

Letter to Shareholders

Dear Shareholder

It was a pleasure meeting many of you at the recent shareholder meetings. In case you were not able to attend, we have posted the presentation on the Shareholder section of the website. Key points include:

- Our funds under management and flows remain resilient relative to our peers despite subdued stock markets and investor nervousness;
- In light of the market difficulties and to maximise efficiency, over recent months, we have reduced our fixed cost base. We now have 38 staff, down from 50 over recent months;
- Despite the significant changes to the organisation, corporate culture is improving with 97% of staff either satisfied or very satisfied with their current role and the vast majority feeling personally valued at work (see Employee Status Report dated 9 November 2011 also available on our website).

In recent years, Australian Ethical Investment Ltd has progressively moved towards a best practice governance model, including an independent chair and directors. This is not to say that all shareholders are happy. Mr Howard Pender (a shareholder and former director of AEI) has proposed a number of resolutions aimed at spilling the current board. Mr Pender has also written a letter to certain shareholders. The Board has had legal advice in relation to this letter and has formed the view that it is defamatory.

Whilst Mr Pender is not proposing himself as a director, he is proposing that shareholders reinstate Mr James Thier, who in 2011 with Mr Pender and without the consent of the Board prepared and lodged a submission for federal funding on behalf of AEI. In the opinion of the Board, after taking legal advice, that submission contained information that was misleading and deceptive and could have breached the Commonwealth Criminal Code 1995. This action threatened the most precious asset an investment company like AEI has, our reputation. Another of Mr Pender's proposed directors is Mr Paul Ronald Ralph, who in 2010 was found by the Federal Court of Australia to have breached his duties as a director of another company.

The Board and management team, while considering all options, are fully committed to getting on with running the business for the benefit of all shareholders, unit holders and superannuation members of Australian Ethical focussing on ethical and socially responsible investments that are making a positive difference.

Please feel free to contact me (amorony@australianethical.com.au) if you would like to discuss any aspects of the company, its performance or future.

Regards



Andre Morony, Chairman
Australian Ethical Investment Ltd