

16 November 2012

Dear Shareholder

Report under Clause 2.2 of the Constitution – “Status of Employees”

The attached report is provided to you under Clause 2.2 of our Constitution. Clause 2.2 provides that Directors shall report to the Shareholders on matters generally related to the status of employees at the time of the Annual General Meeting as well as regarding Clause 2.1 which provides for staff participation, control and employee share ownership.

Business Change

The past year has seen some significant change for staff at Australian Ethical. These changes have allowed us to adapt our business to meet the challenges of a difficult environment in financial services and changing regulatory requirements. These changes affected the structure of the organisation with 9 staff being made redundant in February 2012. Whilst changes such as this inevitably impact on staff morale, we are now in the position where morale and engagement amongst the team is quite high, as evidenced in the recent staff survey results described below.

Staff Survey Results

A staff survey was conducted in October 2012. This year, 84% of staff participated in the annual staff survey, the highest participation rate ever recorded by the company.

The results are extremely pleasing and are a further improvement on our 2011 results. This confirms that we are heading in the right direction with our staff, systems and processes, leading to greater efficiencies.

In September 2011, the company set priorities with staff as a result of the staff survey and improvements have been achieved. The areas of focus over the past 12 months have been leadership, learning and development, the performance appraisal process, a review of systems and processes and internal communication.

To achieve these results the company introduced individual learning and development plans for each employee, implemented a new objectives-based performance appraisal program, reviewed working systems across several divisions and encouraged regular staff meetings across teams.

The results are summarised below.

Measure		Employee Responses (%)				
		2008	2009	2011	2012	2012 Year on Year change
Satisfaction with current role	Agree or Strongly Agree	77	79	97	100	+3
	Unsure	16	8	0	0	0
	Disagree or Strongly Disagree	7	13	3	0	-3
Internal Communication I am well informed about what is happening in my division**	Agree or Strongly Agree	79	59	63	74	+11
	Unsure	11	21	23	4	-19
	Disagree or Strongly Disagree	10	20	14	22	8
Learning and Development I feel my personal development has been supported and encouraged	Agree or Strongly Agree	59	43	54	78	+24
	Unsure	27	44	35	11	-24
	Disagree or Strongly Disagree	14	13	11	11	0
Performance Review Process There are adequate mechanisms in place for an appraisal of my work	Agree or Strongly Agree	45	36	57	77	+20
	Unsure	35	41	29	12	-17
	Disagree or Strongly Disagree	20	23	14	11	-3

		2008	2009	2011	2012	2012 Year on Year change
Systems and Processes Adequate systems are in place to allow me to do my job effectively*	Agree or Strongly Agree	-	-	54	82	+28
	Unsure	-	-	20	7	-13
	Disagree or Strongly Disagree	-	-	26	11	-15
I feel personally valued at work*	Agree or Strongly Agree	-	-	79	77	-2
	Unsure	-	-	12	19	7
	Disagree or Strongly Disagree	-	-	9	4	-5
Board Confidence I have confidence in the board to govern the company*	Agree or Strongly Agree	-	37	59	77	+18
	Unsure	-	31	38	15	-23
	Disagree or Strongly Disagree	-	32	3	8	5
Leadership I have confidence in the MD and management team to lead and manage the company*	Agree or Strongly Agree	-	-	66	81	+15
	Unsure	-	-	26	11	-15
	Disagree or Strongly Disagree	-	-	8	8	0

* data only available in years shown and not asked in previous years

^ data shown for 2008/2009 is the clos

Staff Turnover

Turnover statistics for the past three years are discussed in the Sustainability Report. A summary of the results is set out below. While 9.8 staff voluntarily left the company during the year, 6.8 of these positions were not replaced. Job redesign and efficiencies through improved systems and processes allowed us to reduce staff costs without further redundancies.

Staff turnover	Financial year			
	2008–09	2009–10	2010–11	2011–12
Turnover by employment type				
Full-time employees departing	7	5	5	9
Part-time employees departing	0	4	1	1
Part-time employees departing – FTE	0.0	2.42	0.6	0.8
Employees departing (total) – FTE	7.0	7.42	5.6	9.8
Total staff at 30 June ¹	50	48	50	38
Total FTE staff at 30 June ¹	45.4	45.2	46.64	35.03
Staff turnover (% of total staff) ²	14.0%	18.8%	12.0%	26.3%
Staff turnover (% of FTE staff) ²	15.4%	16.4%	12.0%	27.9%

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

2. Turnover % is expressed as a % of total staff or FTE as at the end of the year

Staff Share Ownership

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

Staff Participation

Staff continue to have many opportunities to provide input into and participate in the affairs and business of the company. An employee representative is elected by the staff every two years in accordance with the Constitution and that representative represents staff views and opinions at board meetings. Other forums such as team meetings, regular morning tea gatherings and lunches with the Board provide many ways in which staff can have input into the affairs of the company.

The board is committed to furthering Australian Ethical's reputation for having the highest commitment to ethical analysis, investment performance and competitive products and services. We have a unique position in the financial services landscape with the potential to grow far beyond our current market position. To get there we need a cohesive, united and motivated team driving and supporting the very special vision and mission of the company.

The positive results of this year's survey building on that of the previous year is highly encouraging that we are developing an embedded, positive culture necessary for our long term success.

Yours sincerely,



Phil Vernon
Managing Director