for working purposes is held as an investment in Trevor Pearcey House and in an investment portfolio comprising triple A rated (or equivalent) securities, senior bank debt and corporate rated debt.

### Events subsequent to balance date

On 27 July 2010 the company's CEO, Mr Phillip Vernon, was appointed Managing Director.

In September 2010 the Climate Advocacy Fund launched Australia's first climate change resolutions.

## Awards

Australian Ethical was a finalist in two sustainability awards this year and won Money Magazine's Best Green Super Fund.



Money magazine – Money magazine's 2010 Best of the Best award for 'Best Green Super Fund' for Australian Ethical Superannuation.

Finalist in the Sustainability Reporting category at the 2010 Australasian Reporting Awards (ARA) – June 2010

australian**ethical's** 2009 Sustainability Report was a finalist in the Sustainability Reporting category at the Australasian Reporting Awards. The ARA aims to promote excellence in reporting through the publication of informative and factual reports.

Finalist in the ASFA Comms 09 Awards – July 2009

Australian Ethical Superannuation was a finalist in 'The Green Campaign' award category at the Association of Superannuation Funds of Australia (ASFA) Comms 09 Awards. The Green Campaign category highlighted integrated campaigns that best demonstrated green initiatives.

## Climate Advocacy Fund

australian**ethical** has a long and proud history of advocacy. It is our belief that in order to build a more sustainable society it is imperative that organisations strive to improve their own environmental performance and also try to positively influence the behaviour of others. australiane**thical** has consistently engaged a variety of companies with the aim of increasing awareness of environmental, social and governance (ESG) issues. For example, over the last few years numerous Australian companies have been encouraged to participate in the Carbon Disclosure Project (CDP). There has also been a drive to increase investor awareness of ESG issues through a number of initiatives, including a biannual Aim High newsletter. australiane**thical** has noticed an increasing awareness of environmental, social and governance issues among investors over the past decade.

australian**ethical** has now taken the next step in its advocacy efforts with its new Climate Advocacy Fund. The Climate Advocacy Fund initiative seeks to promote constructive company engagement and shareholder resolutions to influence Australia's biggest companies to better manage climate change risk and opportunities. The Climate Advocacy Fund differs from traditional 'green' funds which typically invest in renewable energy and low-carbon assets, among other investments.

The Climate Advocacy Fund aims to use its ownership of carbon-intensive companies to influence their behaviour. This, and the dual objective to match, or better, the return of the S&P/ASX 200, makes it the first of its kind in the world. The fund is passively managed. It uses economic footprint weightings based on real variables such as sales, cashflow etc to construct portfolio weightings. It is not screened like our other funds.

In pursuit of this aim, the Climate Advocacy Fund has launched Australia's first climate change resolutions.

Companies that are to be engaged by the initiative are assessed against a range of factors including the following four key criteria:

- Policy and Governance – climate change awareness and commitment, incorporation of anticipated future carbon prices in business decision making.
- Management and Strategy – strategies and plans to reduce emissions.
- Disclosure – track record of emissions disclosure.
- Performance and Innovation – emissions, emissions intensity and strategies to reduce emissions beyond involvement in the Carbon Disclosure Project.

The first climate change resolutions were lodged in September by australiane**thical** with the intent they would be considered at the annual general meetings (AGMs) of four ASX 200 listed companies – Woodside Petroleum, aladin Energy, Oil Search and Aquila Resources.

Company	Proposed Resolution	Comment
Aquila Resources	Disclose footprint	Estimated to be 13th most carbon intensive ASX company
Paladin Energy	Disclose footprint	Estimated to be 3rd most carbon intensive ASX company
Oil Search	Disclose GHG emissions reduction target	Has none at present
Woodside	Disclose future carbon price assumptions for project evaluation	'Base case' project evaluation assumes no carbon prices ever

Woodside Petroleum is an Australian oil and gas company, and major producer of liquefied natural gas. Woodside operates the \$27 billion North West Shelf natural gas project. It also produces natural gas, liquefied petroleum gas, condensate and oil.

Paladin Energy is a uranium production company with projects in Australia and two operating mines in Africa. The Langer Heinrich Mine in Namibia is Paladin's flagship project.

Oil Search is an oil and gas exploration and development company that operates in Papua New Guinea. It is PNG's largest oil and gas producer and operates all of the country's producing oil and gas fields.

Aquila Resources is an Australia-based company engaged in exploration for coal, iron ore and manganese resources, and mining of coal resources. The Company operates in three business segments: coal, iron ore and manganese.

The aim of the 2010–11 resolutions focus is to protect long-term investor returns by putting the spotlight firmly on gaps in the knowledge and preparedness of companies to manage the long-term risk of climate change. The resolutions were lodged in September 2010.

For more information on the Climate Advocacy fund see [www.climateadvocacyfund.com.au/](http://www.climateadvocacyfund.com.au/)



## Investing ethically

Ethical investment is also known as sustainable investment and socially responsible investment (SRI). The term describes an investment process that, in addition to seeking a competitive financial return, incorporates environmental and social factors when selecting investments. In **australianethical**'s case, these factors are enshrined in the **australianethical** Charter (see page 9).

**australianethical** has been specialising in ethical and sustainable investment for over two decades. **australianethical**'s product range includes ethical superannuation and managed funds, both offering a broad range of investment strategies.

Ethical and sustainable investors seek to benefit from investment in companies whose activities make a positive difference on a range of ethical, social and environmental issues. So aside from making personal efforts to reduce water and energy use, taking public transport and recycling, sustainable investment allows money to work towards achieving a sustainable society too.

While many sustainable funds only avoid certain stocks, **australianethical** is unique in managing funds which actively seek investment in companies with superior environmental and social credentials. These companies are generally in industries such as renewable and efficient energy, organic foods, sustainable transport, recycling and water technologies.

**australianethical** invests in approximately 107 entities through its screened managed funds. Investments cover large and small enterprises over long and short terms, as well as the asset classes of interest-bearing securities, equities (shares) and property.

For over two decades **australianethical** has produced competitive financial returns allied with strong ethical values.

### Why it works

Taking account of a company's environmental, social and governance performance makes good investment sense. Over the long term companies that do better at managing their environmental risks and responsibilities should also perform better commercially.

The managers of the companies we select are more likely to think ahead, to care for staff, customers and the environment, and to use resources wisely.

Sustainable investment screening helps avoid companies with a high risk of serious health, safety or environmental problems that in the future may lead to fines, compensation payouts and investor contempt.

Society is increasingly requiring business to account for the full environmental costs of production. This leads to an increased demand for sustainable goods and services, raising the profits of the firms that supply them. We believe sustainable industries are the industries of the future.

### Our sustainable investments

**australianethical** goes beyond offering just a 'one size fits all' sustainable/ethical investment option. Rather it offers a broad range of investment options suitable for different times of life and different financial circumstances. Options range from a conservative income fund through to higher risk share-based funds. Investment options are described in detail in product guides and documents.

All of **australianethical**'s screened investment options adhere to the same rigorous ethical criteria.

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# The **australianethical** Charter<sup>©</sup>

## THE COMPANY WILL ORDER ITS AFFAIRS SO AS TO PROVIDE FOR AND TO SUPPORT:

- a. the development of workers' participation in the ownership and control of their work organisations and places
- b. the production of high quality and properly presented products and services
- c. the development of locally based ventures
- d. the development of appropriate technological systems
- e. the amelioration of wasteful or polluting practices
- f. the development of sustainable land use and food production
- g. the preservation of endangered eco-systems
- h. activities which contribute to human happiness, dignity and education
- i. the dignity and well being of non-human animals
- j. the efficient use of human waste
- k. the alleviation of poverty in all its forms
- l. the development and preservation of appropriate human buildings and landscapes.

All of **australianethical's** investment decisions are aligned with our Charter. The Charter guides the sort of corporate activities that **australianethical** seeks to avoid or support. The Charter contains both environmental and social components, including specific human rights elements.

Date of adoption: 1986. Applies worldwide.

The constituting documents of Australian Ethical Investment Ltd contain this Charter.

## THE COMPANY WILL ALSO ORDER ITS AFFAIRS SO AS TO AVOID ACTIVITY WHICH IS CONSIDERED TO UNNECESSARILY:

- i. pollute land, air or water
- ii. destroy or waste non-recurring resources
- iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
- iv. market, promote or advertise, products or services in a misleading or deceitful manner
- v. create markets by the promotion or advertising of unwanted products or services
- vi. acquire land or commodities primarily for the purpose of speculative gain
- vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments
- viii. entice people into financial over-commitment
- ix. exploit people through the payment of low wages or the provision of poor working conditions
- x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- xi. contribute to the inhibition of human rights generally.

*Clause 2.2 of the **australianethical** constitution obliges the directors of the company to report to shareholders on the pursuance of positive clause (a) above in the Charter and matters generally related to the status of employees at the time of the annual general meeting.*

## Governance

The following section outlines **australianethical**'s governance structure and related policies, with particular emphasis on environmental, social and ethical issues. For further detail on **australianethical**'s corporate governance please refer to **australianethical**'s 2010 annual report and website

[www.australianethical.com.au](http://www.australianethical.com.au).

### Governance structure

**australianethical** has a unitary board structure, with one board of directors comprising non-executives and executives. The board is responsible for overseeing the company's goals and for developing strategic plans to achieve those goals. The **australianethical** board (and its committees) have responsibility for the oversight and audit of the company's economic, environmental and social policies and procedures. The responsibility for implementation of these policies and procedures rests with **australianethical**'s CEO.

As at 30 June 2010 the board of **australianethical** comprised seven directors of which three were considered independent (Table 1).

**Table 1:** *australianethical* board of directors during 2009–10

Name	Position	Appointed /resigned
James Thier	Executive, non-independent	
Howard Pender	Executive, non-independent	
Naomi Edwards (Chair)	Non-executive, independent	
Justine Hickey	Non-executive, independent	
Anne O'Donnell	Executive, non-independent	Resigned directorship on 11 August 2009
Les Coleman	Non-executive, non-independent	
André Morony	Non-executive, independent	

Our CEO, Phillip Vernon, joined the company on 7 December 2009 and was appointed Managing Director on 27 July 2010.

## Committees

To assist in its work the board has established the following committees: audit, compliance and risk committee; remuneration and nominations committee; and investment committee. The role and composition of each committee as at 30 June 2010 is detailed below.

### Audit, compliance and risk committee:

The audit, compliance and risk committee provides a forum for the effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate framework of financial internal control and appropriate discharge of 'trading company' fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd. The committee is responsible for assessing and reporting on compliance against the compliance plans for the trusts. The committee is also responsible for reviewing the company's risk registers.

Membership: Ruth Medd (chair, independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity), Naomi Edwards (independent non-executive director), Les Coleman (non-independent, non-executive director).

### Remuneration and nominations committee:

The remuneration and nominations committee monitors adherence to guidelines set by the board in regards to remuneration arrangements and makes recommendations to the board on remuneration for the chief executive officer and non-executive directors. The committee is responsible for assessing the necessary and desirable competencies of directors, ensuring the directors have the appropriate mix of competencies to enable the board to discharge its responsibilities effectively, developing board succession plans to ensure an appropriate balance of skills and expertise is maintained, and making recommendations to the board relating to the appointment and retirement of directors

Membership: Naomi Edwards (chair, independent non-executive director), Justine Hickey (independent non-executive director)

### Investment committee:

The investment committee oversees the processes which govern the investment of monies of the trusts for which **australianethical** is the responsible entity and the investment of monies for which **australianethical** has a mandate. The committee also oversees the ethics of investments, through developing a policy to ensure the consistent application of the **australianethical** Charter, and monitors product consistency with the Charter.

## Governance

Membership: Justine Hickey (chair, independent non-executive director), Howard Pender (executive director), André Morony (independent non-executive director).

### Board and director evaluation

The directors undertake an annual self-assessment of their collective and individual performance and seek specific feedback from the senior management team.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results are collected by the board chair. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The board chair also talks to each director individually about their performance and generally on the evaluation and comments received from their peers. The results of the questionnaire are examined from both a qualitative and quantitative perspective. Where discussed at a board meeting, results and any action plans are documented in board minutes. An assessment in accordance with the above process was undertaken in the relevant period.

### Economic, environmental and social policies

#### australian**ethical's** vision

To be (and be recognised as) Australia's pre-eminent ESG investment manager and to provide investors and shareholders with a competitive return for chosen risk.

#### australian**ethical's** mission

To invest monies safe trusted to us in a way that delivers competitive rates of return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the environment AND to promote the investment of money in this way.

In addition to managing every investment according to the **australianethical** Charter, **australianethical** aims to conduct its operations in accordance with the tenets of the **australianethical** Charter as well. In particular it aims to:

ensure promotional material is comprehensive, transparent and readily understood

- achieve a high standard of administrative service for investors in our products
- ameliorate wasteful or polluting practices in business operations
- encourage, care for and provide educational opportunity

for fellow workers, respect their individual needs and aspirations

- nurture staff participation in the ownership and control of **australianethical**

### australian**ethical** Charter

The board is required to further the aims set out in the **australianethical** Charter as incorporated in the **australianethical** constitution. The Charter sets out 23 ethical principles applied across the entire operations and activities of the company (see page 9).

### Code of conduct

**australianethical's** code of conduct has been endorsed by the board and applies to all employees and directors. The code provides professional and ethical standards expected by the company. **australianethical** always seeks to adhere to the code in dealings with stakeholders. The company strives to achieve conduct that is over and above best practice.

Specific standards of conduct throughout 2009–10:

- we must be aware of conflicts
- we must not participate in insider trading
- we must not make unauthorised gains or payments
- we must only use company assets as authorised
- we have an obligation of care and diligence
- we must protect confidential and personal information
- we must ensure everyone has an equal opportunity
- we must compete fairly
- we must take into account any environmental, health and safety impacts before making any business decision
- we must not make unauthorised public statements
- we must not make unauthorised political donations on behalf of **australianethical**
- we must be familiar with policies and procedures that relate to our work
- we have responsibilities to shareholders and the community

The full version of the **australianethical** code of conduct and its share trading policy can be found on **australianethical's** website [www.australianethical.com.au](http://www.australianethical.com.au). The code was last updated on 27 August 2008. A whistle blowing support policy guides employees on how to disclose or alert the company on any individual or organisational malpractice. The company's external counselling service may be used by employees to discuss and consider their personal position if

## Governance

unsure about procedures relating to the code of conduct or any other company policy.

The board has also adopted a separate policy for the management of conflicts of interest. The company's compliance officer maintains a conflict of interest register which is reviewed by the board and audit, compliance and risk committees. Details on board responsibility and the independence of directors are documented in **australianethical's** 2010 annual report (pages 8–10).

## Remuneration

### **Non –executive directors:**

Remuneration of directors is determined by the general meeting which periodically sets the aggregated amount of remuneration payable to directors. Within the approved aggregated amount, fees paid to individual directors for services as a director are determined by the board. Currently, the chair receives the highest amount, with other non–executive directors receiving a lesser, equal amount. Non–executive directors' pay is determined with regard to market rates for similar businesses operating in similar industries, and recommendations made by the remuneration committee. **australianethical** currently has no explicit linkages between director remuneration and key social and environmental performance indicators. Details of the remuneration paid to directors and specified executives during the 2009–10 financial year are set out in the director's report within the 2010 annual report (pages 23–29).

### **Secretaries, senior managers, executive directors and group executives:**

**australianethical's** fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. To ensure this principle the company reviews individual remuneration annually. Remuneration levels are reviewed along external benchmarks and **australianethical's** own policies relating to employee benefits and work/life balance. Further details on remuneration of senior managers, executive directors and group executives are set out in **australianethical's** 2010 annual report (pages 24–29).

### **Performance–based remuneration and company performance:**

During the reporting period remuneration of three senior executives included an 'at risk component' linked to performance criteria. There was no explicit linkage between the performance criteria set for the senior executives and key social and environmental performance indicators (see details

in 2010 annual report, pages 25–28).

As provided for by the company's constitution all permanent staff are eligible to participate in the staff bonus. The payment of the bonus is set by reference to the company's profit for a relevant year. An incentive relating to medium and long term company performance during the period was **australianethical's** employee share ownership plan. The plan was used to promote employee ownership of the company. Details of the employee share ownership plan and options issued under the plan are set out in the director's report within the 2010 annual report (pages 59–61). Staff remuneration is not explicitly linked to key social and environmental performance indicators.

## Risk management and identification

The company has established policies for the oversight and management of material business risks. The company's risk management guide is available from the corporate governance section of the company's website.

The board has required management to implement a risk management system consistent with the company's risk management guide and to report to it on whether material business risks are being appropriately managed. During the relevant period, management has reported to the board's audit, compliance and risk committee and directly to the board as to the effectiveness of the entity's management of its material business risks.

The Managing Director and risk management officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group.

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## Commitments to external initiatives

### Precautionary principle

australian**ethical** has adopted the precautionary principle. The precautionary principle dictates that if an action or policy might cause severe or irreversible harm to the public or to the environment, in the absence of a scientific consensus that harm would not ensue, the burden of proof falls on those who would advocate taking the action. Examples of australiane**thical**'s use of the precautionary principle include the application of the Charter to all investment decisions, being a signatory to the UN Principles for Responsible Investment, and involvement with a number of other sustainability initiatives and associations.

### External initiatives

australian**ethical** recognises the importance of supporting external initiatives which promote a sustainable future in ways which are relevant to australiane**thical**'s goals and activities; as such australiane**thical** is a signatory to the following initiatives:

- Carbon Disclosure Project  
'The Carbon Disclosure Project launched in 2000 to accelerate solutions to climate change by putting relevant information at the heart of business, policy and investment decisions ' (CDP 2010)
- UN Principles for Responsible Investment  
'The PRI aim to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.' (PRI 2010)

### Association memberships

australian**ethical** also holds memberships in various associations and industry bodies related to the superannuation and the ethical investment sector; the advancement of equal opportunities and employee satisfaction; and customer service. australiane**thical** or its subsidiary australiane**thical** Superannuation, are members of the following industry and business associations:

- Association for Sustainable & Responsible Investment in Asia (ASrIA) is a founding member of ASrIA – 'a not-for-profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region.' (ASrIA 2010)
- Association of Superannuation Funds of Australia Limited (ASFA)  
'ASFA is a national, not-for-profit, non party political organisation that represents the interests of Australia's superannuation funds, their trustees and their members.' (ASFA 2010)

- Australian Employers Network on Disability  
'The Australian Employers Network on Disability is a not-for-profit organisation funded by its members to take a leadership role in advancing the equitable inclusion of people with disability in all aspects of business.' (AEND 2010)
- Responsible Investment Association Australasia (RIAA)  
'The Responsible Investment Association Australasia (RIAA) is the peak industry body for professionals working in responsible investment in Australia and New Zealand.' (RIAA 2010)
- Financial Ombudsman Service  
'The Financial Ombudsman Service provides accessible, fair, and independent dispute resolution for consumers and financial services providers ' (FOS 2010)
- Global Reporting Initiative (GRI)  
'The Global Reporting Initiative's (GRI) vision is that disclosure on economic, environmental, and social performance become as commonplace and comparable as financial reporting, and as important to organizational success.' (GRI 2010)
- The Financial Services Council (FSC)  
'The Financial Services Council's mission is to represent the interests of our members, our members' clients and customers, all investors and superannuation fund members and life insurance policy holders.' (FSC 2010)
- Investor Group on Climate Change Australia/New Zealand (IGCC)  
'The IGCC represents institutional investors, with total funds under management of approximately \$600 billion, and others in the investment community interested in the impact of climate change on investments.' (IGCC 2010)
- IPS Worldwide  
'IPS Worldwide is a human resource, risk management and wellness company providing high quality human capital solutions to leading organisations. IPS Worldwide is committed to pushing the envelope by leading development and innovation in tailored workplace programs that assist organisations better manage their human resources, improve the productivity of their employees and their experience of the workplace.' (IPS Worldwide 2010)
- US Interfaith Center on Corporate Responsibility (ICCR)  
'ICCR seeks a global community built on justice and sustainability through transformation of the corporate world by integrating social values into corporate and investor actions' (ICCR 2010)

# Stakeholder engagement

## Stakeholder identification

australian**ethical**'s stakeholder engagement is based upon the values and goals set out in the company's corporate vision and mission statements, as well as the objectives of the Charter. austral**ethical**'s primary stakeholders include employees, enquirers, the local community, the general public, shareholders, managed fund unitholders, superannuation members, financial advisers that receive information on the company's products, investee entities and suppliers. Furthermore, the company identifies the environment and future generations as stakeholders in the company.

## Approaches to stakeholder engagement and response to concerns

### Engagement with employees

#### Staff advocate

It is the company's employees which ultimately determine the success of austral**ethical** and its goals. As such, austral**ethical** uses a designated staff advocate to facilitate communication between staff, management and the board. The staff advocate is elected by staff every two years and dedicates around 10 per cent of their working week to these duties. The employee advocate for 2009–10 was Stephen Hyam.

During 2009–10 the areas of employee engagement included:

- Performance appraisals
- Job descriptions
- Company restructuring

The company also engages with staff through the monthly internal newsletter, Greenvine.

## Employee satisfaction and surveying employees

australian**ethical** conducts its staff satisfaction survey on a biennial basis (previously conducted annually). The latest employee survey was conducted in 2008–09 and the next is due to be conducted in 2010–11.

The latest employee satisfaction survey in 2008–09 showed that overall, austral**ethical** staff are a satisfied group (Table 2). The response rate of 70.9 per cent is a slight drop from that of the 2008 survey which registered a response

rate of 72.9 per cent. Our staff reported high satisfaction levels in a number of areas including flexibility of work hours, staff benefits and overall job satisfaction. Overall, 71 per cent of staff were satisfied with austral**ethical** as an employer (Figure 1), though less staff reported being 'very satisfied' than previously (Table 2). Other areas with lower levels of satisfaction included job security (in light of the global financial crisis), work/life balance, training and internal communication (Table 2).

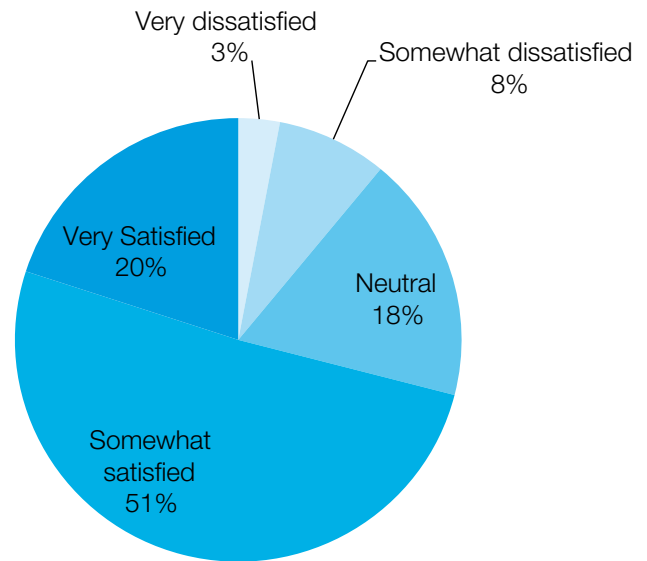


Figure 1: austral**ethical** as employer – satisfaction rating from 2009 employee survey

## Sustainability Committee

The austral**ethical** sustainability committee was established in 2002 and plays an important role in addressing sustainability issues within the company. The committee consists of members from various areas within austral**ethical**, ensuring a cross-section of the organisation is represented. The committee meets on a regular basis to develop and implement economic, environmental and social company policies and initiatives. During 2009–10 the sustainability committee was involved in the following initiatives:

- the company's sustainable transport days and participation in the National Ride to Work Day
- participation in the National Sustainable House Day
- promoting sustainable transport outside of the company's sustainable transport days
- sustainability presentations at staff morning teas
- maintaining the company's sustainability library providing support for the company's blood donation initiatives

## Stakeholder engagement

### Volunteering

On top of its own commitment to various charitable and community organisations, **australianethical** encourages staff to volunteer time to organisations whose aims and activities are consistent with the Charter. Under the company's volunteering policy, staff can take one full paid day off a year (or blocks of time equivalent to one day) to volunteer with approved organisations. **australianethical** also supports staff engagement with the community. In the last year staff organised and supported various initiatives including Lunch for Leukaemia and Lifeline's Stress Down on 24/7, as well as fundraising for local schools and charitable organisations.

### Engagement with shareholders

**australianethical** strives to engage with its shareholders on a number of levels. Shareholders are encouraged to write letters to the company secretary, investment committee or the board to facilitate shareholder communication.

**australianethical** includes a question section in the annual general meeting (AGM) meeting notice sent out to shareholders to encourage shareholder feedback.

At the AGM held on 19 November 2009, the company responded to written questions on topics raised by stakeholders which included:

- investment in alternative medicines
- shareholder engagement
- investment methodologies
- executive remuneration

**Table 2:** Employee survey results for 2007, 2008 and 2009

Measure	Year	Employee responses (percentage of survey respondents)				
		Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Australian Ethical as an employer	2007	0	10	5	52	33
	2008	2	5	14	37	42
	2009	3	8	18	51	20
Current Role	2007	3	5	10	35	47
	2008	2	5	16	37	40
	2009	8	5	8	33	46
Job security	2007	0	5	20	13	62
	2008	0	2	14	44	40
	2009	8	5	18	49	20
Remuneration	2007	2	18	15	40	25
	2008	5	16	16	40	23
	2009	3	24	10	29	34
Benefits	2007	0	0	15	45	40
	2008	2	2	12	43	41
	2009	0	5	24	29	42
Work/life balance	2007	0	5	3	24	68
	2008	0	2	0	16	82
	2009	0	2	13	18	67
Training	2007	8	5	26	10	51
	2008	0	5	21	45	29
	2009	2	8	31	33	26
Internal communication	2007	0	8	8	70	14
	2008	2	12	12	49	25
	2009	5	10	31	31	23



## Stakeholder engagement

### Engagement with enquirers, managed fund unitholders and superannuation members

australian**ethical** strongly values the views, enquiries and opinions of all of its stakeholders and welcomes any feedback.

The company encourages and welcomes direct enquiries from unitholders and superannuation members. In 2009–10, direct enquiries encompassed issues such as biofuels, carbon dioxide sequestration, animal welfare, alternative education, forestry, coal seam gas, ethical supply chain issues, and biotechnology.

In 2009–10 australiane**thical** undertook its triennial stakeholder survey. The survey was promoted to current unitholders, members and enquirers through the summer 2009 Aim High newsletter; although the survey could be completed by anyone who visited the australiane**thical** website between 12 October 2009 and 1 February 2010. The Company received 137 responses.

The issues identified by stakeholders to be of most concern were: climate change; biodiversity; pollution; human rights; social, environment and ethical management; health and safety; chemicals; and wind farms. The topics identified to be of least concern were: contraception; telecommunications and the internet; pornography and adult entertainment; and small banks. australiane**thical** intends on using this information to contribute towards its future strategic direction, and to inform investment decisions and marketing.

On completing the survey, participants could select from one of three organisations (Red Cross, Trust Fund for Nature or Animals Australia) to which australiane**thical** would donate \$1 on their behalf.

australian**ethical** hosts roadshows around the country to engage with external stakeholders and promote ethical investment. There were 25 road shows in 2009–10. Eleven of the road shows were held in regional areas, which are often ignored by other fund managers. These road shows provide unitholders, superannuation members, investors and other stakeholders an opportunity to engage directly with the company. australiane**thical** also sponsored 14 events such as the Adviser Big Day Out, where we presented to advisers on ethical investment.

australian**ethical** also directly engages with unitholders, superannuation members and investors through its biannual newsletter Aim High. The newsletter includes articles of interest on sustainability, investor and staff profiles and discussions of fund performance.

### Engagement with broader stakeholders

australian**ethical** recognises its connection with the broader community, environment and future generations. We endeavour to engage with these stakeholders in the following ways:

- providing tours of the company's six green star rated headquarters to demonstrate the concept of applied green building and workplace sustainability
- providing paid leave to all employees to volunteer for charitable and community organisations
- donating 10 per cent of the company's profit through the australiane**thical** community grants program
- ensuring all investment decisions are consistent with the australiane**thical** Charter

### Accessibility

australian**ethical** believes that we have an obligation to provide information about our financial services in a clear, user-friendly way. We have developed our current website in a manner that maximises accessibility for disadvantaged people. The website meets the Web Content Accessibility Guidelines 2.0 (World Wide Web Consortium). This standard is used by government agency websites to ensure they comply with the Disability Discrimination Act 1992. Useability advice was provided by a Vision Australia representative.

australian**ethical** attempts to present our investment product information as clearly as possible with as little legal small print as possible, adhering to the principle of fair design.

Our Aim High newsletter (two editions per year) contains informative investment information and aims to keep our managed fund and super members up to date with investment issues.

## Our people

For over 20 years of operation **australianethical**'s work culture has been shaped by the values set out in Charter (see page 9). This section reports on how **australianethical** provides a stimulating work environment and our continuing strong performance in this area.

### australianethical workforce

**australianethical** had 52 employees at 30 June 2010, working in a range of areas including investment, trust administration, superannuation, marketing, accounting and information technology. Despite continued uncertainties in the financial sector, staff numbers remained relatively stable during 2009–10 (52 at 30 June 2010 compared to 53 at 30 June 2009; Figure 2). The number of full time equivalent (FTE) employees at 30 June 2010 was 47.8,

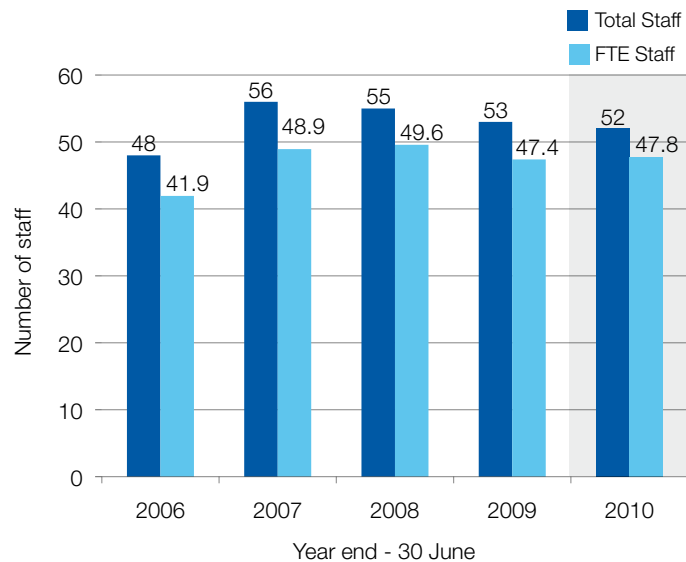


Figure 2: australianethical workforce – trend by total staff and FTE staff

slightly up from 47.4 at 30 June 2009 (Figure 2). At 30 June 2010, 80 per cent of our permanent employees worked full time, the remaining 20 per cent being part-time (Figure 3). Table 3 provides more detail on the composition of the **australianethical** workforce by status and also shows changes in staff numbers over the last three years.

The majority of employees (42 out of 52) are based at our head office in Canberra, Australia (Table 4). The office is located close to main bus routes and has good parking and cycling facilities. Our ten offsite staff either work from **australianethical**'s Sydney office, or are based in Melbourne, Brisbane and coastal New South Wales (Table 4).

**australianethical** promotes job stability and aims to enhance corporate knowledge through long-term employment. As at 30 June 2010 the majority of our staff were employed on a permanent basis, with only three staff members (2.13 FTE) on fixed term contracts (Table 4).

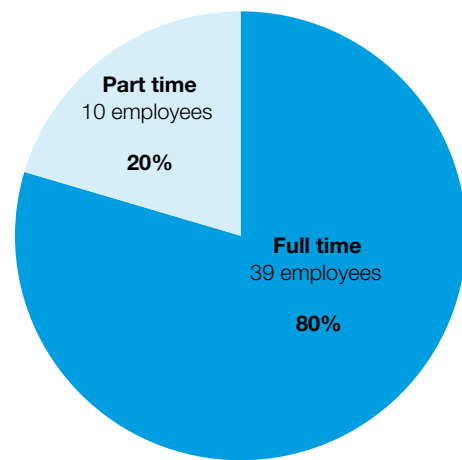


Figure 3: australianethical permanent employees by employment type as at 30 June 2010

Table 3: australianethical workforce by status and net employment creation

Our workforce	Financial year		
	2007–08	2008–09	2009–10
<b>Status</b>			
Employees – total number (including casuals) <sup>1</sup>	55	53	52
Employees – FTE	49.6	47.4	47.8
<b>Change in staff numbers</b>			
Net change in staff numbers for year	-1	-2	-1
Change in staff numbers for year	-1.8%	-3.6%	-1.9%
<b>Net change in FTE staff for year</b>			
Net change in FTE staff for year	0.7	-2.2	0.4
Change in FTE staff for year	1.3%	-4.4%	0.8%

<sup>1</sup> australianethical did not employ ongoing contractors or supervised workers during fiscal 2008, 2009 and 2010.

## Our people

**Table 4:** *australianethical* workforce by employment type, employment contract and location

Our workforce	Financial year		
	2007–08	2008–09	2009–10
<b>Permanent staff by employment type</b>			
Full-time	39	36	39
Part-time <sup>1</sup> – number of staff	16	15	10
Part-time – FTE	10.0	10.2	6.6
<b>Employment contract</b>			
Indefinite or permanent – number of staff	54	51	49
Indefinite or permanent – FTE	49.0	45.8	45.6
Fixed term or temporary – number of staff	1	2	3
Fixed term or temporary – FTE	0.6	1.6	2.1
<b>Employment location</b>			
Canberra office – number of staff	47	44	42
Canberra office – FTE	42.2	39.0	38.6
Other – number of staff	8	9	10
Other – FTE	7.4	8.4	9.1

<sup>1</sup> Including casual employees of *australianethical*.

## Equal opportunities

In line with the Charter, *australianethical* is an equal opportunity employer and opposes discriminatory activities. This commitment is reinforced in *australianethical*'s staff policy which states that:

- all employees shall receive fair and equitable treatment in all aspects of employment without regard to political affiliation or beliefs, union membership, gender, marital status, sexual orientation, pregnancy, physical disability or ethnic origin
- equal pay will be provided for equal work.

During the year there was much public discussion surrounding the poor representation of women on Australian boards. Australia has a lower percentage of women on boards than New Zealand, the UK, Canada, the US and South Africa. Of all directors on the S&P/ASX 200 company boards, only 8.4 per cent were women. The financials sector has a higher representation, with 15 per cent of directors being female. Only 13 per cent of the S&P/ASX 200 companies had two or more women on their board of directors and only seven per cent of S&P/ASX 200 companies had women representing more than 25 per cent of directors on their boards. (EOWA 2010 Census)

*australianethical* leads by example when it comes to gender representation. For many years *australianethical* has had a strong female representation on its board and the board of its subsidiary, Australian Ethical Superannuation Pty Ltd. As at 30 June 2010 female directors represented 33 per cent of *australianethical*'s board and 50 per cent of Australian Ethical Superannuation's board (Table 5).

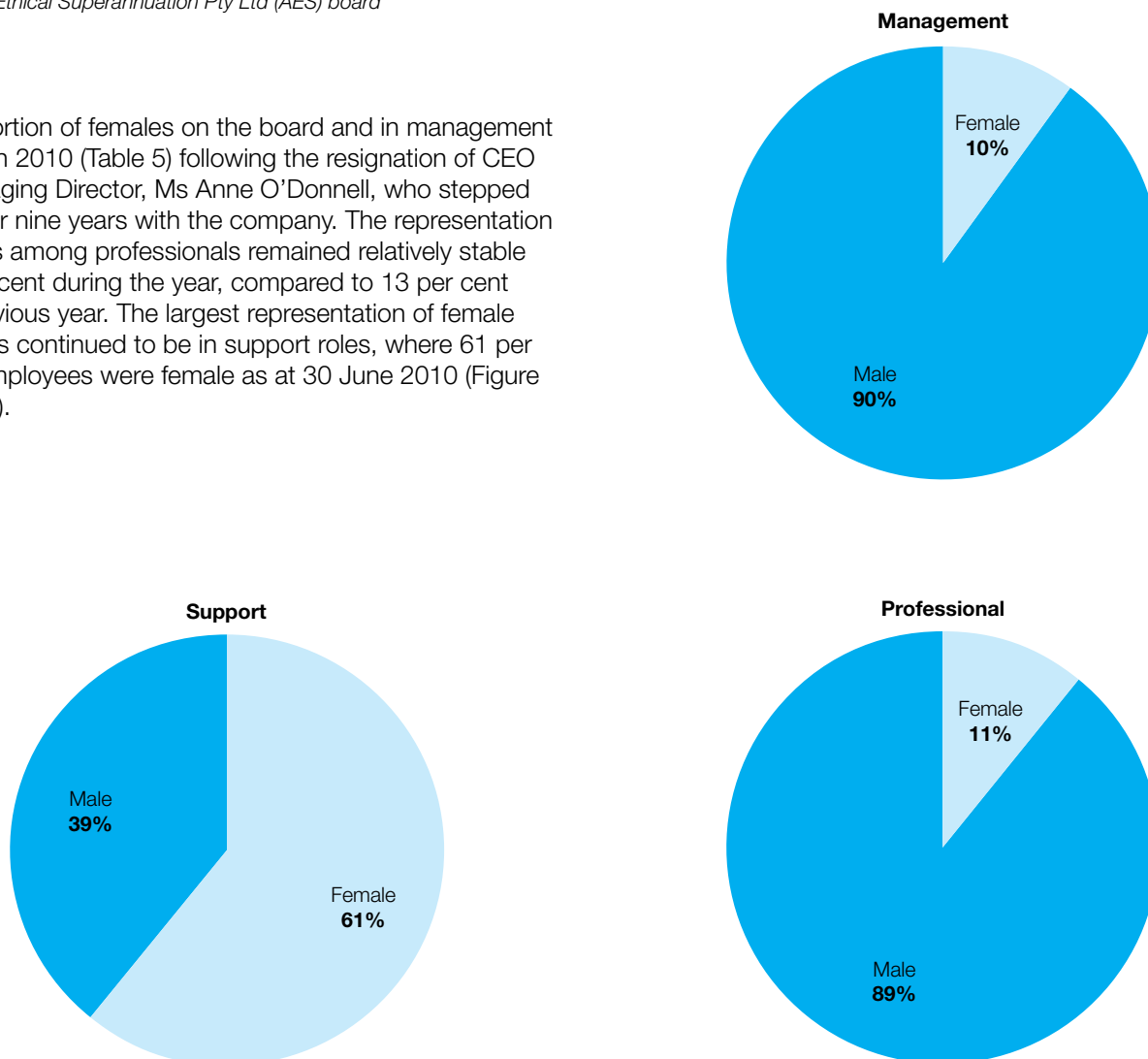
## Our people

**Table 5:** Gender composition of corporate governance bodies and by employee categories

Category	Balance date					
	30 June 2009			30 June 2010		
	Total	% Male	% Female	Total	% Male	% Female
australianethical board	7	57	43	6	67	33
AES board <sup>1</sup>	4	50	50	4	50	50
Management	12	83	17	10	90	10
Professional	15	87	13	19	89	11
Support	26	46	54	23	39	61
<b>Total</b>	<b>53</b>	<b>66</b>	<b>34</b>	<b>52</b>	<b>67</b>	<b>33</b>

<sup>1</sup> Australian Ethical Superannuation Pty Ltd (AES) board

The proportion of females on the board and in management declined in 2010 (Table 5) following the resignation of CEO and Managing Director, Ms Anne O'Donnell, who stepped down after nine years with the company. The representation of females among professionals remained relatively stable at 11 per cent during the year, compared to 13 per cent in the previous year. The largest representation of female employees continued to be in support roles, where 61 per cent of employees were female as at 30 June 2010 (Figure 4; Table 5).



**Figure 4:** Gender composition by employee category as at 30 June 2010

## Our people

Equal opportunity is not only reflected by the number of female employees. Pay equality is also a meaningful indicator to assess gender equality in the workplace. Market rates for female employees continue to be lower compared to their male peers and it is important for **australianethical** to monitor this ratio in light of its commitment to equal pay for equal work.

To measure pay equality, **australianethical** calculates the ratio of female to male salaries for basic salary and packaged salary. Basic salary represents hourly rates excluding additional benefits, whereas packaged salary includes superannuation, leave loading, profit sharing and options schemes. The ratio of female to male salaries varies between 60 per cent and 113 per cent across all employee categories for base salary, and between 60 per cent and 120 per cent for packaged salary (Figures 5 and 6). The largest pay-gap exists in management, where females on average earn 60 per cent of their male counterparts in base and packaged salary; in 2008–09 these ratios were 107% and 112%, respectively. The change is largely due to Mr Phillip Vernon taking over from Ms Anne O'Donnell as CEO. The differences in male to female salary ratios within each category represent the diverse roles and responsibilities within the company and are not related to gender.

## Freedom of association and collective bargaining, child labour, forced and compulsory labour, and security practices

**australianethical**'s operations are typically office-based and do not involve operations with a high human rights risk exposure. We have not identified any operations in sectors or geographical areas that constitute a risk to the right to exercise freedom of association, or activities that carry significant risks of incidents of child labour or hazardous work for young people. **australianethical** has no operations in countries or sectors that carry risks of forced or compulsory labour. The company does not employ any security staff, and therefore does not need to communicate human rights policies to security officers.

## Non-discrimination and indigenous rights

Our main office and majority of staff are located within the Canberra region. **australianethical** recognises the Ngunnawal people as the traditional custodians of the Canberra area.

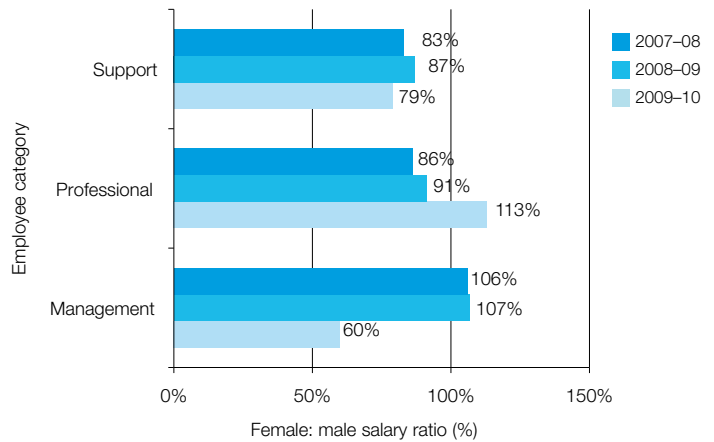


Figure 5: Ratio of female to male basic salaries per hierarchy level

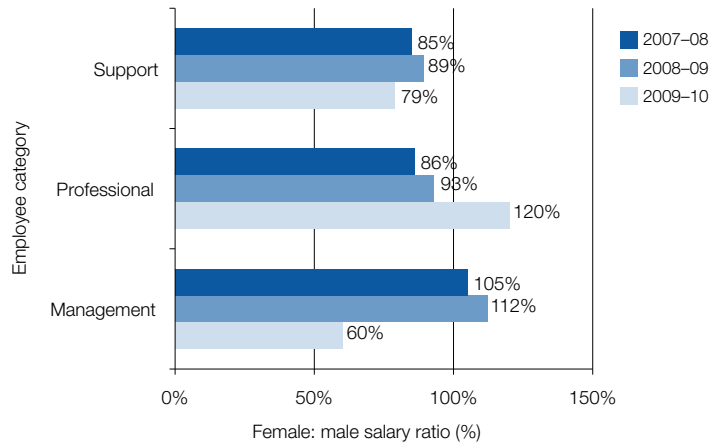


Figure 6: Ratio of female to male salary packages per hierarchy level

No incidents of discrimination on the grounds of race, colour, sex, religion, political opinion, national extraction or social origin were reported in 2009–10. **australianethical** has not recorded any incidents involving indigenous rights in the reporting period related to either employees or to communities near the company's operations.

## Our people

### Staff turnover

Providing a workplace with fulfilling roles, work/life balance and alignment with employee's personal lives is the key to attracting and retaining staff. Staff turnover figures provide one measure of an organisation's success in these areas.

Total full time equivalent staff in **australianethical** as at 30 June 2010 was 45.2, down from 45.4 in the last financial year. Staff turnover (as a percentage of total staff) increased to 25 per cent in 2009–10 from 14 per cent in 2008–09 (Table 6). Turnover for full-time equivalent staff also increased, from 15.4 per cent in 2008–09 to 22.8 per cent in

2009–10 (Table 6; Figure 7). The rise in staff turnover can not be attributed to a single factor, but reflects the volatility often seen in relatively small companies.

Monitoring staff turnover by gender, age and location can assist in identifying inequalities or incompatibility in a workplace. Analysis of **australianethical**'s 2010 turnover figures indicates little difference in the turnover of male and female employees (Table 6). The majority of staff departing the organisation belonged to the age group between 30 and 50 (Table 6). Nine of the twelve departing employees were based at our Canberra office, not surprising given that 81 per cent of employees are based there.

**Table 6:** Staff turnover by employee type, gender, age group and location

Staff turnover <sup>1</sup>	Financial year		
	2007–08	2008–09	2009–10
<b>Turnover by employment type</b>			
Full-time employees departing	4	7	7
Part-time employees departing	2	0	5
Part-time employees departing – FTE	1.2	0.0	3.3
Employees departing (total) – FTE	5.2	7	10.3
<b>Total staff at 30 June<sup>1</sup></b>			
Total FTE staff at 30 June <sup>1</sup>	53	50	48
Staff turnover (% of total staff)	11.3%	14.0%	25.0%
Staff turnover (% of FTE staff)	10.7%	15.4%	22.8%
<b>Turnover by gender</b>			
Staff departing – female	2	4	5
Female staff turnover (% of total staff)	3.8%	8.0%	10.4%
Staff departing – male	4	3	7
Male staff turnover (% of total staff)	7.5%	6.0%	14.6%
<b>Turnover by age group</b>			
Staff departing <30	1	5	3
<30 Age group turnover (% of total staff)	1.9%	10.0%	6.25%
Staff departing 30–50	2	1	6
30–50 Age group turnover (% of total staff)	3.8%	2.0%	12.5%
Staff departing >50	3	1	3
>50 Age group turnover (% of total staff)	5.7%	2.0%	6.25%
<b>Turnover by location</b>			
Canberra office	6	6	9
Other	0	1	3

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

## Our people

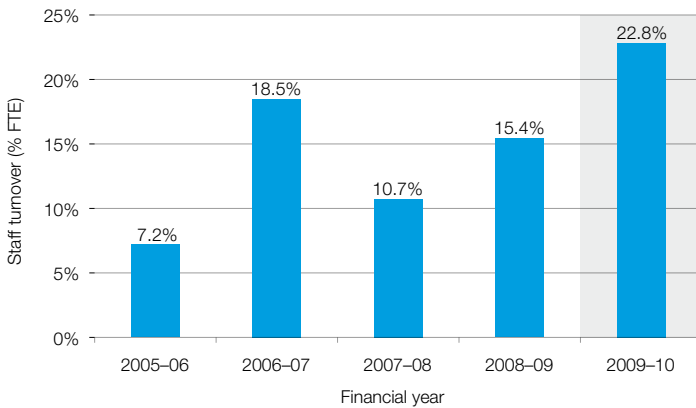


Figure 7: Staff turnover (% FTE staff)

## Severance pay and job placement services

Changes in business circumstances or a restructure of the organisation may result in positions and duties becoming redundant. **australianethical** is committed to fair treatment of employees working in a position becoming redundant; after all it is the position that is redundant, not the employee. In case of redundancy **australianethical** has clear procedures and guidelines to help the employee transition to a new role as smoothly as possible. Employees are informed as soon as it becomes clear a position will become redundant. All options are explored to redeploy the employee in a similar role. If an arrangement satisfactory to both the employee and the company cannot be found, the employee will receive redundancy pay depending on their individual circumstances. Arrangements will be based on details in the individual employment contracts or legislation, whichever is of greater benefit to the employee. For employees with less than twelve months service, **australianethical** will in general consider paying four weeks salary. All redundancy pay is additional to accrued leave payments. For part-time employees entitlements are calculated on a pro-rata basis. Employees, who leave the company as a result of their position becoming redundant, may, at the board's discretion, retain the right to exercise any options falling due that have been issued to them under the employee share option scheme.

## Training and education

Training and education of **australianethical's** workforce takes a number of forms including performance appraisals, external training courses, support for additional studies and a personal development program. Regular morning teas also provide a forum for informing employees about environmental and social issues surrounding our activities. Ongoing training and professional development increases employee skills and job satisfaction. Training and education is also important in attracting and retaining talented personnel.

## Performance appraisal

To assist in planning training requirements and mapping out career plans **australianethical** conducts annual performance reviews for all employees, including casual and term employees. The reviews provide feedback to staff, and are an opportunity to set priorities for training and career development over the coming twelve months. The appraisals are conducted in a positive and constructive manner and provide an opportunity for personal growth. New employees have probation reviews after three and six months of employment. All appraisals are conducted as 360 degree evaluations which include input from colleagues, team members and supervising staff.

## Training and development

Formalised training of our staff includes structured training provided by **australianethical** and private study pursued externally. In 2009-10 **australianethical** employees undertook a total of 1296 hours of training, a decrease from 1381 hours in 2008-09. The average number of training hours undertaken by staff during the period decreased slightly from 23 hours per employee in 2008-09 to 20 hours per employee in 2009-10 (Figure 8). While the number of training hours, on average, decreased for the management staff from 37 hours in 2008-09 to 27 hours in 2009-10, there was a substantial increase in average training hours for professional staff from 11 hours in 2008-09 to 32 hours in 2009-10. The average training hours undertaken by support staff declined from 26 to 11 hours per employee (Figure 8). Training hours can exhibit large differences between years, particularly as employees complete their studies or undertake new studies.

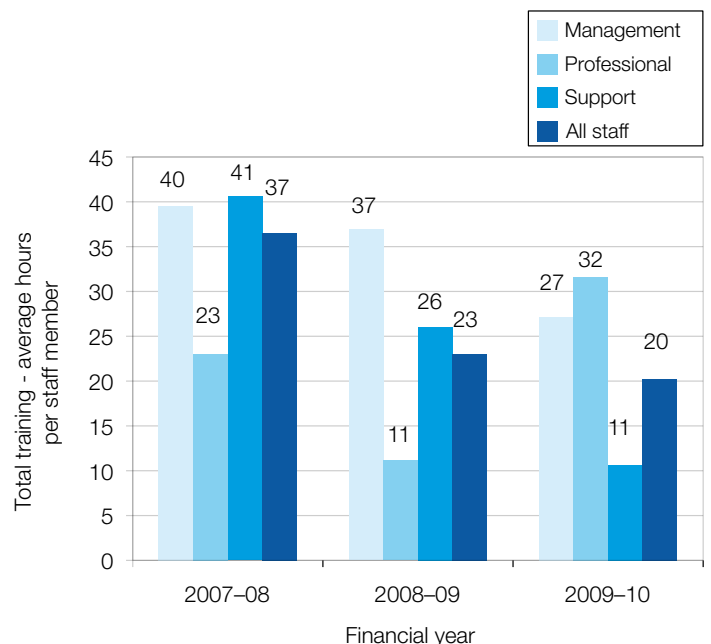
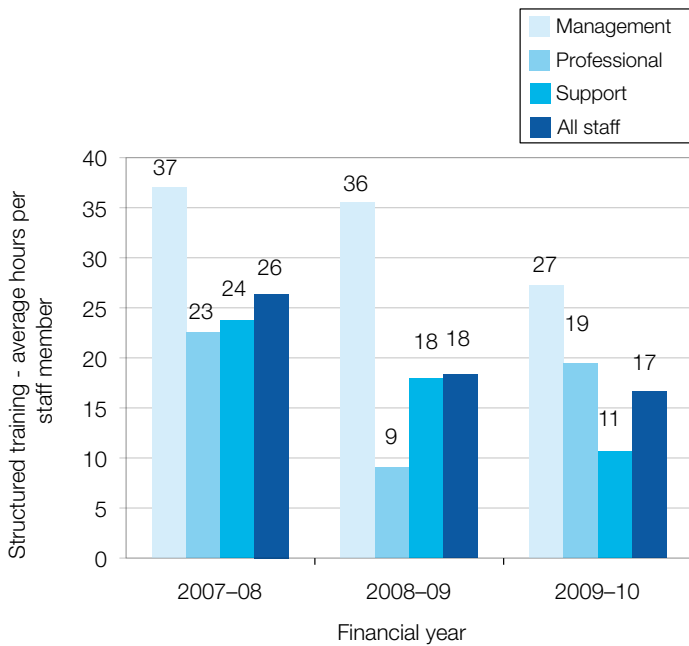


Figure 8: Total average hours of training and study undertaken by staff

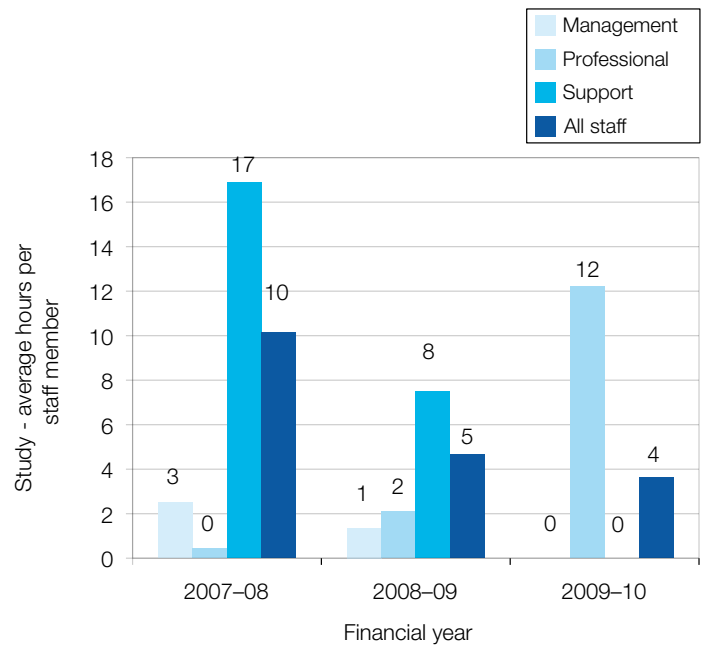
## Our people



**Figure 9:** Average hours of structured training undertaken by staff

Structured training refers to training that **australianethical** has paid for as work time including paid study leave. Any training that employees are required to undertake during working hours is fully paid and after hours training entitles the employee to time off in lieu. On average, staff undertook 17 hours of structured training during 2009-10, a slight decrease from 18 hours in 2008-09 (Figure 9). Structured training undertaken by professional staff increased from 9 hours to 19 hours between 2008-09 and 2009-10, while structured training undertaken by support staff decreased from 18 hours per employee to 11 hours per employee (Figure 9). Structured training for management decreased from 36 hours per employee to 27 hours per employee in 2009-10.

Employees who are enrolled in private external study or professional development receive financial support and paid study leave. **australianethical's** reimbursement system refunds 100 per cent of course fees for approved courses, up to \$2000 per year per employee with the completion of the course. Paid study leave is available for three hours per week to attend or travel to classes or to complete course work for approved programs. An additional two full days per year of paid study leave may also be taken for exam preparation or to finalise course requirements.



**Figure 10:** Average hours of study undertaken by staff

Figure 10 indicates a slight decrease in external private study undertaken by employees from five hours per employee during 2008-09 to four hours per employee during 2009-10. During 2009-10, no management or support staff undertook external private study. However, during the previous financial year, management staff undertook external private study of one hour per employee and support staff undertook external private study of eight hours per employee. The decrease can be attributed to completion of study by staff. In contrast, there is a significant increase in external private study undertaken by professional staff from two hours per employee (2008-09) to 12 hours per employee (2009-10). This increase is a result of employees undertaking tertiary degrees with financial support from AEI.

**australianethical** spent \$114,964 on training and conferences in 2009-10. This is less than in the previous year when the company spent \$143,973. The drop is also reflected in per employee spending with an average of \$2254 spent per employee in 2009-10 compared to \$2769 in 2008-09.



## Our people

### Skills management and lifelong learning programs

australian**ethical** has a longstanding commitment to supporting a healthy work–life balance. Our personal development program evolved out of a lunch–time yoga group and developed into a program supporting employee health and wellbeing outside of work. The program supports employees participating in a diverse range of activities from indoor cricket and gym membership to dance and music classes. The program entitles all permanent employees to a \$95 reimbursement twice a year (pro–rata for part–time staff) to cover such activities.

### Employee benefits

Besides australiane**ethical**'s personal development program, the company offers a number of benefits to its employees. These are listed in the box adjacent.

All benefits that are offered to permanent full time employees are also available to permanent part–time employees on a pro–rata basis. Temporary employees have access to all benefits relating to leave accrual in a similar manner to permanent employees. They receive job related training as required but access to study leave and reimbursement of study costs is only provided on a case by case basis depending on how long they stay with the company and the relevance of the study to australiane**ethical**. Casual employees do not have access to leave related benefits other than long service leave accrual. They receive job related training as required, while study is facilitated through flexible working patterns. However, access to study leave and reimbursement of study costs is not provided to casual employees.

australian**ethical** provides a free third–party 24/7 counselling service. All employees and their immediate families can use this strictly confidential service, which is not restricted to work–related issues. IPS Worldwide is the current provider of this service.

An additional grievance channel is the staff advocate. The staff advocate provides non–management staff a channel to raise matters with the directors of the company. The status of australiane**ethical**'s employees is reported to shareholders at the annual general meeting.

### Bonus and employee share ownership plans

- an annual bonus based on the profits of the company is paid to all staff. All staff receive an equal proportion of the bonus pool based on full-time equivalent (FTE) hours. Bonus amount is set by the board.
- the company has an employee share incentive scheme
- salary sacrificing additional superannuation contributions

### Recognition of family and personal responsibilities - flexible working arrangements

- full-time staff have flexibility to choose a working pattern which fits with their personal needs subject to business requirements
- 20% of our staff work part-time
- potential to work off-site subject to business requirements
- the choice of being paid monthly or fortnightly
- a subsidised personal development program
- free access for staff and their families to a counselling service
- allowing sick leave to be used to care for sick relatives

### Leave provisions<sup>1</sup>

- annual leave – 20 working days per 12 months of continuous service plus a bonus of three days leave on the normal working days between Christmas and new year.
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service
- paternity leave
- up to three days paid compassionate leave as often as required
- long service leave – 25 working days after completion of five years of service
- up to three hours paid study leave per week, plus two days paid study leave per year
- one day of paid volunteer work each year (or blocks of time equivalent to one day) with approved organisations

<sup>1</sup>All leave provisions are calculated pro rata for part-time staff.

## Our people

### Healthy workplace

australian**ethical** maintains a register to track workplace related injuries. If employees have any concerns in relation to health and safety they are encouraged to raise these concerns at any time with the Human Resources Manager, their Section Manager or the Staff Advocate. Also, Occupational Health and Safety issues are discussed at staff fora on a quarterly basis.

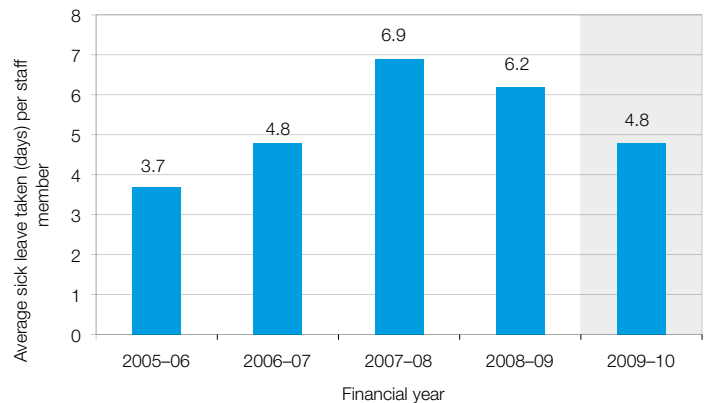
During 2009–10, no work related injuries or occupational diseases were recorded. Following the practice of previous years, australiane**thical** offered flu vaccinations to all staff – 13 staff accepted the offer of this service this year. The number is lower than last year reflecting a national trend in lower take up of vaccination programs.

The average number of days taken in sick leave decreased in 2009–10 to 4.8 days per staff member (5.2 days per FTE staff), down from 6.2 days per staff (6.9 days per FTE staff; Figures 11 and 12) in 2008–09. Being a relatively small organisation, average sick leave days may exhibit large fluctuations year to year. During 2008–09, a number of staff members took significant time off to recover from operations, thereby affecting the number of sick leave days taken during the year.

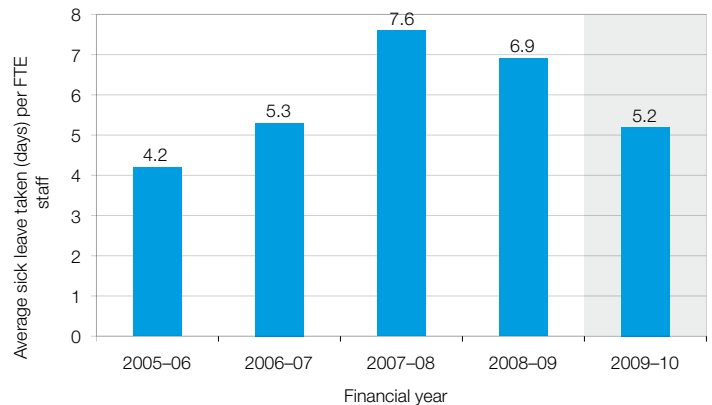
During busy periods employees tend to take less leave. The accumulation of excessive amounts of leave may indicate that employees are overworked and stressed and in need of a holiday. Holidays provide an important mechanism for stress relief and are essential to a healthy lifestyle. australiane**thical** employees are entitled to twenty days of leave for twelve months of continuous service. Leave is accrued pro rata per working day. As at 30 June 2010 australiane**thical** employees on average accrued 21.0 days of leave which is not excessive relative to the annual entitlement and is a slight reduction on the 22.1 days recorded as at 30 June 2009 (Figure 13). australiane**thical** has been working with employees with high leave balances (in excess of six weeks FTE annual leave) to take some leave and ensure they achieve a good work/life balance.

australian**ethical** encourages employees to ride to work. Quarterly alternative transport days encourage staff to consider different ways to commute to work, such as walking, riding their bike or catching the bus. australiane**thical** has also been a participant in the National Ride to Work Day, an annual event in the beginning of spring

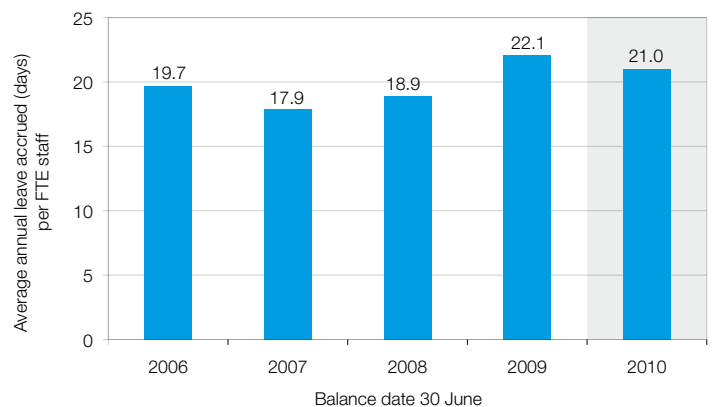
promoting the environmental and health benefits of bike riding. Facilities at our Canberra office make riding to work an attractive alternative. These include a lockable bike shed, showers, personal lockers, a tyre repair kit and bike pump.



**Figure 11:** Sick leave taken (days) per staff member – note: 2005–06 figure restated due to rounding error in previous report, was reported as 3.8 but correct figure is 3.7



**Figure 12:** Sick leave taken (days) per FTE staff member



**Figure 13:** Average annual leave accrued (days) per FTE staff. Note: the average annual leave accrued for 2009 has been restated from 18.5 days to 22.1 days.

## Society

### Community

australian**ethical**'s constitution mandates that 10 per cent of profit (after notional tax before staff bonus) is donated for charitable, benevolent and conservation purposes as part of its contribution to a positive and sustainable society. In 2010 australiane**thical** paid a total of \$124,941 to 25 organisations involved in a wide range of environmental, charitable and community activities, representing approximately 7.5% of pre-tax profits. Over the last decade australiane**thical** has donated over \$1 million back into the community.

The grants consist of two components – two major project grants and a number of smaller grants. The large major project grants are typically made to one social and one conservation project that have a lasting tangible impact. The major project grants of \$30,000 for 2010 were awarded to the Asylum Seeker Resource Centre, and the Tasmanian Land Conservancy.

#### The Asylum Seeker Resource Centre

The Asylum Seeker Resource Centre is Australia's largest asylum seeker advocacy, aid and health organisation which promotes the protection of the human rights of asylum seekers. The centre will use australiane**thical**'s grant to fund a legal service for asylum seekers.

#### The Tasmanian Land Conservancy

The Tasmanian Land Conservancy is a non-profit organisation that acquires and manages land in Tasmania to protect important natural ecosystems and biodiversity. The grant will be used to contribute towards the purchase of Skullbone Plains, a world heritage nominated property in Tasmania.

In 2009 australiane**thical**, in association with Documentary Australia Foundation, invited film makers to submit a mini-documentary piece on the theme of 'corporate responsibility and the environment' with the winning documentary winning \$12,500 at the Australian International Documentary Conference in late February. The competition attracted 39 brilliant entries.

First prize went to the film titled 'Frankenstein Inc' by Shane Ingram, which explores the concept of a corporation and how individuals have influence and responsibility over the actions of corporations. The second prize of \$8000 was awarded to Tim Baier for 'Unmineable minds', while the \$5000 third prize went to Vanessa Downey and James Rose

for 'Right here'. The winning entries can be viewed at: [www.australianethical.com.au/news/winners-mini-documentary-film-competition](http://www.australianethical.com.au/news/winners-mini-documentary-film-competition)

In addition to providing two major grants in 2010, australiane**thical** also recognises the need to support unpaid work that is often unrecognised in the wider society. The australiane**thical** grants program acknowledges small community organisations that perform outstanding volunteer work throughout Australia and recognises that these organisations rely on grants to continue their positive work. In 2010 australiane**thical** provided financial support to smaller charitable and volunteer organisations, such as Greening Australia, Timor Leste Vision, Eurobodalla Meals on Wheels, WIRES, Free the Bears Fund and Coast Shelter.

A full list of organisations awarded grants in 2010 under australiane**thical**'s community grants program can be found in Appendix A of this report (see Appendix B for grants awarded in 2009).

### Corruption

There is always a risk of fraud and corruption, and this poses significant monetary and reputational risks to australiane**thical**. We endeavour to analyse, minimise and manage these risks through a variety of company policies, systems and procedures. Ongoing compliance and risk management controls are in place through all of australiane**thical**'s operations and business units.

An important aspect of internal fraud control is the australiane**thical** code of conduct, which explicitly refers to and prohibits bribery: 'As a general rule, don't accept (or offer to give) gifts, services, discounts, gratuities or other gains from (or to) people who conduct business with Australian Ethical. There are some exceptions – small gifts or invitations to local social or sporting functions are generally acceptable. The offering of bribes to anyone is prohibited outright. Breaking this principle could compromise all concerned and is illegal.'

The australiane**thical** code of conduct explicitly addresses other areas of corruption relevant to the financial sector. These include:

- conflicts of interest
- disclosure of confidential information
- insider trading
- fair competition

The specific instructions on insider trading for all australiane**thical** employees are:

## Society

'If you have non-publicly known, price-sensitive information such as: information acquired through working on investments, information about a proposal, information about any other entity in which Australian Ethical may have an interest; or information that has come to your knowledge through your employment with Australian Ethical, then you must not deal in that entity's investments or pass that information on to another person or encourage another person (for example, a family member) to make any investments in the entity.'

It is essential for all staff to be comprehensively trained and made aware of these policies, and as such, all employees of **australianethical** receive training on the code of conduct, which covers the company's anti-corruption policies. There were no recorded incidents of non-compliance with the code of conduct or incidents of corruption in 2009-10.

## Public policy

From time to time **australianethical** will lobby local and state governments on issues relating to ethical investment. In 2009-10, **australianethical** participated in senate committee inquiries, as well as drafting letters to and meeting with members of parliament. The issues **australianethical** pursued related to modifications to renewable energy legislation to correct design flaws that were leading to an oversupply of renewable energy certificates from heat pump hot water systems. **australianethical** also made submissions regarding the treatment of waste coal mine methane as a source of green electricity.

**australianethical** occasionally provides comments to the media on the nature of ethical investment and its related issues. In 2009-10 representatives from **australianethical** provided comments for various television, radio and print media including Money Management, ABC radio, InvestorDaily, Money, Eco Investor, Financial Standard, IFA, The Sydney Morning Herald, and Ethical Investor.

## Political donations

It is **australianethical**'s view that corporate donations to political parties distort the normal democratic process and allow for disproportionate access to and influence of politicians.

**australianethical**'s code of conduct explicitly prohibits unauthorised political donations and states that only the board may make political donations on behalf of the company. **australianethical** made no political donations during the 2009-10 financial year.

## Anti-competitive behaviour

**australianethical** is bound by its constitution, the Charter and its code of conduct to maintain strict ethical and law abiding standards. While **australianethical** endeavours to vigorously compete among its peers to achieve its goals, it strives to do this in a fair, just and legal manner. There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices during the 2009-10 financial year.

## Compliance

There were two potentially significant compliance breaches in 2009-10 that were reported to the Australian Prudential and Regulatory Authority (APRA).

The first breach was relating to the incorrect application of rollover fees. APRA responded by noting the action taken to remedy the breach and decided not to take further action, on the basis that the effect upon members was minimal, and that the company was taking action to rectify the mistake and compensating the affected members.

The second breach was in relation to a failure to advise APRA of changes to the composition of the RSE licensee within 14 days regarding the cessation of Anne O'Donnell as a Responsible Officer, and Margaret Woods as Company Secretary. APRA took no further action.

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## Product responsibility

### Asset management policy – screened funds

australian**ethical** pursues a unique combination of financial and ethical objectives when selecting investments for its screened funds. These objectives consist of:

- containment of the risk of investing
- obtaining a financial return commensurate with any risk taken
- avoiding investment in activities which are socially or environmentally detrimental
- prioritising investment in profitable activities which bring social or environmental benefits.

One way we achieve these objectives is by ensuring that investments align with the **australianethical** Charter. Each investment is subject to regular monitoring and reviews to ensure ongoing compliance. The use of the **australianethical** Charter makes our investment methodology unique in the ethical investment market.

The application of the **australianethical** Charter defines the universe of investments for the screened funds. As at 30 June 2010 this universe covered a broad spectrum of sectors and countries (Tables 7 and 8).

Debate is an integral part of the **australianethical** decision making process – for this reason input is sought from stakeholders. While the company reserves the right to exercise judgment regarding investment selection, comments about the ethical profiles of trust investments are provided regularly to the **australianethical** investment committee. These profiles are prepared by CAER – Corporate Analysis. Enhanced Responsibility. **australianethical**'s research provider.

In October 2005 **australianethical** became one of the first fund managers to receive certification under the Responsible Investment Association Australasia (RIAA) certification program. This included verification of **australianethical** investment selection processes through an independent auditing process managed by the association. Further information can be found at [www.responsibleinvestment.org](http://www.responsibleinvestment.org).

**Table 7:** Percentage of investments by sector as at 30 June 2010<sup>1</sup>

Sector	Balanced Trust	Smaller Companies Trust	Larger Companies Trust	Wholesale International Equities Trust	Properties Trust
Corporate – Unlisted	10.2	0.0	0.0	0.0	0.0
Managed Funds	2.1	0.0	0.0	0.0	9.5
Energy	6.7	7.3	4.9	0.0	0.0
Materials	4.5	6.0	3.3	1.0	0.0
Industrials	2.0	8.0	11.5	46.8	0.0
Consumer discretionary	1.5	4.8	4.9	13.6	0.0
Consumer staples	0.0	0.0	0.0	0.0	0.0
Health care	21.1	25.2	26.1	0.0	0.0
Financials	15.6	14.7	24.9	0.0	0.0
Information Technology	9.7	14.8	6.3	14.7	0.0
Telecoms. Services	9.0	10.2	1.1	0.0	0.0
Utilities	9.4	9.0	4.9	23.9	0.0
Property	8.2	0.0	12.1	0.0	90.5

<sup>1</sup> Data not available for the Income Trust.

## Product responsibility

**Table 8:** Percentage of investments by country as at 30 June 2010<sup>1</sup>

Country	Balanced Trust	Smaller Companies Trust	Income Trust	Larger Companies Trust	Wholesale International Equities Trust	Properties Trust
Australia	100	100	100	100	10.56	100
Denmark	0	0	0	0	1.12	0
France	0	0	0	0	2.42	0
Germany	0	0	0	0	11.98	0
Hong Kong	0	0	0	0	5.23	0
Italy	0	0	0	0	2.91	0
Japan	0	0	0	0	11.32	0
Netherlands	0	0	0	0	3.80	0
New Zealand	0	0	0	0	3.35	0
Norway	0	0	0	0	1.34	0
Singapore	0	0	0	0	2.03	0
Spain	0	0	0	0	4.03	0
United Kingdom	0	0	0	0	4.31	0
United States	0	0	0	0	35.6	0

<sup>1</sup>International holdings have been reported as zero for all trust except the Wholesale International Equities Trust because they do not hold international stocks directly. However they do have indirect exposure to international holdings through crossholdings.

### Ethical analysis

australian**ethical** is known as a specialist in the field of ethical investment. Ethical investment is an investment process that incorporates environmental and social factors when selecting investments, in addition to the objective of achieving competitive financial returns. australiane**thical** was one of the pioneers of this approach.

Researchers from CAER, in conjunction with australiane**thical** analysts, investigate the environmental, social and governance (ESG) dimensions of potential investments. This work is supervised by the investment committee through the chief investment officer. By utilising the services of CAER and the work of australiane**thical** analysts, the investment committee keeps abreast of major new scientific initiatives, outcomes and developments. Attendance at conferences and seminars covering environmental and social issues also assist researchers and staff in identifying potential risks and opportunities. This research capacity allows an active approach to seeking out enterprises that contribute to a sustainable future.

The investment philosophy is based on the principles of the australiane**thical** Charter. The Charter provides guidance in setting out types of activities to be supported, as well as types of activities to be avoided. By utilising the Charter, australiane**thical** applies both a positive and a negative screen to its investments. There are certain types of

companies australiane**thical** will not invest in (for example, companies operating in the tobacco, uranium or gambling industries). Conversely, australiane**thical** actively seeks out companies that are involved in positive activities (such as the production of renewable energy). This approach distinguishes australiane**thical** from most other ethical fund managers.

When determining the ethical merits of a company, australiane**thical** considers the core business activity of the company in question. Investment becomes a possibility provided the activity of the company does not directly contravene any principles the Charter requires us to avoid (e.g. companies with human rights concerns; Table 9). Investment is more likely if the core activity of the company meets one of the positive elements of the Charter.

Having made a decision on the ethical merits of a company's core activities, it is necessary to determine whether the behaviour of the company in carrying out its core activities is consistent with the Charter. For example, australiane**thical** is more likely to invest in companies with positive workplace relations records or market leading sustainability initiatives. This in-depth ethical research is generally carried out by CAER and is gathered from a range of public and non-public sources such as company publications, media, government information and material from non-government organisations.

## Product responsibility

**Table 9:** Tenets of the **australianethical** Charter which directly relate to human rights<sup>1</sup>

The Trusts shall seek out investments which provide for and support	The Trusts shall avoid any investment which is considered to unnecessarily
(a) the development of workers' participation in the ownership and control of their work organisations and places	(ix) exploit people through the payment of low wages or the provision of poor working conditions
(h) activities which contribute to human happiness, dignity and education	(x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices
	(xi) contribute to the inhibition of human rights generally

<sup>1</sup> These tenets also apply to **australianethical's** own operations including its procurement practices.

Once an investment is deemed acceptable according to the Charter, **australianethical's** analysts undertake a thorough financial analysis. **australianethical's** monitoring of investments is extremely rigorous. Once an investment makes it through the investment selection process set out above, it becomes an investment that is subject to regular and ongoing monitoring. All companies within the trusts undergo a regular ethical review and are subject to continual monitoring through media sources. All investor queries regarding the ethical performance of investee companies are responded to in a timely fashion and a review and summary of enquiries is passed to the investment committee as part of its quarterly meeting process.

If, for example, an investee company diversifies into an excluded industry or engages in unacceptable practices, a review will be performed by CAER which may involve company engagement (either correspondence, telephone or face-to-face). If, on the weight of evidence, the stock or investment is no longer considered appropriate, it will be divested as soon as possible.

In developing the engagement process for a particular investment, **australianethical** and CAER work together to formulate the best approach suited to the issue or the particular situation and clear documentation of the engagement process is maintained by **australianethical** and CAER. During the 2009–10 financial year **australianethical** and CAER engaged with 17 companies in which **australianethical** held an interest. This represented 16 per cent of the total 107 investee entities held at the end of the 2009 financial year. **australianethical** engaged companies on a number of issues, including animal testing, industrial

relations, environmental performance and customer service. **australianethical** and CAER also engaged an additional 16 companies on a range of environmental and social issues in which **australianethical** did not hold an interest.

**australianethical** aims to be as transparent as possible about the results of the investment process. For further information in relation to this process, product disclosure statements include details of companies invested in and a regularly updated list of investments also appears on the company website [www.australianethical.com.au](http://www.australianethical.com.au).

Advocacy and company engagement continues to play an important role for **australianethical**. With the launch of the Climate Advocacy Fund, this aspect of ethical investment will become an even more important way of creating a sustainable society by influencing corporate behaviour.

## Climate advocacy fund

Climate Advocacy Fund is not a screened fund; it is a passively managed index fund. See page 7 for a description of its operation.

## Proxy voting policy

**australianethical's** policy is to vote (or make a considered decision to abstain) on investee company resolutions where it has voting authority and responsibility to do so (consistent with IFSA Standard 13.00 – Proxy Voting). **australianethical's** aim is to vote all proxies for Australian and international investee companies. Decisions on how to vote proxies will be made on a company-by-company and resolution-by-resolution basis with regard to the following factors:

- the preservation and increase of the value of the investment in the best interests of members in the managed investment schemes
- improving and upholding the governance of investee companies
- the performance of the investee company
- the application of the **australianethical** Charter to the resolution under consideration

For the period 1 July 2009 to 30 June 2010 a total of 549 resolutions were voted on across the Balanced Trust, Smaller Companies Trust, Larger Companies Share Trust and International Equities Trust (no shares are held by the Income Trust, which means this precludes the trust from the proxy voting process). It should be noted that:

## Product responsibility

- holdings in some companies were sold prior to an annual general meeting being held
- annual general meetings were held prior to the company having holdings in some companies
- details for some meetings were not received
- some resolutions were voted on at extraordinary or special general meetings for specific issues

Of the 549 resolutions voted on across the four trusts, 18 were voted “against” and we “abstained” from voting on 44.

The negative votes related to:

- appointment of directors
- re-election of directors
- election of activist shareholders
- remuneration issues (director fees and the issue of options or shares to directors and CEO's).

The reasons we abstained from voting on some resolutions related to:

- insufficient information being provided
- conditions for board members being exceedingly generous
- being unable to access an English explanation of source documents e.g. explanatory memorandums.

## Product disclosure statements

Under the Corporations Act 2001 a retail client (i.e. a potential investor) should receive a product disclosure statement before acquiring a financial product. A product disclosure statement is a document that sets out the key features of the financial product being offered and should include any risks, benefits and cost involved with the financial offering. It is **australianethical**'s policy to complete and distribute a product disclosure statement as required by law and in accordance with company compliance procedures. Product disclosure statements are made freely available both in print and electronic form upon request and on the **australianethical** website.

Company procedure includes the review of product disclosure statements by appropriate sections within **australianethical**; this is then completed through verification and sign-off by the section head. Product disclosure statements are reviewed by **australianethical**'s legal team and board delegates who are deemed responsible for overseeing the review of the document.

In addition to this, tenet 'b' of the **australianethical** Charter states that the company should seek out and support production of high quality and properly presented products and services. Adherence to this tenet is required internally by **australianethical** as well, as it is enshrined in the company constitution. Hence the same standard applies to the company's internal operations as the Charter requires of investee companies. In short 100 per cent of the company's products and services are subject to these information requirements.

In 2009–10 there were no incidents of non-compliance with regulations and voluntary codes concerning products and service labelling, including publication of product disclosure statements.

## Customer satisfaction

**australianethical** values its customers and their experiences when interacting with customer service representatives, and as such, **australianethical** regularly monitors customer satisfaction and complaints to ascertain specific areas of operational concern and potential improvement.

**australianethical** recorded 30 customer complaints and general expressions of dissatisfaction in 2009–10. Most of these complaints were considered minor, and no complaints were considered major. This is an outstanding improvement compared to 2008–09, where 61 customer complaints and general expressions of dissatisfaction were recorded, and is attributed to **australianethical**'s commitment to customer service.

## Marketing communications

Marketing activities are carried out within the broader context of the **australianethical** business plan and the overall strategy of the marketing section. These activities are governed by the marketing section procedures manual and the **australianethical** constitution. Laws, standards, voluntary codes, regulatory agencies and associations that have particular relevance to **australianethical**'s marketing activities include the Corporations Act 2001; Goods and Services Tax; National Privacy Principles; Copyright; Spam Act 2003; Trade Practices Act 1974, Australian Securities and Investments Commission (ASIC); Investment and Financial Services Association Limited; Association of Superannuation Funds of Australia Limited; and the Advertising Standards Council.



## Product responsibility

### Customer privacy

australian**ethical** takes its responsibility to maintain the privacy of its customer's details and information extremely seriously, and is pleased to confirm that there were no complaints from customers regarding breaches of privacy or losses of data during the 2009–10 financial year.

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## Environment

australian**ethical** seeks to ameliorate wasteful or polluting practices in its own operations and in its investments. Environmental impacts of office-based businesses include consumption of paper and stationery, energy and water use, transport, waste and greenhouse gas emissions. The section below details our own environmental performance for the year ending 30 June 2010.

### Reducing resource consumption

australian**ethical** is committed to reducing its resource consumption; a commitment supported by the company's purchasing policy:

- australiane**thical** will consider ethical issues in deciding what to buy
- australiane**thical** will follow the 4 R's – reduce, reuse, recycle and refuse – in considering whether to make purchases
- in general, australiane**thical** is prepared to pay up to a 20 per cent premium for a more sustainable product and will consider a higher premium for an exemplary product
- australiane**thical** will consider alternatives to travel, especially air travel before business travel is undertaken (e.g. phone and video conferences)

## Materials

### Paper

Communicating with current and potential investors is an essential part of a fund managers' business. Paper currently plays an important role in facilitating this communication. A key challenge for the company is reducing paper usage while communicating with a greater number of investors and superannuation members.

During 2009–10 australiane**thical** used approximately 1.317 million A4 sheets of 100 per cent recycled paper (equivalent to 100 trees of non-recycled paper; Table 10). Product disclosure statements (PDS) represented 27 per cent (356,388 A4 sheets) of the paper used; office printing and photocopying paper, 21 per cent (281,772 A4 sheets); newsletters, 20 per cent (264,976 A4 sheets); and leaflets, 15 per cent (191,400 A4 sheets; Table 10).

### Eco-efficient practices

australian**ethical** has implemented a number of eco-efficient practices throughout its business operations including:

- double-sided printing as default option on all computers
- use of Evolve 100 per cent post-consumer recycled printer and photocopy paper ([www.evolve-papers.com](http://www.evolve-papers.com))
- paper reuse trays on desks
- paper and cardboard recycling facilities
- purchasing office stationery made from recycled materials where possible
- recycling of printer toner cartridges
- printing of Aim High newsletter, product disclosure statements and annual reports on 100 per cent recycled, calcium carbonate coated chlorine-free paper using vegetable-based inks
- use of paper pens for outreach made using 100 per cent recycled paper tubes
- electronic copies of the product disclosure statements available on the australiane**thical** website ([www.australianethical.com.au](http://www.australianethical.com.au))
- recycling facility in kitchen for glass, plastic and aluminium
- compost bin in kitchen for organic matter and organic matter compost facility outside
- the purchase of Green Power electricity and the off-setting of travel related greenhouse gas emissions via Climate Friendly ([www.climatefriendly.com](http://www.climatefriendly.com))
- donating old computers to Charity Computers and staff for reuse

# Environment

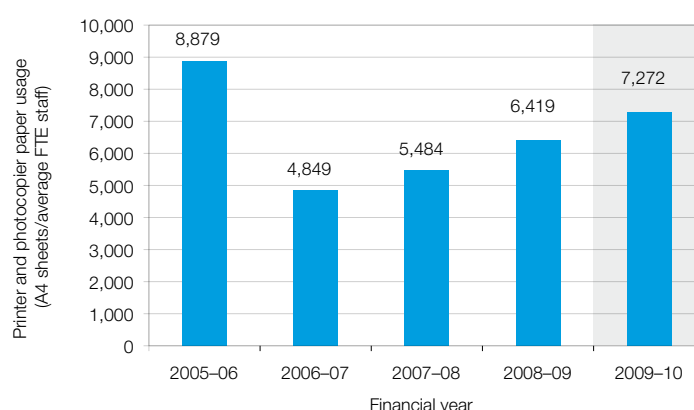
**Table 10: Paper usage<sup>1</sup>**

Paper usage	Financial year		
	2007–08	2008–09	2009–10
<b>A4 sheets</b>			
Managed investments PDS	155,100	46,397	123,963
Superannuation PDS	184,400	99,099	160,203
Climate Advocacy Fund PDS	0	0	72,222
Newsletters	319,257	344,967	264,976
Leaflets	271,730	146,775	191,400
Annual report to shareholders	1,540	3,600	3,000
Trust annual report	16,000	57,567	49,567
Printer and photocopier paper	242,132	254,331	281,772
Letterhead paper	51,000	49,250	14,563
Compliment slips (A4 equivalent)	900	900	1,292
Super fund statements (mail house)	57,460	49,656	90,883
Super annual report	57,073	35,598	38,253
Other	17,313	18,984	24,622
<b>Total A4 sheets</b>	<b>1,373,905</b>	<b>1,107,124</b>	<b>1,316,716</b>

<sup>1</sup> Paper usage data excludes envelopes.

Paper use in 2009–10 increased by 209,592 A4 sheets or 19 per cent over the previous year. The largest increases occurred in managed investments PDS' (up 77,566 A4 sheets), superannuation PDS' (up 61,104 A4 sheets) and PDS' for the newly launched Climate Advocacy Fund (up 72,222 A4 sheets). The increase in paper use, particularly the PDS' is largely a result of increased investor interest post the global financial crisis (GFC).

Printer and photocopier paper usage per average full-time equivalent staff member (Canberra office) increased by 11 per cent in 2009–10 to 7,272 A4 sheets (or approximately 14.5 reams; Figure 14). While this compares favourably with the 20 reams per FTE found in a benchmarking study of 34 organisations by the Commissioner for Environmental Sustainability (2007), the continued increase is disappointing and failed to meet our 10 per cent reduction target for 2009–10. *australianethical* is determined to reduce its printer and photocopier paper use and has again set a 10 per cent reduction target for the current year. Staff education is a key part of the reduction strategy.



**Figure 14:** Printer and photocopier paper usage per average full-time equivalent staff member

Technology will help *australianethical* restrict its paper usage by reducing the need for information to be sent on paper. For example, potential investors can access our product disclosure statements via the *australianethical* website and much of the information previously mailed to investors is now sent by e-mail. As technology improves, *australianethical* aims to provide more information to its stakeholders by electronic means, restricting and reducing paper use.

# Environment

## Stationery

australian**ethical**'s stationery use as represented by total dollar costs, increased by \$303 or 6 per cent in 2009–10. The cost per average full-time equivalent staff member increased only slightly to \$137 (Table 11) and underscores the company's commitment to its 4 R's Policy – reduce, reuse, recycle and refuse.

**Table 11:** Stationery use

Stationery costs	Financial year		
	2007–08	2008–09	2009–10
Total cost	\$5,620	\$5,014	\$5,317
Cost/average FTE staff <sup>1</sup>	\$127	\$127	\$137

<sup>1</sup> Average full-time equivalent (FTE) staff based in Canberra office.

## Energy

In Australia, the commercial building sector is responsible for 10 per cent of total greenhouse gas emissions (Commercial Building Disclosure, 2010). The built environment is an area which presents significant opportunities for carbon abatement and mitigation of climate change.

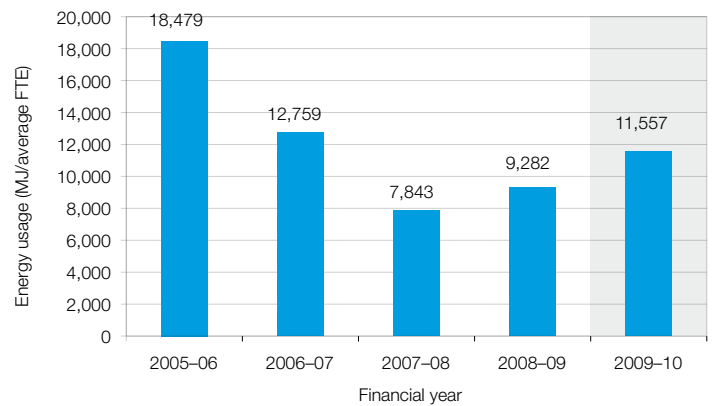
The 2009–10 year was australiane**ethical**'s third full financial year in the six green star Trevor Pearcey House. During 2009–10 australiane**ethical** used 447,827 MJ or 491MJ/sqm of energy (79,071kWh of electricity and 163,172 MJ of gas). On a per square metre basis, this represents a 22 per cent increase on our 2008–09 energy use (Table 12; Figure 15).

Electricity use per square metre increased by six per cent over the year, from 82 kWh/sqm in 2008–09 to 87 kWh/sqm in 2009–10 (Table 12; Figure 16). Gas use per square metre also increased over the period, rising 62 per cent from 110 MJ/sqm in 2008–09 to 179 MJ/sqm in 2009–10 (Table 12; Figure 17).

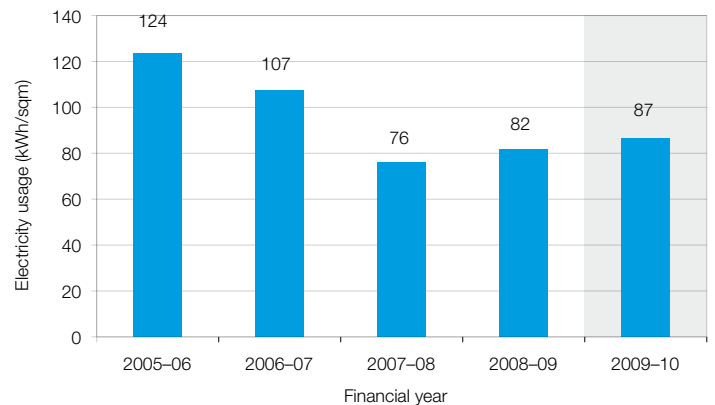
The increase in electricity use during the 2009–10 can be partly explained by the usage of a domestic reverse cycle unit that was installed in the board room during January 2010, while the rise in gas usage can be partly attributed to the increased use of heating during the second quarter of the year, which was colder than the previous year. We are currently investigating other possible causes of the increase in electricity and gas usage.

**Table 12:** Energy use

Energy use	Financial year		
	2007–08	2008–09	2009–10
Energy MJ1	346,247	367,745	447,827
Energy MJ/sqm	380	403	491
Electricity kWh	69,150	74,393	79,071
Electricity kWh/sqm	76	82	87
Gas MJ	97,306	99,929	163,172
Gas MJ/sqm	107	110	179
GHG emissions (tonnes CO2e)	79.65	86.37	95.66
GHG emissions (tonnes CO2e/sqm)	0.087	0.095	0.105

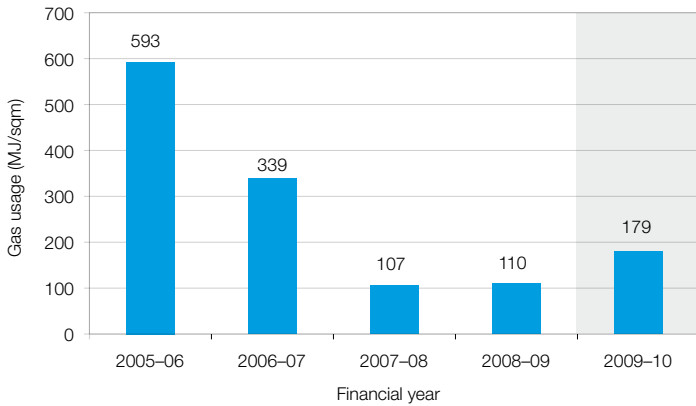


**Figure 15:** Energy usage (mega joules per square metre)



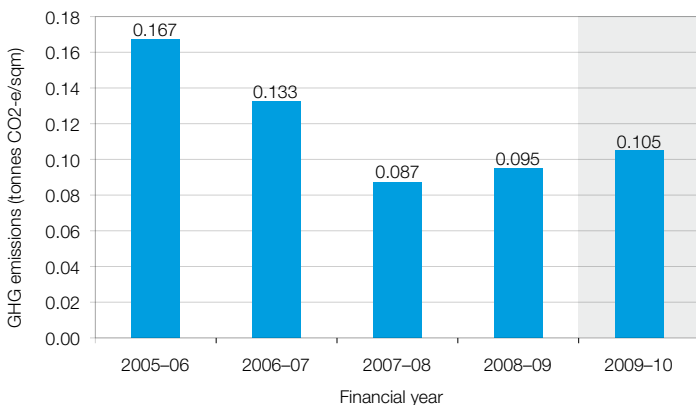
**Figure 16:** Electricity usage (kilowatt-hours per square metre)

## Environment



**Figure 17:** Gas usage (mega joules per square metre)

In order to negate the greenhouse gas emissions related to our energy use, **australianethical** purchased 100 per cent accredited Green Power from ActewAGL along with carbon credits from Climate Friendly ([www.climatefriendly.com](http://www.climatefriendly.com)). By doing this, we saved and offset 95.66 tonnes of CO<sub>2</sub>e (or 0.105 tonnes CO<sub>2</sub>e/sqm) that our energy use at Trevor Pearcey House would have generated (Table 12; Figure 18). The per square metre figure of 0.105 tonnes CO<sub>2</sub>e/sqm is 66 per cent lower than the greenhouse gas emissions from an average Canberra office building.



**Figure 18:** Greenhouse gas emissions (tonnes CO<sub>2</sub>e/sqm)

The performance of **australianethical**'s Trevor Pearcey House highlights the benefits that can be achieved by refurbishing an existing office block according to green building design principles. There is a growing supply of underused or aged buildings that are in need of maintenance or upgrading. It is estimated that in developed nations about a third of building construction activity can be attributed to renovation or retrofitting. Such renovation projects offer a high-yield investment potential, along with low-risk eco-retrofitting opportunities for building owners and tenants (Birkeland, 2008). Since **australianethical** refurbished Trevor

Pearcey House to a six green star level it has conducted regular tours through the offices to those interested in pursuing similar projects.

The refurbishment was undertaken using a conventional budget, using accepted low-technology design principles. These included:

- passive cooling and ventilation combined with a wider thermal comfort band reducing demand on mechanical systems
- double glazed windows
- 'reverse brick veneer' external walls – this ensures the thermal mass on the inside is insulated from the outside air temperature
- R6 insulation under the metal deck roof
- improvements to shading panels
- exposing the ground floor slab
- evacuated tube solar hot water heating
- highly efficient T5 artificial lighting
- timer and occupancy controlled lighting
- workspaces designed to take maximum advantage of natural light

The building is designed to be passively cooled in the warmer months by a 'night purge'. This involves the windows automatically opening at night when the temperature drops to draw cool air into the building, while the hot air from inside the building is exhausted via the four internal stacks and the louvered windows in the barrel vault.



Further information on the Trevor Pearcey House refurbishment can be found on **australianethical**'s website.

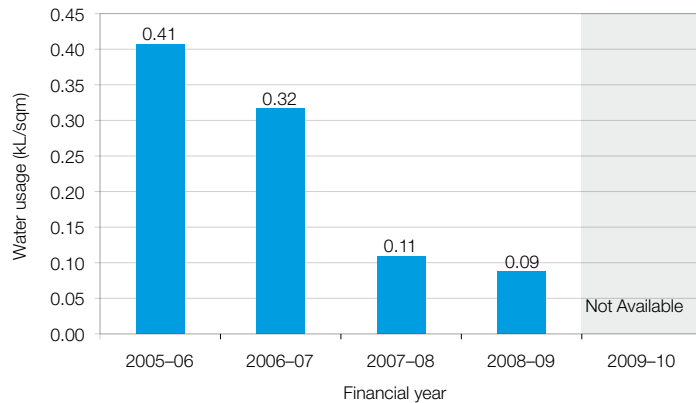
# Environment

## Water

Water scarcity is a key issue facing Australia today. As a result of a broken data connection to its water meter system in July 2009, **australianethical** is unable to report its water use data for 2009–10. During 2008–09 **australianethical** used 81 kL of mains water. This represents just 0.09kL/sqm which is 88 per cent less than the median Canberra office water consumption benchmark of 0.72 kL/sqm<sup>1</sup>. On a per metre basis, **australianethical**'s 2008–09 water use was 18 per cent lower than in 2007–08 (Table 13; Figure 19).

**Table 13:** Water usage

Water used	Financial year		
	2007–08	2008–09	2009–10
kL/sqm	0.11	0.09	Not available
Total kL	99	81	Not available



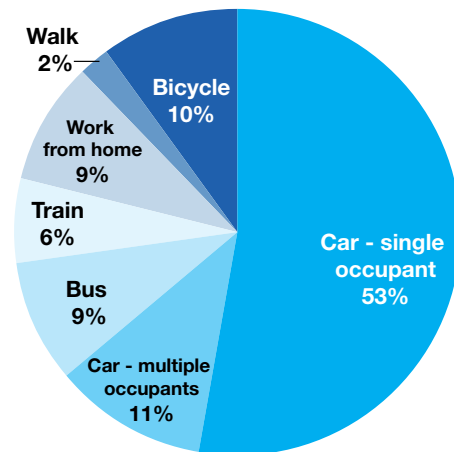
**Figure 19:** Water usage (kilolitres per square metre)

## Transport

During 2009–10, 53 per cent of employees commuted to work by car on their own – slightly higher than the previous year. However, this is still significantly lower than the overall average for the ACT, where approximately 83 per cent of people drive to work (ACT Integrated Transport Framework, 2008). In 2009–10, 11 per cent of employees carpooled, a small decrease compared to 2008–09 (16 per cent).

**australianethical** is aware that the use of motor vehicles in the daily commute to and from work is responsible for significant greenhouse gas emissions. To encourage the use of alternative modes of transport with a smaller environmental footprint, **australianethical** promotes the use of bicycles by providing free secure bike storage facilities and shower amenities. Additionally, the head office is located on a major bus route, which makes the use of public transport more convenient.

Overall the proportion of the workforce which commutes to work in a car in 2009–10 has remained relatively unchanged compared to 2008–09; however we have seen changes in the use of other modes of transport. This is partly a result of an increase in employees based in Sydney, which has better public transport options. A full breakdown of **australianethical**'s employee's modes of transport for 2009–10 is shown in Figure 20.



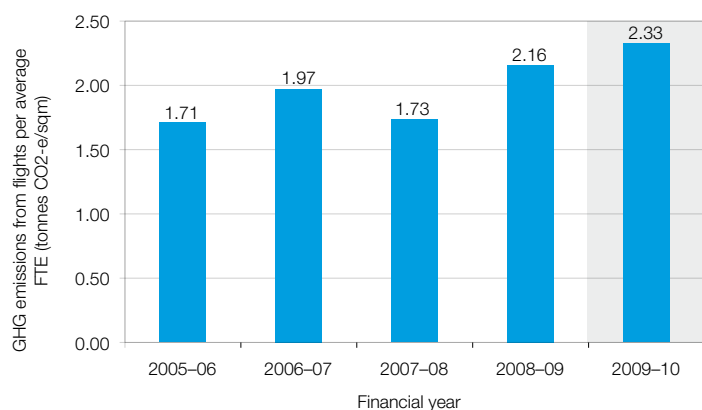
**Figure 20:** Primary transport used by **australianethical** staff to commute to work during 2009–10.

Flights are the largest source of emissions at **australianethical**. In 2009–10 **australianethical** staff made 596 flights and 716 taxi cab trips (2008–09: 474 flights and 698 taxi cab trips). Total greenhouse gas emissions from air travel in 2009–10 was 111.9 tonnes, compared to 102.99 tonnes in 2008–09. Greenhouse gas emissions per average FTE also increased, from 2.16 tonnes in 2008–09 to 2.33 tonnes in 2009–10 (Figure 21). **australianethical** offset all emissions from flights and cab trips using Climate Friendly ([www.climatefriendly.com](http://www.climatefriendly.com)).

To encourage and promote the use of alternative forms of transport as a way of reducing the environmental impact of commuting, **australianethical** hosts alternative transport days, which include a free breakfast for employees who made use of an alternative mode of transport to get to work, such as walking, riding or public transport. **australianethical** makes available corporate bus tickets to employees who need to travel during work hours for work purposes within Canberra. Additionally, **australianethical** endeavours to use its teleconferencing facilities where possible to replace face-to-face meetings that may require travel. Where business travel cannot be avoided, **australianethical** encourages employees to choose the most sustainable travel option.

<sup>1</sup> Calculated benchmark based on a median Canberra office water consumption of 0.72 kL/net lettable area (NLA) sqm (Department of the Environment and Heritage 2006)

## Environment



**Figure 21:** Greenhouse gas emissions from flights (tonnes CO<sub>2</sub>e) per average FTE

## Emissions, effluent and waste

### Waste

According to the United Nations Environment Programme – Sustainable Buildings and Climate Initiative the built environment is responsible for approximately 30–40% of solid waste generation (UNEP–SBCI, 2009). It is estimated that Australian Ethical produced 4422 kg of waste in 2009–10, an increase from 3815 kg of waste generated in 2008–09. Approximately 3991 kg of waste generated was recycled, which is about 90 per cent of the total waste generated, while 431 kg of waste went to landfill. The majority of waste was paper, making up approximately 69 per cent of total waste. The categories of waste to landfill recording the largest decreases in 2009–10 were food organics and general waste, which reduced by 136 kg and 78 kg, respectively (Tables 14 and 15).

**Table 14:** Waste for the year to 30 June 2010

Waste type	Weekly waste (kg)	2009–10 waste (kg)	% of waste sub-total	% of total waste
<b>Waste to landfill</b>				
Paper	0.1	5	1%	0%
Cardboard	0.2	12	3%	0%
Recyclable containers <sup>1</sup>	0.6	30	7%	1%
Food organics	0.4	20	5%	1%
General waste <sup>2</sup>	7.0	364	84%	8%
<b>Sub-total</b>	<b>8.3</b>	<b>431</b>	<b>100%</b>	<b>10%</b>
<b>Waste recycled</b>				
Paper	58.6	3,052	76%	69%
Cardboard	2.3	122	3%	3%
Recyclable containers <sup>1</sup>	3.5	180	5%	4%
Food organics	12.3	637	16%	14%
<b>Sub-total</b>	<b>76.7</b>	<b>3,991</b>	<b>100%</b>	<b>90%</b>
<b>Waste generation total<sup>3</sup></b>	<b>85.0</b>	<b>4,422</b>		<b>100%</b>

<sup>1</sup> Includes glass, plastic and aluminium.

<sup>2</sup> Includes plastic wrappers/bags, tissues, paper hand towels etc.

<sup>3</sup> Australian Ethical's Canberra offices only.

# Environment

**Table 15:** Waste for the year to 30 June 2009

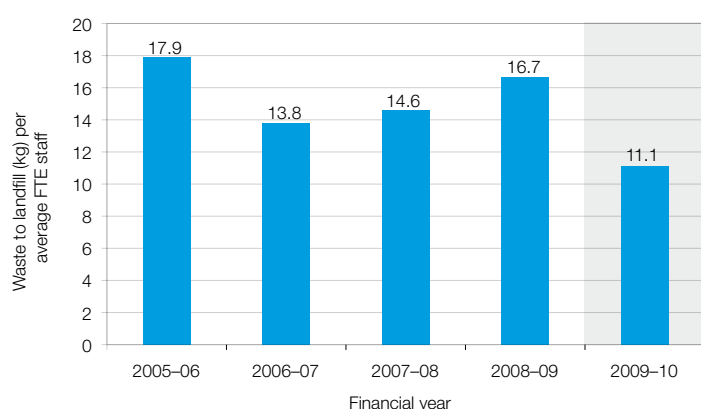
Waste type	Weekly waste (kg)	2008–09 waste (kg)	% of waste sub-total	% of total waste
<b>Waste to landfill</b>				
Paper	0.3	13	2	0
Cardboard	0.2	12	2	0
Recyclable containers <sup>1</sup>	0.7	38	6	1
Food organics	3.0	156	23	4
General waste <sup>2</sup>	8.5	442	67	12
<b>Sub-total</b>	<b>12.7</b>	<b>661</b>	<b>100</b>	<b>17</b>
<b>Waste recycled</b>				
Paper	47.0	2443	77	64
Cardboard	1.8	93	3	3
Recyclable containers <sup>1</sup>	2.1	111	4	3
Food organics	9.8	507	16	13
<b>Sub-total</b>	<b>60.7</b>	<b>3154</b>	<b>100</b>	<b>83</b>
<b>Waste generation total<sup>3</sup></b>	<b>73.4</b>	<b>3815</b>		<b>100</b>

<sup>1</sup> Includes glass, plastic and aluminium.

<sup>2</sup> Includes plastic wrappers/bags, tissues, paper hand towel etc.

<sup>3</sup> Australian Ethical's Canberra offices only.

Waste to landfill per average FTE staff decreased by 5.6 kg in 2009–10 to 11.1 kg (Figure 22). The reduction reflects the decrease in total waste to landfill while FTE figures remained relatively stable.



**Figure 22:** Waste to landfill (kg) per average FTE staff

## Greenhouse gas emissions

Australians are now considered to be the world's worst greenhouse gas polluters, emitting 20.58 tonnes of carbon dioxide per person (citizens of the USA emit 19.78 tonnes per person; Maplecroft 2009). Australian **ethical** is committed to combating climate change not only through our investments, but also within our own operations. During 2009–10 Australian **ethical** saved the equivalent of 93.11 tonnes of carbon dioxide from entering the atmosphere and offset a further 126.58 tonnes (Table 16). Australian **ethical** saved 84.61 tonnes of carbon dioxide by purchasing 79,071 kWh of 100 per cent accredited Green Power electricity from ActewAGL under the GreenChoice program. The company also saved a further 8.50 tonnes of carbon dioxide by recycling 90 per cent (3.991 tonnes) of waste. The company offset 126.58 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of carbon credits from Climate Friendly ([www.climatefriendly.com](http://www.climatefriendly.com)).

Prior to being off-set, Australian **ethical**'s 2009–10 greenhouse gas emissions were 12 per cent higher than in 2008–09 (Tables 16 and 17). The increase in emissions was largely a result of an increase in the number of air flights, from 474 in 2008–09 to 596 in 2009–10 and gas usage (increased from 110 MJ/sqm in 2008–09 to 179 MJ/sqm in 2009–10).



## Environment

**Table 16:** Greenhouse gas (GHG) emissions for the year to 30 June 2010<sup>1</sup>

GHG emissions (t CO <sub>2</sub> e)	Saved	Generated	Offset
<b>Scope 1 emissions</b>			
Gas	0.00	11.05	11.05
<b>Scope 2 emissions</b>			
Electricity	84.61	0.00	0.00
<b>Scope 3 emissions</b>			
Waste recycled	8.50	0.00	0.00
Waste to landfill	0.00	0.43	0.43
Air flights	0.00	111.90	111.90
Taxi cabs	0.00	3.20	3.20
<b>Total</b>	<b>93.11</b>	<b>126.58</b>	<b>126.58</b>

<sup>1</sup> Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors – June 2009. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator ([www.climatefriendly.com](http://www.climatefriendly.com)). Scope 1 emissions are considered direct emissions; Scope 2 and 3 emissions are considered indirect. Indirect emissions from courier services have not been calculated.

**Table 17:** Greenhouse gas (GHG) emissions for the year to 30 June 2009<sup>1</sup>

GHG emissions (t CO <sub>2</sub> e)	Saved	Generated	Offset
<b>Scope 1 emissions</b>			
Gas	0.00	6.77	6.77
<b>Scope 2 emissions</b>			
Electricity	79.60	0.00	0.00
<b>Scope 3 emissions</b>			
Waste recycled	6.80	0.00	0.00
Waste to landfill	0.00	0.64	0.64
Air flights	0.00	102.99	102.99
Taxi cabs	0.00	3.10	3.10
<b>Total</b>	<b>86.40</b>	<b>113.50</b>	<b>113.50</b>

<sup>1</sup> Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors – June 2009. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator ([www.climatefriendly.com](http://www.climatefriendly.com)). Scope 1 emissions are considered direct emissions; Scope 2 and 3 emissions are considered indirect. Indirect emissions from courier services have not been calculated.

## Compliance

australian**ethical** was not subject to any significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations in 2009–10.

## Environmental protection expenditure

During 2009–10 australiane**thical** spent a total of \$5560 on the protection of the environment. This figure includes costs for off-setting greenhouse gas emissions through Climate Friendly and paying a premium for Green Power generated from renewable energy sources.

## Products and services

The environmental impact of australiane**thical**'s products, being financial services, primarily lies with the impact of the companies in which australiane**thical** holds a financial interest. These impacts, while outside the boundary of this report, are ameliorated to a certain extent by australiane**thical**'s ethical investment approach.

# Economic performance

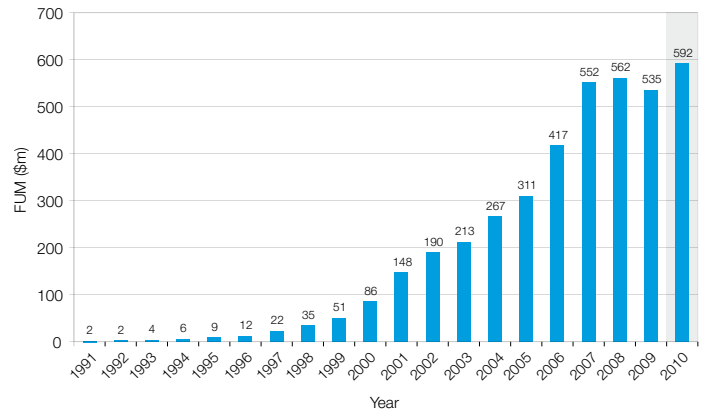
The following section of the report outlines the company's economic performance during the period 1 July 2009 through to 30 June 2010.

## Economic performance

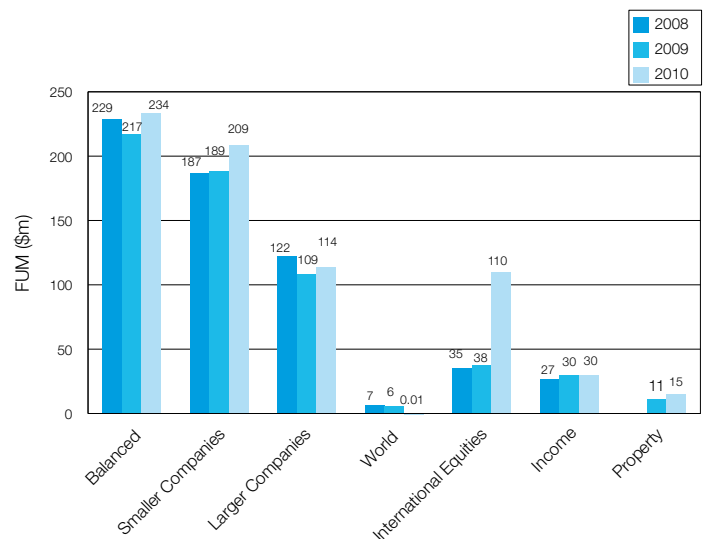
The economic performance for 2009–10 reflects how well **australianethical** managed the financial storm that swept global financial markets in 2008. The operating environment in which **australianethical** does business is one in which the revenues of the company are reliant on the performance of the share markets. After the crisis of 2008 the market rose from a low in March 2009 to the highs that were seen in March 2010. As revenues for the company are impacted very much by the movements of the share market, this has had a positive impact on the company's economic performance. Hence underlying profits have increased significantly and improved on the previous year. Nevertheless investors continue to avoid the share market and this has an impact on the underlying confidence in financial markets.

The company continues to perform solidly over the long term. This reflects the merits of **australianethical's** investment approach (environmental, social, governance investment considerations) over the longer time horizon. As at 30 June 2010 funds under management were 592 million (ex. Distribution; Fig 23), this compares with funds under management of \$535 million (ex. Distribution; Figure 23) for 30 June 2009. The aggregate distribution amount for the 2009 year was \$9 million. For 2010 this figure was slightly higher at \$13 million.

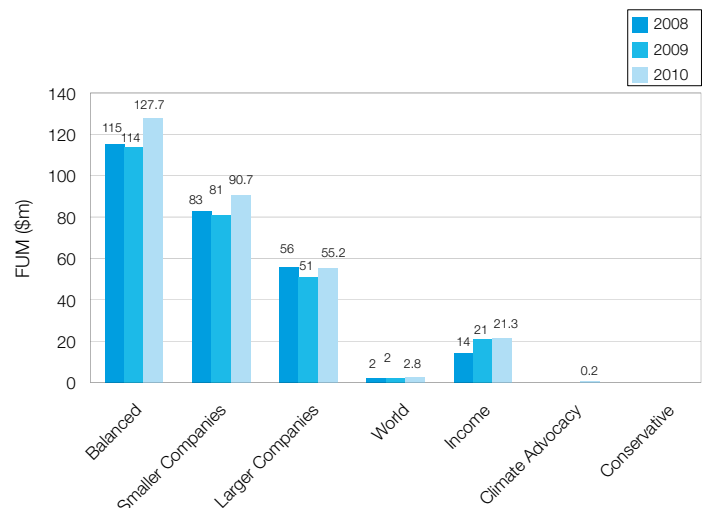
Funds under management across the investment trusts and corresponding superannuation strategies are all shown in Figures 24, 25 and 26. The company intends to act as a leader, influencing change and advocating for change in the Australian and international business environments in which it continues to invest.



**Figure 23:** Growth of funds under management (years ending 30 June) – figures are net of crossholdings

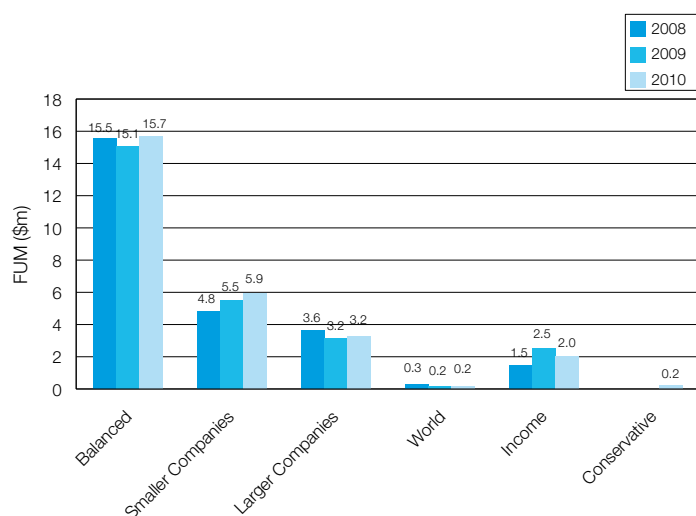


**Figure 24:** Unit trusts – funds under management – figures include crossholdings



**Figure 25:** Superannuation accumulation and rollover strategies – funds under management

## Economic performance



**Figure 26:** Superannuation pension strategies – funds under management

Revenue to the end of June 2010 was \$14,067,899 up 7%, compared with the year ending 30 June 2009, which was \$13,131,431. The company net profit after tax was down 15 per cent to \$1,022,555; the previous profit after tax was \$1,202,752. Total dividend declared in relation to the 2009–10 year was \$2.00 representing a 197% payout ratio. The dividends paid to shareholders during the 2009–10 year totalled \$1,805,424 million. (The payment represents an interim dividend of 50 cents per share and a final dividend of 50 cents per share. The Board agreed that a special dividend be paid of \$1.00 per share for the financial year ending 30 June 2010.

**Table 18:** Economic performance indicators – financial year

Economic performance indicator	Financial year		
	2007–08	2008–09	2009–10
<b>Direct economic value generated</b>			
Revenues	\$14,064,371	\$13,131,431	\$14,067,899
<b>Economic value distributed</b>			
Operating costs	\$5,155,175	\$4,756,294	\$4,997,729
Employee wages and benefits <sup>1</sup>	\$5,972,707	\$6,105,701	\$7,000,615
Payments to capital providers (dividend)	\$1,879,826	\$1,330,329	\$1,805,424
Payroll tax	\$284,373	\$305,625	\$339,109
Income tax	\$799,435	\$620,191	\$582,950
Total tax (total payment to government)	\$1,083,808	\$925,816	\$922,059
Community grants	\$200,891	\$140,868	\$124,941
<b>Economic value retained</b>			
Economic value generated less economic value distributed	(\$228,036)	(\$127,577)	(\$782,869)

<sup>1</sup> Excludes payroll tax.

Economic value retained went from negative \$127,577 in 2008–09 to negative \$782,869 in the 2009–10 financial year (Table 18). The economic value retained by the company is the difference between the economic value generated (i.e. the profit or loss) and the economic value distributed (i.e. the dividend paid to shareholders), as defined by the GRI G3 framework. Economic value retained was negative again in 2009–10 mainly due to timing issues related to when economic value is generated and when economic value is distributed by the company.

The underlying profit after tax of the company has improved to levels similar to those seen prior to the onset of the global financial crisis that swept across the globe in September 2008. This is indicative of a partial recovery of the global markets from the low reached in March 2009. Markets have recovered since this time, but remain quite volatile. The company was able to achieve net inflows in the context of a very difficult market environment in which many investors remained very cautious and were either not investing at all or were withdrawing investments due to market uncertainty.

Over the year the company's net assets decreased from \$8,453,205 to \$8,055,728, this is a reduction of \$397,477 in the value of net assets, or a drop in value of 4.7% of net company assets (Table 19).

## Economic performance

**Table 19:** *Economic performance indicators – balance date*

Economic performance indicator	Balance as at 30 June		
	2008	2009	2010
Total assets	\$11,152,242	\$11,054,919	\$11,099,926
Net assets	\$8,381,490	\$8,453,205	\$8,055,728

### australian**ethical** community grants

As prescribed in **australianethical**'s constitution, 10 per cent of profit (after notional tax before staff bonus) is donated to charitable, benevolent and conservation purposes as part of the company's contribution to a positive and sustainable society. In 2009 **australianethical** donated \$140,868 to 25 social and conservation projects in its community grants program. In 2010 the company donated \$124,941 through its community grants program. This reflects a reduction in the overall profit (after notional tax before staff bonus) of over 11% for the year ending 30 June 2010. Community grants paid from the company performance generate for the financial year ending 30 June 2010 included two large donations to The Asylum Seeker Resource Centre and The Tasmanian Land Conservancy.

### Financial implications of climate change

Climate change and related issues have significant prominence at **australianethical** both in our investment management strategies and business operations.

**australianethical** is very much aware of climate change issues in its day to day operations. Climate change has risks and opportunities for all businesses regardless of the sector in which they operate.

**australianethical**'s quite unique position in this niche market in the funds management industry offers investors the opportunity to contribute to solving and alleviating some of the very large environmental and social issues that are faced in Australia, indeed, in the world today.

With continued debate on climate change issues at the political and corporate level, as well as within the media, **australianethical** expects that awareness of environmental problems will increase year on a year and that this will broaden the number of potential investors. Investors and superannuation members will be more conscious of the

benefits of responsible investment in the longer term, particularly in relation to climate change.

**australianethical** is committed to addressing climate change issues. As a result of the launch of the Climate Advocacy Fund during the 2009–10 year, **australianethical** is endeavouring to tackle the climate change challenge from two angles: our long standing ethically screened investment trusts continue to promote sustainable businesses which in the most part contribute to the effort of reducing the risk of dangerous climate change; and our new Climate Advocacy Fund is indexed based, providing the opportunity to advocate on the issue of climate change with companies that we would not normally deal with.

The risk of being exposed to companies largely affected by climate change related regulatory changes, such as carbon trading, is considered to be low for the company, given **australianethical**'s investment approach and screening process. The company, due to the way it utilises the **australianethical** Charter, selects and screens its potential investments, and hence has minimal exposure to carbon intensive industries within its screened investment portfolio. **australianethical** considers itself to be well positioned for a market place that will eventually see an effective price put on carbon or a form of carbon tax legislated.

The Climate Advocacy Fund will be more exposed to the risks of climate change, however the advocacy work integral to this fund is aimed at reducing the climate change risk of the companies that the fund is invested in.

**australianethical** has predominantly office based operations in Canberra and Sydney. The company does not expect any operations to be directly affected by climate change in the near future. However, climate change impacts will make the need for responsible investment more pressing in the investment market place and such interest will only prove to be positive for **australianethical**.

While the company is aware of the risks and opportunities climate change presents, the company has not quantified the financial implications of climate change for the organisation at this point in time.

## Economic performance

### Superannuation obligations

The retirement plans offered to all employees of the company are accumulation superannuation strategies based on the requirements outlined by government legislation. There are no defined retirement benefit plans offered to employees.

The company is fulfilling its superannuation obligations as required by Australian law which, broadly speaking, requires that employers contribute nine per cent of salary to a superannuation fund on behalf of employees.

### Financial assistance from the government

There are no direct financial benefits gained from the Australian Government to **australianethical** and further there are no governments represented in **australianethical's** shareholding. However, changes in government legislation pertaining to superannuation requirements could impact favourably on the funds management industry per se. For example, legislation requiring an increase in superannuation guarantee contributions would have a positive impact on the overall investment funds flowing into the superannuation strategies offered by the company. The impact from legislative changes would also obviously depend on the nature of the change and **australianethical's** market share at the time that any government legislation is implemented.

## Market presence

### Suppliers

Tenet 'b' of the **australianethical** Charter supports the production of high quality products and tenet 'c' supports the development of locally based ventures. These principles are adhered to in the day to day purchasing and sourcing of goods.

**australianethical's** head office in Bruce, Canberra, Australian Capital Territory (ACT) is considered the company's location of significant operation. Being office based and a relatively small organisation with just over 50 employees, the company purchases a moderate amount of stationery, cleaning, staff amenities and corporate office supplies.

The company continues to adhere to the principles in the Charter in day to day operations and consistent with this, **australianethical** sources significant amounts of business

supplies locally, generating and supporting business in the local ACT region. The company has three main suppliers who have offices close to **australianethical's** operations in Canberra and are the businesses of choice for these purchases.

In addition **australianethical's** purchasing policy allows paying up to 20 per cent more for environmentally or socially exemplary goods and, where possible, these are also sourced locally. For example the company's financial and human resources management software is developed in Australia, sourced from an Australian company with local offices in the ACT. A further example is the fact that the company sources some fair trade coffee and organic teas locally.

### Hiring

**australianethical's** procedures for hiring locally and the proportion of senior management hired from the local community at its location of significant operation are outlined below.

In general the business requires both well appointed administration and operational staff and also industry professionals. The hiring strategy differs to some degree for these different categories. Recruitment focuses on hiring in the Canberra/Sydney region due to their relatively close proximity and the fact that our two offices are located in these cities. The hiring procedure uses a combination of local media, web and local employment agencies. The majority of senior management is based in Canberra (4) with two residing in Sydney.

All **australianethical** employees are required to familiarise themselves with and adhere to the comprehensive **australianethical** code of conduct and Charter and internal policies and procedures – all of which are available on the company's intranet (see page 9). From time to time presentations are provided to staff to train them on environmental, social and governance issues. For example in 2009–10 a representative from the Australia Institute presented on the pros and cons of a carbon tax versus an ETS (Emissions Trading Scheme) and what the previous government was proposing to implement with its CPRS (Carbon Pollution Reduction Scheme.)

## Economic performance

### Indirect economic impacts

Indirect economic impacts are of significant importance to **australianethical** as indirect impacts play an important role in fostering socio-economic change in society.

**australianethical**'s indirect impacts are largely characterised through raising awareness about responsible investment and related issues, such as considering climate change in investment decisions. The company board and various committees need to consider the risks and opportunities that are presented by climate change and this is done via careful consideration of the principles set out in the **australianethical** Charter in the investment process. **australianethical** undertakes public seminars and presentations on ethical investment and engages with various media outlets highlighting links between responsible investment or on topical environmental and social issues of interest to **australianethical** stakeholders, the community and stakeholders at large in the Australian community. Such initiatives provide public benefit to the community through commercial, in-kind and pro bono engagement. In some cases, these seminars and presentations lead to the development of local initiatives that the company may support or try to give an impulse to.

**australianethical** continued to be a major sponsor and supporter of environmental and social justice events across Australia in 2009–10. **australianethical** increased its support of two major national events in Sustainable House Day and the Walk Against Warming. Both events play a high profile role in educating people about the actions they can take to reduce their environmental impacts, and place pressure on business and governments to improve their environmental performance.

**australianethical** was also the major sponsor of large state based environmental and cultural events such as the Western Australian Conservation Week, the Melbourne Writers Festival, the Brisbane Festival, and the Big Canberra Bike Ride. The company was also a key supporter of other events including the Cruelty Free Living Festival, the Home Economics Conference, the Big Melt Tour, the Green Living Fair, Human Rights Art and Film Festival, the Vegan Expo, Green Earth Festival and the Green Day Out. The Australian Ethical Art Prize was run once again in 2010. Held at the TAP Gallery in Darlinghurst, Sydney, the art prize attracted more than 50 entries. Australian Ethical was a supporter and stallholder at various other events including the Organic Expo, Sustainable Living Festival, Hobart Sustainable Lifestyle Expo, Fair@Square Fair Trade and Ethical Expo, Top End Sustainable Living Festival and the Perth Sun Festival.

**australianethical**, through its investment approach, has an indirect economic impact via the promotion of ESG factors in the wider economy. While the extent of impact is difficult to measure, the adoption of ESG factors by a growing number of mainstream institutional investors in Australia is significant and central to **australianethical**'s vision of future investing.

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# Assurance

## Assurance

### Report content

In defining the report content, **australianethical** applied the GRI reporting framework's 'Guidance on defining report content' and associated principles. This involved:

- identifying the topics and indicators considered relevant by undergoing an iterative process using the principles of materiality, stakeholder inclusiveness, sustainability context and completeness
- considering the relevance of all indicator aspects identified in the GRI guidelines and financial services sector supplements
- using the tests listed for each principle to assess which topics and indicators were material
- using the principles to prioritise selected topics and decide which were to be emphasised.

### Materiality

GRI defines materiality as the threshold at which an issue or indicator becomes sufficiently important that it should be reported (GRI 2006). It refers not only to those topics and indicators that have a significant financial impact on the company, but also includes those economic, environmental and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations (GRI 2006, WCED 1987).

In determining which topics and indicators were material, **australianethical** took into account a number of internal and external factors. These included **australianethical**'s vision and mission statement, the **australianethical** Charter (see page 9), the expectations and interests of stakeholders, and **australianethical**'s sustainability impacts, risks and opportunities.

**australianethical** considered the majority of GRI core indicators to be material. A number of GRI additional indicators were also considered material, as were the majority of indicators contained in the Financial Services Sector Supplement. Topics and indicators were prioritised based on the significance of their economic, environmental and social impact and their influence on the assessments and decisions of stakeholders.

### Stakeholder inclusiveness

**australianethical** has identified a number of stakeholders including employees, shareholders, trust unitholders, superannuation members, financial advisors, investee entities, suppliers, the local community and the greater public in general. **australianethical** also identified the environment and future generations as stakeholders.

In preparing this report, **australianethical** attempted to meet the reasonable expectations and interests of its stakeholders. The expectations and interests of stakeholders were sought through a number of engagement processes, including surveys, feedback forms and peer review comment.

## Assurance

Independent external assurance enhances the quality and credibility of a sustainability report. **australianethical**'s policy and practice, since its second sustainability report published in 2003, has been to seek independent external assurance of its sustainability report.

**australianethical**'s 2010 sustainability report was formally reviewed by the firm Thomas Davis and Company, Chartered Accountants. Thomas Davis and Company also audit **australianethical**'s financial report. Thomas Davis and Company visited **australianethical**'s Canberra office on 28 October 2010 and spent a total of 25 hours reviewing the financial/numeric data contained in the report (for example, energy, employee and waste data). A report resulting from this review was provided to the Directors of **australianethical** and is presented on the following page.

# THOMAS DAVIS & CO.

(ESTABLISHED 1894)

CHARTERED ACCOUNTANTS

Liability limited by a scheme approved  
under Professional Standards Legislation

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LEVEL 20  
68 PITT STREET  
SYDNEY NSW 2000

4 November 2010

The Directors  
Australian Ethical Investment Limited  
Block E, Trevor Pearcey House  
Traeger Court, 34 Thynne Street  
BRUCE ACT 2617

Dear Sirs,

## Independent Auditor's Review Report

The 2010 Sustainability Report ("the Report") of Australian Ethical Investment Limited summarises the economic, environmental and social performance of Australian Ethical Investment Limited for the period 1 July, 2009 to 30 June, 2010. We agreed with Australian Ethical Investment Limited management to independently review the financial data (including paper use, energy use, employee, office space and waste data) in the Report and to report on the scope of our review procedures and our findings.

### Management's Responsibility for the Report

Australian Ethical Investment Limited management is responsible for the preparation and content of the Report and has determined that the applicable criteria used are appropriate to the needs of Australian Ethical Investment Limited. This responsibility includes establishing and maintaining internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the Report based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405: *Review of Historical Financial Information Other than a Financial Report* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the applicable criteria used. No opinion is expressed as to whether the applicable criteria used are appropriate to the needs of Australian Ethical Investment Limited. ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

A review consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



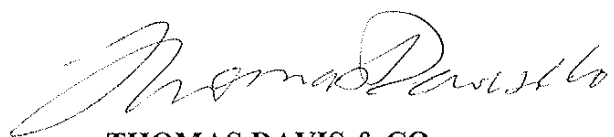


Our review work included:

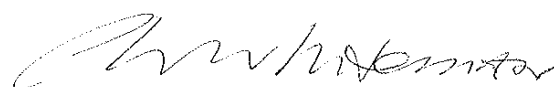
- Interviews with management responsible for financial data reporting.
- Review of systems and procedures used during the collation and reporting of the financial data.
- Review of the financial data to test the accuracy and reliability of the financial data with source documentation, on a sample basis; and
- Review of the Report in respect of financial data to assess consistency with the findings of the work completed.

### **Conclusion**

Based on our review, we report that nothing has come to our attention that causes us to believe that the financial data presented in the 2010 Sustainability Report of Australian Ethical Investment Limited for the period 1 July, 2009 to 30 June, 2010 is not prepared, in all material respects, in accordance with the applicable criteria used.



**THOMAS DAVIS & CO**



P.L. WHITEMAN      PARTNER

Chartered Accountants

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## Appendices

### Appendix A – Organisations awarded grants under **australianethical's** community grants program – 2010

#### **\$30,000**

- *Asylum Seeker Resource Centre*
- *Tasmanian Land Conservancy*

#### **\$5,000**

- *Engineers Without Borders Australia*
- *WIRES*
- *Free the Bears Fund*
- *I Give a Buck Foundation*
- *Central Coast Kids In Need Inc.*

#### **\$3,000**

- *IWDA*
- *FareShare Australia Inc.*
- *Activ Foundation*
- *Eurobodalla Meals on Wheels Co-op Ltd*
- *Muscular Dystrophy Queensland*
- *Animalia Wildlife Shelter*
- *Animals Asia Foundation*
- *Barefoot Economy*
- *Coast Shelter*

#### **\$2,000**

- *Deal Communication Centre Inc*
- *RiverSmart Australia Ltd*
- *Casa Care Inc*
- *Cystic Fibrosis Qld*
- *Timor Leste Vision Inc*
- *Greening Australia Capital Region*

### Appendix B – Organisations awarded grants under **australianethical's** community grants program – 2009

#### **\$45,000**

- *Co-operation in Development Organisation*

#### **\$40,000**

- *An Australian Ethical initiated mini-documentary competition on the theme 'Corporate Responsibility and the Environment'*

#### **\$5000**

- *ACT Eden Monaro Cancer Support Group*
- *Australian Marine Conservation Society*

#### **\$2800**

- *ACT Frogwatch*
- *Alzheimer's Australia NSW*
- *Australian Red Cross*
- *Barefoot Economy*
- *Bush Heritage Australia*
- *Free the Bears Fund*
- *Pedal Power ACT*
- *Sydney Cochlear Implant Centre*
- *The Grey Man*
- *Wildcare Queanbeyan*

#### **\$1500**

*CARE Australia*

*Condobolin and Districts Landcare*

*East Timor Women Australia*

*Hope Street – Urban Compassion*

*International Women's Development Agency*

*New Internationalist Publications*

*NSW Wildlife Information Rescue & Education Service*

*Sea Turtle Foundation*

*Spinal Cord Injuries Australia*

*The Cerebral Palsy Foundation*

*WaterAid Australia*

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<b>1. STRATEGY AND ANALYSIS</b>		
1.1 Statement from the most senior decision maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	4	
1.2 Description of key impacts, risks, and opportunities.	4, 43	
<b>2. ORGANISATIONAL PROFILE</b>		
2.1 Name of the organisation.	3	
2.2 Primary brands, products, and/or services.	5	
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	5	
2.4 Location of organisation's headquarters.	5	
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	5	
2.6 Nature of ownership and legal form.	5	
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	5	
2.8 Scale of the reporting organisation, including: <ul style="list-style-type: none"> <li>Number of employees;</li> <li>Net sales (for private sector organisations) or net revenues (for public sector organisations);</li> <li>Total capitalisation broken down in terms of debt and equity (for private sector organisations); and</li> <li>Quantity of products or services provided.</li> </ul>	5	
2.9 Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> <li>The location of, or changes in operations, including facility openings, closings, and expansions; and</li> <li>Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations).</li> </ul>	5	
2.10 Awards received in the reporting period.	6	
<b>3. REPORT PARAMETERS</b>		
Report Profile		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	3	
3.2 Date of most recent previous report (if any).	3	
3.3 Reporting cycle (annual, biennial, etc.)	3	
3.4 Contact point for questions regarding the report or its contents.	3	

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<b>Report Scope and Boundary</b>		
<p>3.5 Process for defining report content, including:</p> <ul style="list-style-type: none"> <li>• Determining materiality;</li> <li>• Prioritising topics within the report; and</li> <li>• Identifying stakeholders the organisation expects to use the report.</li> </ul>	46	
<p>3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).</p>	3	
<p>3.7 State any specific limitations on the scope or boundary of the report.</p>	3	
<p>3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.</p>	3	
<p>3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.</p>	3	
<p>3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).</p>	3	
<p>3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.</p>	3	
<b>GRI Content Index</b>		
<p>3.12 Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found:</p> <ul style="list-style-type: none"> <li>• Strategy and Analysis 1.1 – 1.2;</li> <li>• Organisational Profile 2.1 – 2.10;</li> <li>• Report Parameters 3.1 – 3.13;</li> <li>• Governance, Commitments, and Engagement 4.1 – 4.17;</li> <li>• Disclosure of Management Approach, per category;</li> <li>• Core Performance Indicators;</li> <li>• Any GRI Additional Indicators that were included; and</li> <li>• Any GRI Sector Supplement Indicators included in the report.</li> </ul>	50-62	

Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<b>Assurance</b>		
3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider(s).	46-48	
<b>4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT</b>		
<b>Governance</b>		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	10	
4.2 Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement).	10	
4.3 For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	10	
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: <ul style="list-style-type: none"> <li>• The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and</li> <li>• Informing and consulting employees about the working relationships with formal representation bodies such as organisation level 'work councils', and representation of employees in the highest governance body. Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period.</li> </ul>	14-15	
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	12	
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	12	
4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	11	

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<p>4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. Explain the degree to which these:</p> <ul style="list-style-type: none"> <li>• Are applied across the organisation in different regions and department/units; and</li> <li>• Relate to internationally agreed standards.</li> </ul>	9, 11	
<p>4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.</p>	10	
<p>4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.</p>	10-11	
<b>Commitments to External Initiatives</b>		
<p>4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.</p>	13	
<p>4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.</p>	13	
<p>4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation:</p> <ul style="list-style-type: none"> <li>• Has positions in governance bodies;</li> <li>• Participates in projects or committees;</li> <li>• Provides substantive funding beyond routine membership dues; or</li> <li>• Views membership as strategic.</li> </ul>	13	
<b>Stakeholder Engagement</b>		
<p>4.14 List of stakeholder groups engaged by the organisation.</p> <p>Examples of stakeholder groups are:</p> <ul style="list-style-type: none"> <li>• Communities;</li> <li>• Civil society;</li> <li>• Customers;</li> <li>• Shareholders and providers of capital;</li> <li>• Suppliers; and</li> <li>• Employees, other workers, and their trade unions.</li> </ul>	14	
<p>4.15 Basis for identification and selection of stakeholders with whom to engage.</p>	14, 46	
<p>4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.</p>	14-16	

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	14-16	
<b>5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS</b>		
<b>Economic Performance Indicators</b>		
Disclosure on Management Approach	41-44	
<b>Aspect: Economic Performance</b>		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. (Core)	42-43	
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change. (Core)	43	
EC3 Coverage of the organisation's defined benefit plan obligations. (Core)	44	
EC4 Significant financial assistance received from government. (Core)	44	
<b>Aspect: Market Presence</b>		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)	Not available	australian <b>ethical</b> has not reported this information for the 2009–10 year as comparable minimum wage data for the financial sector in Canberra was unavailable. The company is committed to reporting on this indicator in the medium term.
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)	44	
EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. (Core)	44	
<b>Aspect: Indirect Economic Impacts</b>		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core)	45	
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)	11, 45	australian <b>ethical</b> , through its investment approach, has an indirect economic impact via the promotion of ESG factors in the wider economy. While the extent of impact is difficult to measure, the adoption of ESG factors by a growing number of mainstream institutional investors in Australia is significant and central to australiane <b>thical</b> 's vision of future investing.

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<b>Environmental Performance Indicators</b>		
<i>Disclosure on Management Approach</i>	33	
<b>Aspect: Materials</b>		
<i>EN1 Materials used by weight or volume. (Core)</i>	33-34	
<i>EN2 Percentage of materials used that are recycled input materials. (Core)</i>	33	
<b>Aspect: Energy</b>		
<i>EN3 Direct energy consumption by primary energy source. (Core)</i>	35-36	
<i>EN4 Indirect energy consumption by primary source. (Core)</i>	35-36	
<i>EN5 Energy saved due to conservation and efficiency improvements. (Additional)</i>	35-36	
<i>EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)</i>	35-36	
<i>EN7 Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)</i>	35-36	
<b>Aspect: Water</b>		
<i>EN8 Total water withdrawal by source.</i>	37	
<i>EN9 Water sources significantly affected by withdrawal of water. (Additional)</i>	55	<i>Water is supplied to <b>australianethical's</b> offices by ActewAGL. ActewAGL provides water services to the people of the Australian Capital Territory (ACT). The ACT draws its water supply from two separate catchment systems, the Cotter River catchment and the Googong system. These water sources are not significantly affected by <b>australianethical's</b> water use.</i>
<i>EN10 Percentage and total volume of water recycled and reused. (Additional)</i>	55	<i>During 2009–10, zero cubic metres of water were recycled/re-used (zero per cent of total water use). <b>australianethical's</b> office at Trevor Pearcey House does not recycle or re-use water. Trevor Pearcey House does have rainwater tanks which collect water from the roof for use in flushing the toilets; however, this is not counted under this indicator.</i>
<b>Aspect: Biodiversity</b>		
<i>EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)</i>	55	<i><b>australianethical's</b> offices during 2009–10 were located in an urban environment in the Canberra suburb of Bruce which is not located in, or adjacent to, protected areas or areas of high biodiversity value.</i>



## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)	56	australian <b>ethical</b> , through its activities, products and services, seeks to preserve endangered eco-systems and biodiversity. During 2009–10 the company did not have a significant impact on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
EN13 Habitats protected or restored. (Additional)	56	During 2009–10 australiane <b>thical</b> was not directly involved in the protection or restoration of habitat.
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	56	As outlined in the australiane <b>thical</b> Charter, australiane <b>thical</b> seeks to preserve endangered eco-systems and biodiversity. In addition to selecting every investment with which we are involved in accordance with the Charter, australiane <b>thical</b> aims to conduct its operations in accordance with the tenets of the Charter.
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)	56	australian <b>ethical</b> 's offices are located in an urban environment in the Canberra suburb of Bruce. There are no IUCN Red List species or national conservation list species with habitats in the area affected by operations.
<b>Aspect: Emissions, Effluent, and Waste</b>		
EN16 Total direct and indirect greenhouse gas emissions by weight. (Core)	39-40	
EN17 Other relevant indirect greenhouse gas emissions by weight. (Core)	39-40	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	39-40	
EN19 Emissions of ozone-depleting substances by weight. (Core)	Not Material	australian <b>ethical</b> is an office based company. Emissions of ozone-depleting substances is considered to be a non-material issue for australiane <b>thical</b> . The company does not measure or report on this issue.
EN20 NOx, SOx, and other significant air emissions by type and weight. (Core)	Not material	australian <b>ethical</b> is an office based company. Emissions of NOx, SOx, and other air emissions is considered to be a non-material issue for australiane <b>thical</b> . The company does not measure or report on this issue.

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
EN21 Total water discharge by quality and destination. (Core)	Not material	Water discharged by <b>australianethical</b> is limited to rainwater and domestic sewage. The company does not discharge effluents or process water to a facility for treatment.
EN22 Total weight of waste by type and disposal method. (Core)	38-39	
EN23 Total number and volume of significant spills. (Core)	57	As an office based company, <b>australianethical</b> does not directly handle oil or fuel; however, small amounts of cleaning products are stored on-site. There were no significant spills recorded during 2009–10.
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)	Not material	The majority of <b>australianethical</b> 's waste is general office waste, not deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII. A small proportion may be considered hazardous (e.g. batteries etc); however, this is not considered to be material. The company does not measure or report on this issue.
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. (Additional)	Not material	As noted above, water discharged by <b>australianethical</b> is limited to rainwater and domestic sewage. The limited amount of runoff from Trevor Pearcey House does not significantly affect the biodiversity value of the local urban water bodies, Lake Burley Griffin and Lake Ginninderra.
<b>Aspect: Products and Services</b>		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)	8-9, 40	
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	Not applicable	With the exception of marketing documents, <b>australianethical</b> does not produce a physical product that can be recycled at the end of its useful life. Enquirers receiving <b>australianethical</b> 's marketing documents may recycle the paper; however, it is not possible to determine what percentage of the total documents mailed this would comprise.
<b>Aspect: Compliance</b>		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. (Core)	40	

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<b>Aspect: Transport</b>		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. (Additional)	37-38	
<b>Aspect: Overall</b>		
EN30 Total environmental protection expenditures and investments by type. (Additional)	40	
<b>Labour Practices and Decent Work Performance Indicators</b>		
Disclosure on Management Approach	18, 20, 22	australian <b>ethical</b> is an asset manager. It does not have a policy specifically addressing threats and violence to staff, their families or community members.
<b>Aspect: Employment</b>		
LA1 Total workforce by employment type, employment contract, and region.	17-18	
LA2 Total number and rate of employee turnover by age group, gender, and region.	21	
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	24	
<b>Aspect: Labour/Management Relations</b>		
LA4 Percentage of employees covered by collective bargaining agreements. (Core)	58	All of australiane <b>ethical</b> 's staff are employed under individual contracts due to the size of the company and the diversity of positions held by employees within it.
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. (Core)	58	australian <b>ethical</b> does not have a minimum period for notifying employees of any substantial operational changes. The company has stated, however, that a minimum of three months' notice will be given to any employee whose position has been made redundant due to significant business restructuring.
<b>Aspect: Occupational Health and Safety</b>		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)	58	australian <b>ethical</b> does not have a joint management /worker health and safety committee. However, employees are encouraged to raise potential occupational health and safety issues with their manager, the human resources manager or office administrator. This is stressed in the induction process. In addition, OH&S issues are discussed in staff fora on a quarterly basis.

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region. (Core)	25	
LA8 Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)	Not material	<i>australianethical</i> is not present in countries with high rates of communicable diseases nor is it in an industry linked to specific diseases or conditions. The company, therefore, does not have targeted education in this area.
LA9 Health and safety topics covered in formal agreements with trade unions. (Additional)	59	<i>australianethical</i> does not have formal agreements with trade unions.
<b>Aspect: Training and Education</b>		
LA10 Average hours of training per year per employee by employee category. (Core)	22-23	
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	22-24	
LA12 Percentage of employees receiving regular performance and career development reviews. (Additional)	22	
<b>Aspect: Diversity and Equal Opportunity</b>		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)	Not available	<i>australianethical</i> only collects data on the gender breakdown of governance bodies and employee groups. The company is investigating reporting additional diversity indicators in the medium term.
LA14 Ratio of basic salary of men to women by employee category. (Core)	20	
<b>Human Rights Performance Indicators</b>		
Disclosure on Management Approach	20, 30	
<b>Aspect: Investment and Procurement Practices</b>		
HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)	29-30	
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	Not material	As an office-based company providing financial services and products, <i>australianethical</i> does not consider human rights risks in its supply chain to be material. No policy on suppliers and their exposure to human rights risks was in place during 2009–10.

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)	Not material	As an office-based company providing financial services and products, <b>australianethical</b> does not consider human rights risks within its own operations to be material. The company does not measure or report on employee training or policies and procedures concerning human rights relevant to its operations.
<b>Aspect: Non-Discrimination</b>		
HR4 Total number of incidents of discrimination and actions taken. (Core)	20	
<b>Aspect: Freedom of Association and Collective Bargaining</b>		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)	20	
<b>Aspect: Child Labour</b>		
HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)	20	
<b>Aspect: Forced and Compulsory Labour</b>		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)	20	
<b>Aspect: Security Practices</b>		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional)	20	
<b>Aspect: Indigenous Rights</b>		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)	20	
<b>Society Performance Indicators</b>		
Disclosure on Management Approach	26-27	
<b>Aspect: Community</b>		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)	14-16	
<b>Aspect: Corruption</b>		
SO2 Percentage and total number of business units analysed for risks related to corruption. (Core)	26-27	
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core)	26-27	
SO4 Actions taken in response to incidents of corruption. (Core)	26-27	

## Global reporting initiative indicators – GRI content index

PROFILE	Cross-Reference / Reason for omission	Further explanation
<b>Aspect: Public Policy</b>		
SO5 Public policy positions and participation in public policy development and lobbying. (Core)	27	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)	27	
<b>Aspect: Anti-Competitive Behaviour</b>		
SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes. (Additional)	27	
<b>Aspect: Compliance</b>		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. (Core)	27	
<b>Product Responsibility Performance Indicators</b>		
Disclosure on Management Approach	28-30	
<b>Aspect: Customer Health and Safety</b>		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	Not applicable	Investment products and services provided by the company do not fall into the parameters of this particular indicator. However, the company does consider the health and safety impacts of investee products as outlined in the <b>australianethical</b> Charter.
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)	Not applicable	As with the PR1 indicator above, while certain regulations and codes with regards to health and safety impacts are considered through the <b>australianethical</b> Charter, the incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of business products and services are not relevant to company operations. Investment products and services provided by the company do not fall into the parameters of this particular indicator.
<b>Aspect: Product and Service Labelling</b>		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)	31	
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. (Additional)	31	
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)	31	
<b>Aspect: Marketing Communications</b>		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	31	

# Global reporting initiative indicators – GRI content index

PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. (Additional)	31	
<b>Aspect: Customer Privacy</b>		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)	32	
<b>Aspect: Compliance</b>		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)	62	There were no fines for non-compliance with laws and regulations concerning the provision and use of products and services in 2009–10

## GRI Application Table

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	<b>G3 Profile Disclosures</b> OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	<b>G3 Management Approach Disclosures</b> OUTPUT	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	<b>G3 Performance Indicators &amp; Sector Supplement Performance Indicators</b> OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	

\*Sector supplement in final version

## Financial services sector supplement

<b>Product and Service Impact Section</b>	<b>Cross-Reference / Reason for omission</b>	<b>Further explanation</b>
<b>Aspect: Product Portfolio</b>		
<i>FS1. Policies with specific environmental and social components applied to business lines.</i>	9	
<i>FS2. Procedures for assessing and screening environmental and social risks in business lines.</i>	29-30	
<i>FS3. Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.</i>	Not applicable	<i>As per the sector supplement, this indicator does not apply to asset management as the specific asset management issues related to screening and engagement are covered in indicators FS11 and FS5.</i>
<i>FS4. Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.</i>	29	
<i>FS5. Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.</i>	7, 16, 30	
<i>FS6. Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.</i>	28-29	
<i>FS7. Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.</i>	Not applicable	<i>As per the sector supplement, this indicator excludes asset management since this is reported under indicator FS11.</i>
<i>FS8. Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.</i>	Not applicable	<i>As per the sector supplement, this indicator excludes asset management since this is reported under indicator FS11.</i>
<b>Aspect: Audit</b>		
<i>FS9. Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.</i>	28-30	
<b>Aspect: Active Ownership</b>		
<i>FS10. Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.</i>	30	
<i>FS11. Percentage of assets subject to positive and negative environmental or social screening.</i>	9, 29	
<i>FS12. Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.</i>	30-31	
<b>Aspect: Community</b>		
<i>FS13. Access points in low-populated or economically disadvantaged areas by type.</i>	Not applicable	<i>As per the sector supplement, this indicator is not relevant for asset management.</i>
<i>FS14. Initiatives to improve access to financial services for disadvantaged people.</i>	16	
<b>Aspect: Product and Service Labelling</b>		
<i>FS15. Policies for the fair design and sale of financial products and services.</i>	11, 16, 31	
<i>FS16. Initiatives to enhance financial literacy by type of beneficiary.</i>	16, 31	



## Glossary

Abbreviation	Expanded name	Definition
FTE	full-time equivalent	Term used to express full-time and part-time staff on an equivalent full-time basis.
GRI	Global Reporting Initiative	This promotes international harmonisation in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making.
J	Joule	Unit of energy.
kl	Kilolitre	1000 litres.
KWh	Kilowatt-hour	Measure of electrical energy equivalent to a power consumption of 1000 watts (1000 joules/second) for one hour. Note: 1 kWh = 3.6 MJ.
MJ	Mega joule	1,000,000 joules.
W	Watt	Unit of power, equivalent to one joule per second.

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# australianethical Sustainability Report 2010 Feedback form

To assist us in improving our economic, social and environmental reporting, please provide us with your feedback.

I am a (please tick)

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- Superannuation member
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- Other, please specify \_\_\_\_\_

Overall you found the:

Content of the report

- very good    good    fair    poor    very poor

Format of the report

- very good    good    fair    poor    very poor

Amount of information in the report

- very good    good    fair    poor    very poor

Graphs and tables

- very good    good    fair    poor    very poor

Which sections did you find most useful and why?

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Which (GRI or other) indicators would you like included in future australianethical sustainability reports?

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How could we improve the report?

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Any other comments?

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Name: \_\_\_\_\_

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Thank you for your feedback.

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